



2019 SBA Fact Sheet

PORTUGAL

Key points

Past & future SME performance¹:

SMEs play an important role in Portugal's 'non-financial business economy', accounting for 68.3% of value added and 77.4% of employment². In 2014-2018, employment and value added in SMEs increased by 15.2% and 27.0%, respectively. However, growth slowed in 2017-2018, with SME employment rising by only 3.4% and SME value added by 4.6%, although in line with overall trends.

Implementing the Small Business Act for Europe (SBA):

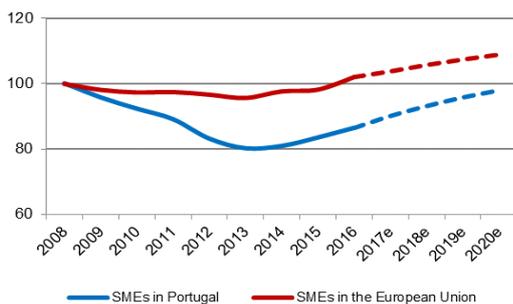
According to a set of common indicators across the EU, Portugal is above the EU average for entrepreneurship and environment, slightly above average on 'second chance' and 'responsive administration', and above average on skills & innovation, although certain points merit attention in the latter area. Its performance on access to finance is below average, although there have been positive developments in some areas. For single market, Portugal is rated average for many individual criteria but slightly below average overall. It is still among the worst performers for internationalisation and State aid & public procurement. In particular, delays in payment are among the longest in Europe.

SME policy priorities:

Additional policy efforts are needed to boost the performance of Portuguese SMEs on internationalisation, to further protect SMEs against late payments from public and private buyers, and to help SMEs become more successful in obtaining public sector contracts. On access to finance, although Portugal has introduced new policy measures and achieved some positive developments, certain challenges remain, resulting in the need for continued policy attention.

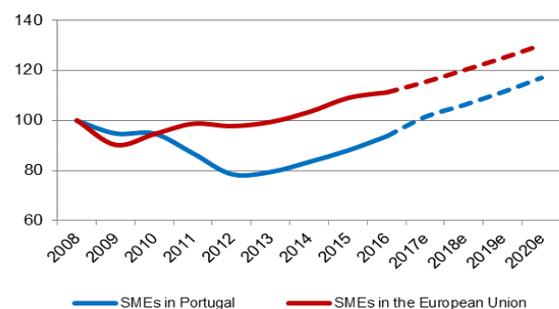
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2017 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2017 onwards)



About the SBA fact sheets:

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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1. SMEs — basic figures

Class Size	Number of enterprises			Number of persons employed			Value added		
	Portugal		EU	Portugal		EU	Portugal		EU
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	847,959	95.4%	93.0%	1,375,405	40.9%	29.7%	21.2	24.3%	20.8%
Small	34,938	3.9%	5.9%	679,268	20.2%	20.1%	19.1	21.9%	17.6%
Medium-sized	5,524	0.6%	0.9%	545,282	16.2%	16.8%	19.2	22.1%	18.0%
SMEs	888,421	99.9%	99.8%	2,599,955	77.4%	66.6%	59.5	68.3%	56.4%
Large	875	0.1%	0.2%	760,755	22.6%	33.4%	27.7	31.7%	43.6%
Total	889,296	100.0%	100.0%	3,360,710	100.0%	100.0%	87.2	100.0%	100.0%

These are estimates for 2018 produced by DIW Econ, based on 2008-2016 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs account for 68.3% of value added and for more than three quarters – 77.4% – of employment in Portugal. Both are some 10 percentage points higher than the respective EU average for SMEs. Portuguese SMEs employ an average of 2.9 people, which is roughly one person less than the EU average. The percentage of micro-enterprises in the total business population is higher in Portugal (95.4%) than the EU average (93%). The two most important SME sectors, *manufacturing* and *wholesale and retail trade*, together generate nearly half of all SME employment and value added. The annual productivity of Portuguese SMEs, calculated as value added per person employed, is around €22,900, only slightly more than half the EU average.

In recent years, SMEs in Portugal have experienced strong growth. In 2014-2018, SME employment and SME value added increased by 15.2% and 27.0% respectively. However, growth slowed in 2017-2018, with SME employment rising by only 3.4% and SME value added by 4.6%. Although SME employment has shown a steady increase since 2013, in 2018 it was still 7.6% lower than it was in 2008. In contrast, SME value added surpassed its 2008 level for the second time in 2018, 12.5% higher than in 2008.

Portuguese SMEs in the *manufacturing* sector have generated high growth in recent years. In 2014-2018, SME employment increased by 9.5% and SME value added rose by 18.3%. This has been largely driven by improved market conditions and the

overall economic recovery and expansion since 2014. This economic recovery has triggered an increase in both domestic and foreign investment, for instance by multinational firms in the automotive industry³. Although this is primarily in large firms, it has also impacted on their manufacturing supply chains, where SMEs play an important role. This was a key factor behind the 29.4% increase in SME value added in the *manufacture of motor vehicles* sub-sector from 2014-2018. Another sub-sector with above average growth was *manufacture of fabricated metal products*, with SME value added up 27.2% over the same period. This sub-sector is extremely important for the country's *manufacturing* sector, contributing 15.1% of total SME value added and providing intermediate inputs for a wide range of other sub-sectors.

As in many European economies, the Portuguese *information and communication* sector benefited from strong demand for IT services, resulting in particularly high growth rates. SME value added and employment grew by 30.4% and 24.7% respectively in 2014-2018. SMEs clearly outperformed large firms in this sector in terms of value added growth, with the value added of large firms increasing by only 16.2% in the same period. In 2014-2018, the number of micro firms rose by 35.0%, indicating a high level of start-up activity in the *information and communication* sector⁴. The opening of Portuguese subsidiaries by many international tech giants has helped create dynamic ecosystems, attracted skilled IT professionals and provided incentives to develop IT skills⁵. The Portuguese government promotes this sector by hosting and funding one of the world's largest tech conferences⁶. The clustering of specialised IT firms causes agglomeration and spillover effects, which are creating more favourable conditions for the development of new firms. Despite these positive developments, there is statistical evidence of the need for further efforts to improve digitalisation skills.

The positive economic climate in Portugal is reflected in the growing number of company registrations – 45,191 in total in 2018 – which marked a new record. This was a 10.4% increase compared with the previous year and the highest total for the past decade. The number of companies deregistered increased from 15,273 in 2017 to 18,111 in 2018. This implies that the

number of companies overall is rising. However, the survival rate of Portuguese businesses is one of the lowest in the EU (around two thirds of new firms do not survive 5 years)⁷.

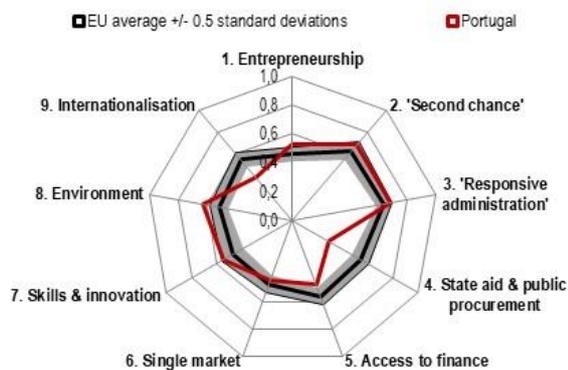
As per the data collected by the European Startup Monitor 2019 project⁸, 64% of the Portuguese startups in Cyprus that responded to the online questionnaire were set up by one male founder or an all-male team of founders. 9% were set up by one female founder or an all-female team of founders. The remaining 27% were set up by at least one man and one woman. In terms of their stage of development, 36% are in the pre-seed or seed stage, 55% in the start-up stage, 0% in the steady stage and 9% in the growth stage. Regarding financial aspects, 59% are operating at a loss, 14% currently break-even and 27% are profitable. Of those start-ups that are operating at a loss, 69% expect to break-even in less than 2 years, while 31% expect that it will take them over 2 years to break-even. 59% have a turnover between €1 and €500,000; 36% report having no turnover yet and the remaining 5% have a turnover of over €500,000. They have 5 employees on average, of which around 36% work on a part-time basis. On average they plan to hire 4.3 people within a year.

In 2016, 5,078 firms – 12.8% of all firms in the Portuguese 'business economy'⁹ with at least 10 employees – were high-growth firms¹⁰, exceeding the EU average of 10.7%. High-growth firms are particularly prevalent in *information and communication*, with a share of 19.6%, followed by *transportation and storage*, at 18.2%, and the *administrative and support services* sector, at 17.6%. In 2018, Portuguese SMEs in the specialised *knowledge-intensive services and high-tech manufacturing* sectors, both of which are usually R&D-intensive, accounted for 21.1% of SME value added in the manufacturing and services sectors. This is significantly lower than the EU average of 33.0%.

Furthermore, much of the overall job creation and growth in Portugal is in low value added sectors¹¹.

SME growth is set to continue in 2018-2020. An increase of 10.1% in SME value added and 5.1% in SME employment is predicted, corresponding to around 133,800 new SME jobs.

2. SBA profile¹²



Overall, Portugal's SBA performance is largely in line with the EU average. It currently performs above the EU average in five areas: entrepreneurship, environment, 'second chance', 'responsive administration' and skills & innovation, although some weaknesses need to be addressed in the latter area. It performs below average in the areas of internationalisation and State aid & public procurement, and also in access to finance and single market. However, there have also been a number of positive developments in access to finance, and performance in many of the individual single market criteria is on a par with EU average.

Since 2008, it has put in place measures to address most of the SBA recommendations, but there are policy gaps for some of the principles. For example, on 'second chance', it has still not taken steps to ensure bankruptcy procedures are completed within 1 year.

Its performance has experienced substantial changes in two areas compared to the previous reference period. The country's overall performance in access to finance has deteriorated, and is

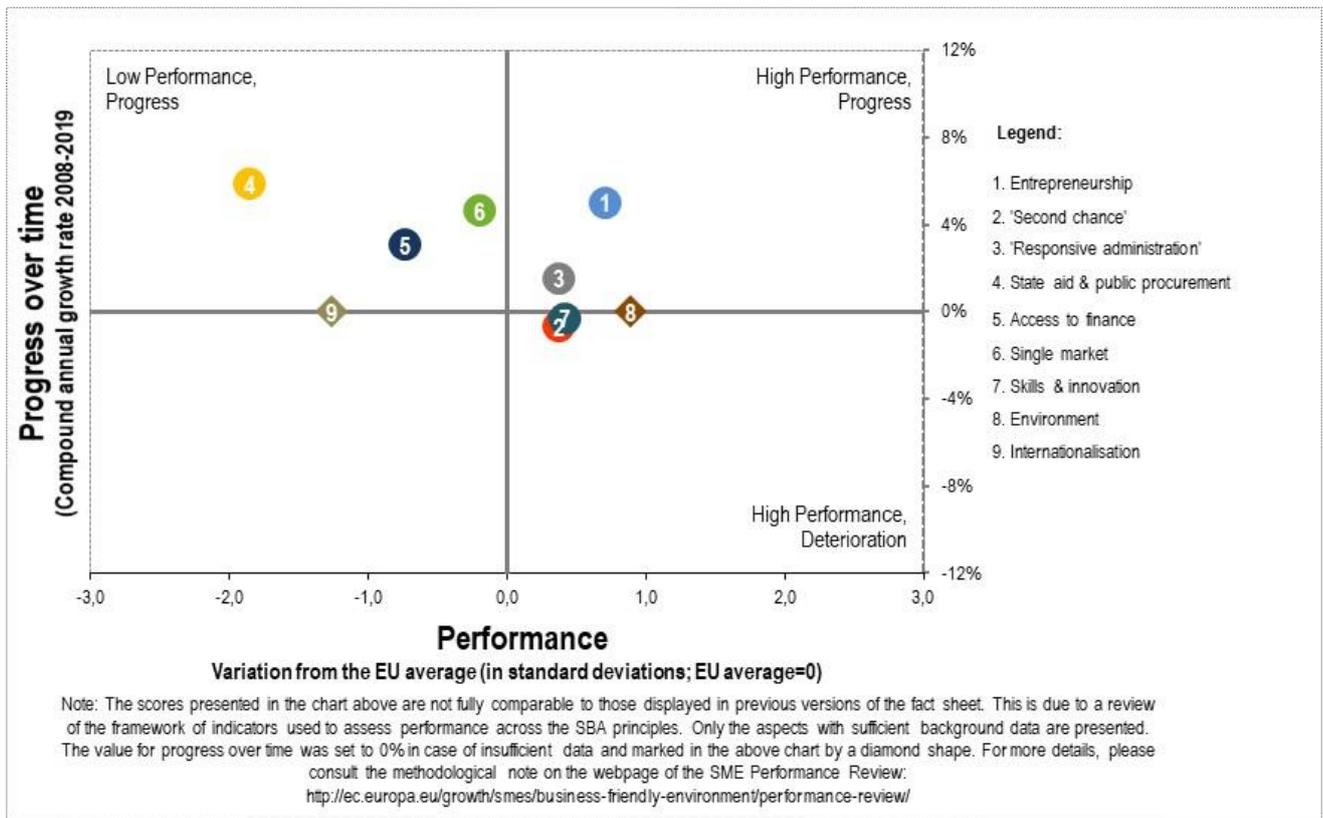
now below the EU average. This is partly the result of the decline in the strength of the legal rights index and the total duration in days to get paid. Portugal's performance in internationalisation also worsened as the country is now the third worst performer among Member States. This is partly due to weaker performance in border agency cooperation, the involvement of the trade community and advance rulings.

During the current reference period, Portugal implemented a substantial number of policy measures, addressing 9 out of the 10 SBA principles under the Small Business Act.

In the area of access to finance, new measures were put in place during the reference period to create a legal framework for the conversion of credits into equity. New credit lines were also made available to micro, small and medium-sized enterprises as well as to financial intermediaries. The TECH programme was set up with 50% co-financing from the European Investment Fund to support investment in technology start-ups and SMEs located in Portugal. There were a number of new measures in the field of skills & innovation, with the adoption of a technological and business innovation strategy for Portugal and the funding of collaborative laboratories and technological interface centres. Voucher schemes were also created, including the 'circular economy voucher' and the 'research opportunities voucher'.

With regard to the recommendations in the European SME-action programme, recent efforts by Portugal have focused on modernising public administration and on the digital transformation of the Portuguese economy. One example worth mentioning is the launch of the second phase of the 'Industry 4.0' (*Indústria 4.0*) programme in 2019 to address the challenges identified during the first phase.

SBA performance of Portugal: state of play and development from 2008 to 2019¹³



3. SBA principles¹⁴

3.0 'Think Small First'

The 'think small first' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Since 2008, Portugal has taken steps to simplify administrative procedures and reduce red tape. The country has adopted a series of measures to implement most of the SBA recommendations under the 'think small first' principle, including the 'SME test', used to assess the impact of regulation on SMEs.

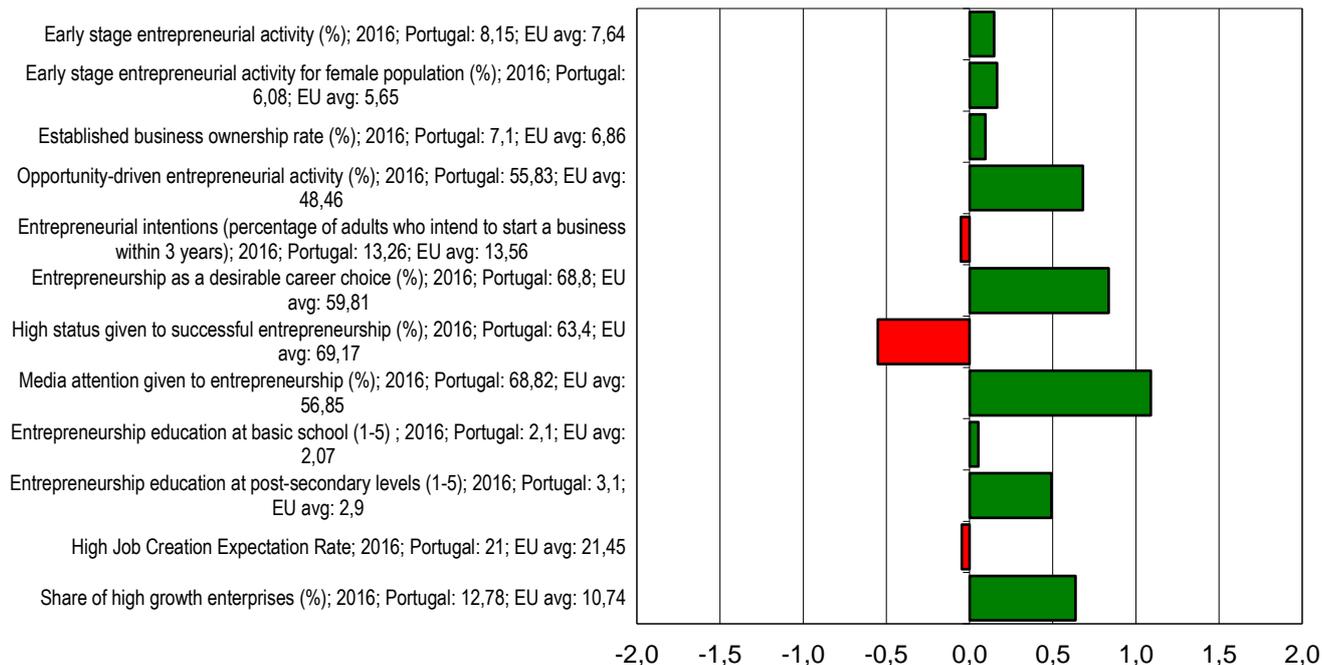
The SME envoy coordinates the working group that monitors SBA implementation and designs support measures for SMEs in consultation with the relevant stakeholders.

The current SME envoy is also the President of the Portuguese Agency for Competitiveness and Innovation (IAPMEI), which is linked to the Ministry of the Economy.

The pilot measure 'How much?' (*Custa quanto?*), trialled in 2017, was fully rolled out in 2018 as a definitive model for carrying out impact assessments of new legislation, with some modifications made to reflect experiences so far. The 2018 report of the Technical Unit for Regulatory Impact Assessment (UTAIL)¹⁵ confirmed an increased level of regulatory impact assessments (RIAs) activity across the different policy departments. The range of legal acts subject to RIA has been extended and processes have been improved, including the SME test, together with coordination mechanisms. RIAs cover not only impacts for business, but also impacts for members of the public (and for administrations, as of 2019). For future reporting exercises, it would be important to carry out more specific analysis on the SME dimension of RIAs and to monitor how RIAs have impacted on new legislation that will affect SMEs (for example, withdrawal or simplification of proposals and/or exemptions for SMEs). It would also be beneficial to ensure more stakeholder involvement in the process.

3.1 Entrepreneurship

Variation from the EU average
(measured in standard deviations, EU average=0)



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Portugal performs above the EU average in entrepreneurship, and has achieved significant progress since 2008. Entrepreneurship is considered an attractive career choice in Portugal. The Portuguese government remains committed to increasing entrepreneurship. As part of the national strategy for entrepreneurship and through IAPMEI, there are programmes such as StartUP Voucher and StartUP Visa, which aim to boost investment, talent and innovation capacity in Portugal, and the recently introduced ‘Tech Visa’, which aims to support the creation of high-growth enterprises. In addition, Portugal is one of the best performers in terms of the impact of school education on developing an entrepreneurial attitude.

Since 2008, the Portuguese government has seen the promotion of entrepreneurship as a way to tackle structural problems such as unemployment, in particular youth unemployment.

During the reference period a number of measures were adopted. The following five measures are considered the most significant and relevant.

- The ‘Startup Portugal+’ programme (*Programa Startup Portugal+*) with a budget of €300 million aims to (i) create and support the ecosystem at national level; (ii) attract domestic and foreign investors; (iii) improve and encourage the financing of start-ups at all stages

of their development; and (iv) promote and accelerate the growth of Portuguese start-ups in foreign markets. It comprises a set of 20 measures (new measures or measures that have been adapted and extended), such as the new version of the StartUP Voucher scheme where over €6.5 million is available to support investments. Three of the measures deserve special mention:

- ‘ADN Startup’ supports new micro-enterprises during the initial phase of their life cycle by providing a mutual guarantee and access to financing of up to €50,000 (€100,000 in exceptional cases).
- In 2018, a call was published to support the development of technology-based minimum viable products¹⁶ in the fields of digitalisation, engineering and manufacturing.
- In the tourism sector, the ‘Centre for Innovation in Tourism’ initiative involves the various national and international stakeholders in the sector. It supports the development of new business ideas, experimentation projects and the capacity-building of companies in the field of innovation and the digital economy. Additional

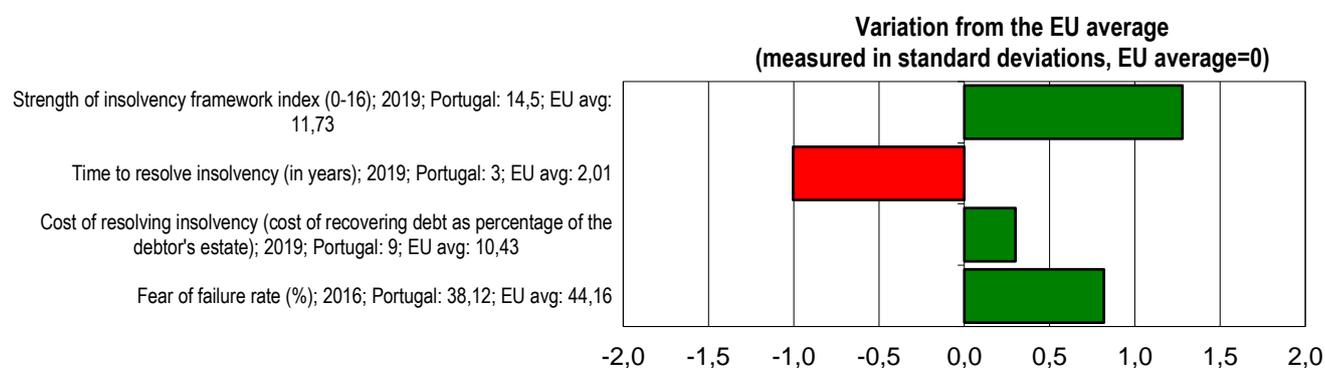
initiatives were launched after the end of the reporting period¹⁷.

- ‘Young Rural Entrepreneur’ (*Jovem Empresário Rural*) is a new measure to encourage young entrepreneurs to set up businesses in rural areas¹⁸.

than €156 million together. A recent study showed that the top 25 Portuguese scale-ups raised €111 million in 2012-2017 – of which only 27% was of Portuguese origin¹⁹. The report highlights the shortfall in national sources when raising large amounts of capital.

The scale-up ecosystem in Portugal is growing. In 2015, 40 scale-ups were identified in Portugal, which have raised more

3.2 ‘Second chance’



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Portugal’s performance in ‘second chance’ is in line with the EU average. Its score for the strength of insolvency framework index, which is the framework for rehabilitating viable firms and liquidating non-viable ones, is one of the highest in the EU. Legal bankruptcy procedures still take 1 year longer than the EU average. However, there is some evidence that the situation is starting to improve.

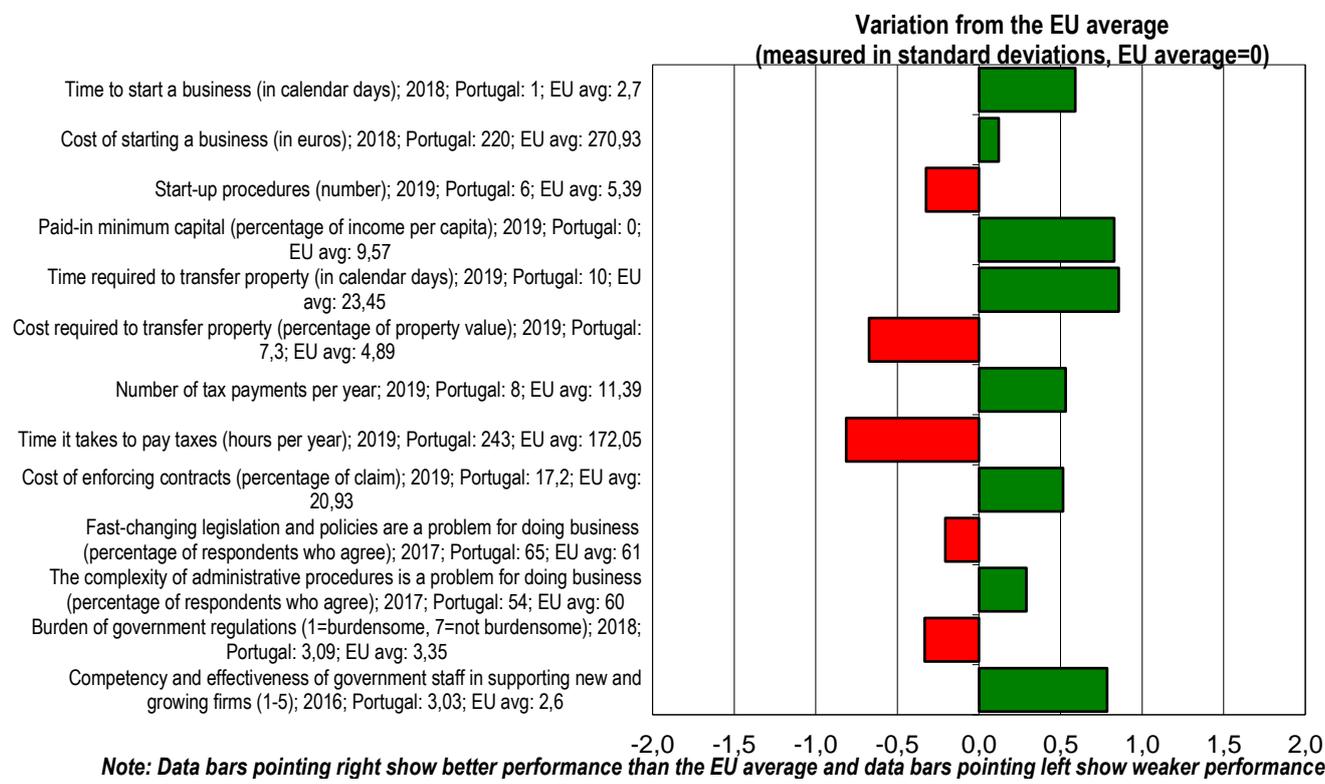
Since 2008, the ‘special revitalisation process’ (*Processo Especial de Revitalização*) has been one of the most significant measures adopted under the ‘second chance’ principle. It was designed to help honest bankrupt entrepreneurs and SMEs in economic difficulties recover financially. Some experts, including the European Monitoring Centre on Change, have reported that changes to the special revitalisation process introduced in mid-2017²⁰ have restricted the access criteria, resulting in a drop in the number of cases²¹. It will be important to monitor how this situation has developed in the meantime.

During the reference period, two measures were adopted.

- A law formalising the statute of ‘business recovery mediator’ (Regime de Mediador de Recuperação de Empresas) was approved in February 2018^{22 23} to help companies with debt mediation. This is implemented by IAPMEI. Mediators will help debtors reach an out-of-court restructuring agreement and restore their stability. They will provide assistance for performing a diagnosis of the company’s economic and financial situation and in negotiating with creditors. There will be strict training requirements, with measures being put in place to ensure that the bodies that train mediators are duly accredited.
- The ‘early warning mechanism’ (Mecanismo de Early Warning) is a free, confidential computer tool for business owners that provides information on their company’s economic and financial situation, including identification of early signs of financial difficulties and possible solutions. Its aim is to avoid situations in which non-financial companies with insufficient equity postpone restructuring measures.

Looking forward, it will be important to monitor and report on the implementation and impact of these mechanisms.

3.3 ‘Responsive administration’



‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Portugal’s performance under ‘responsive administration’ is in line with the EU average, with progress achieved in general since 2008. It takes just 1 day to start a business in Portugal. Furthermore, there have been no paid-in minimum capital requirements for entrepreneurs since 2012. However, the time it takes to register a property increased from 1 to 10 days during the current reference period.

Since 2008, Portugal has paid special attention to addressing the area of ‘responsive administration’. Each year, the flagship initiative ‘Simplex’ lists and promotes a set of concrete measures for simplifying and modernising public administration. However, Portugal still lacks a single point of contact responsible for helping entrepreneurs with start-up procedures.

There are also a number of other areas where Portugal still lags behind the EU average, in particular the time it takes to deal with taxes and the complexity of the tax system²⁴.

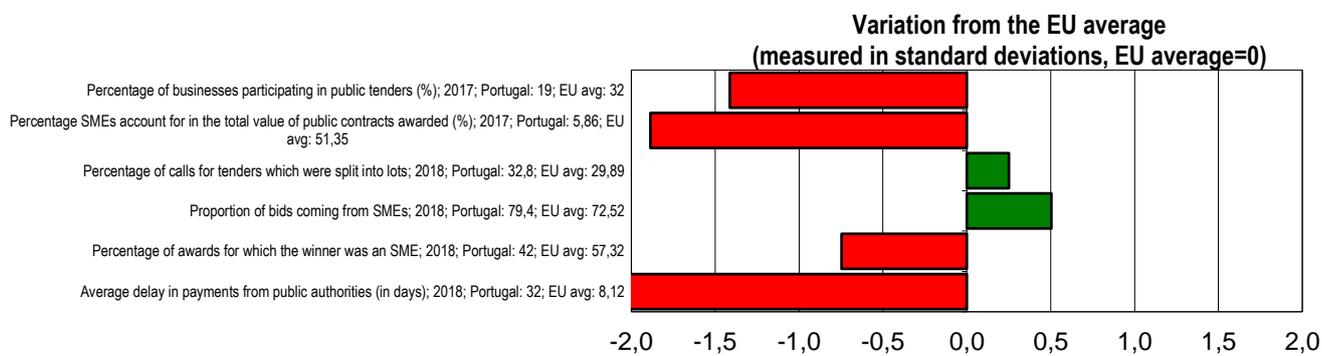
During the reference period, significant measures were adopted.

- Under the ‘SIMPLEX+ 2018’ programme, 175 measures were launched to simplify and modernise public administration. A key factor in this is the thorough follow-up

and monitoring of measures implemented under the previous SIMPLEX+ programme²⁵.

- ‘e-Portugal’ (Portal e-Portugal) is a public service portal that replaces both the ‘Citizen’s Portal’ and the ‘Entrepreneur’s Desk’. The new portal revised and simplified key documents for companies and members of the public, and also expanded the range of digital services available.
- The ‘ICT2020 strategy for public administration’ (Estratégia TIC2020 para a Administração Pública) – which was announced during the previous reference period – was adopted to provide public administrations with a global strategy to promote better management of ICT and simplified administrative services, and to increase the efficiency of public services provided to members of the public and businesses.
- Another new measure is ‘Enterprise Spaces’ (Espaços Empresa), a one-stop service for entrepreneurs. In 2018, 22 ‘Enterprise Spaces’ were operating in several Portuguese municipalities, from the north to the south of the country.

3.4 State aid & public procurement



Important methodological changes have been introduced for this principle in this year’s fact sheet. Three new indicators from the Tenders Electronic Daily (TED) database have been added and refer to procurement above EU thresholds:

- percentage of awards for which the winner was an SME;
- proportion of bids by SMEs;
- percentage of calls for tender which were split into lots.

In addition, the indicator on e-procurement has been removed. Therefore, the overall performance in this area cannot be compared to last year’s.

Portugal is currently one of the weakest performers in the EU in this area despite a marked improvement since 2008. While total aid earmarked for SMEs is higher than the EU average, Portugal scores below average on most of the criteria for procurement, although it has performed better since the new procurement code was implemented in 2018. It has made significant progress on the number of tenders split into lots, and this has now become common practice. Another positive development is the high proportion of SMEs that are bidding for tenders in Portugal. However, SMEs’ success rate in winning public contracts is far below the EU average. Furthermore, the share of the total value of public contracts awarded to SMEs is now one of the lowest in the EU.

Portugal performs poorly in late payments. This applies to both the public and private sectors, but there are some recent signs

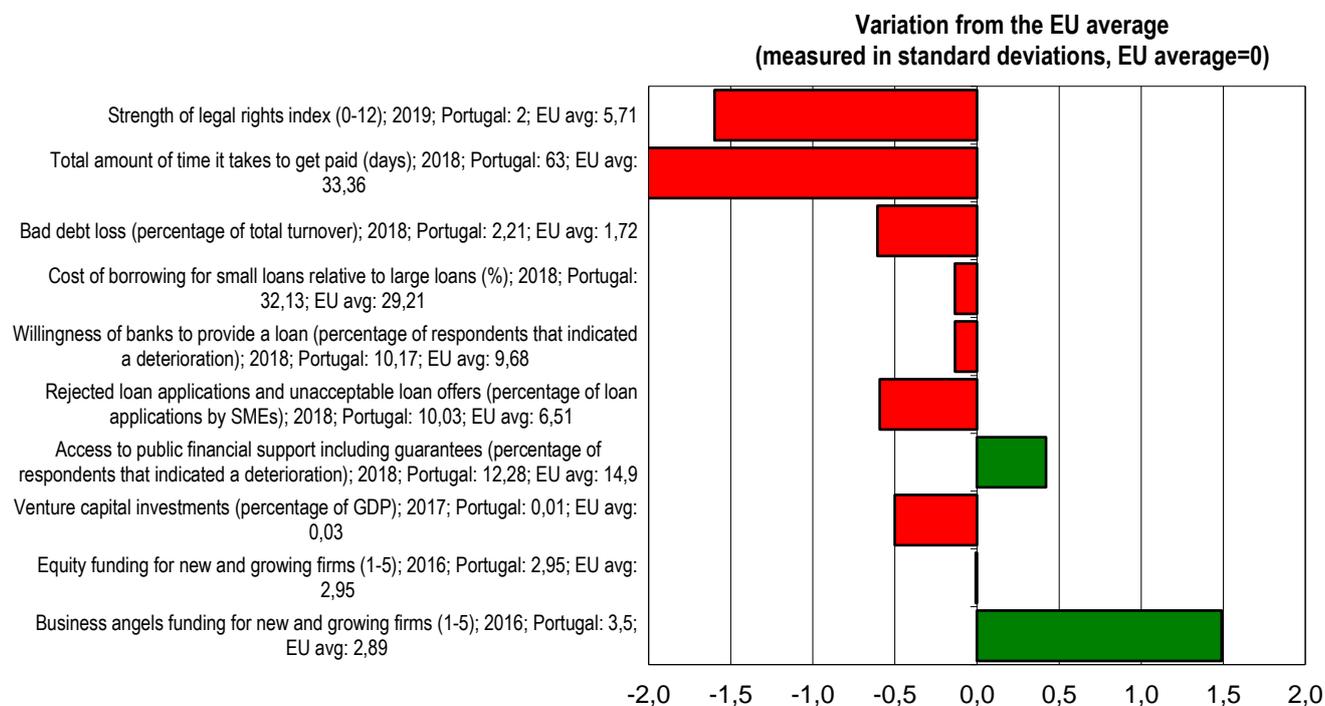
that the situation is starting to improve. According to data from the European Payment report²⁶, the time to make payments has gone down in Portugal since the start of 2018 (a decrease of 11 days for payments from the public sector, and 2 days for B2B payments). However, the average delay in payments from public authorities is among the highest in the EU. The average delay in B2B payment is also relatively high in comparison to other EU Member States, partly due to inefficiencies in the judicial system, which makes it difficult to enforce contracts²⁷.

Since 2008, Portugal has introduced a series of measures to implement the SBA recommendations under State aid & public procurement. For example, the country launched an e-Procurement portal.

During the current reference period, three significant measures were adopted:

- ‘BASE’ (Portal BASE) is a revamped portal that centralises key information on tenders, procurement procedures, awarded contracts and infringements of the Public Contract Code;
- ‘Electronic invoicing in public contracts’ (Faturação Eletrónica nos Contratos Públicos) mandates and streamlines electronic invoicing based on standards and process automation; and
- INOVGOV links start-ups with the public sector, promoting their services and products to managers and informing start-ups on how to access and bid for public tenders in different business areas.

3.5 Access to finance



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

There have been many positive developments in Portugal in the area of access to finance. However, Portugal’s performance on the SBA criteria in this area is now below the EU average, having deteriorated since the last reference period. This is partly due to the fact that a number of SBA criteria for access to finance are based on composite indicators that also take account of performance in related areas such as the legal environment for enforcing financial rights.

The average time it takes for a company to get its invoices paid is one of the highest in the EU, and the strength of legal rights index is also significantly below average. The weak performance in both of these areas, and also the below average performance on bad debt loss, can be partially attributed to weak contract enforcement because of inefficiencies in the judicial system.

According to data from Banco de Portugal, the average level of interest rates charged by domestic banks to SMEs for loans below €1 million fell from 3.09% in 2017 to 2.76% in Q4 2018 (2.69% in Q1 2019). Portugal’s performance on cost of borrowing for small loans relative to large loans is broadly in line with the EU average.

The rate of rejected loan applications, previously on a par with the EU average, has deteriorated to below average since the last reference period, Banks are also less willing to provide loans.

The volume of venture capital transactions was 4.4 times larger in 2018 than in 2017. However, there is still tremendous potential for venture capital to grow as it only represents 1% of investments in Portuguese companies. Seed stage investments represent 83% of the total²⁸.

On a positive note, Portugal’s performance on business angel funding and funding for new and growing firms is well above average. Access to public financial support, including guarantees, remains slightly above average, but has deteriorated since the last reference period.

Since 2008, the Portuguese government has made significant efforts in the area of access to finance for SMEs. These efforts have concentrated on publicly supported credit lines. In addition, it has taken measures to attract venture capital and business angels through co-investment programmes. These measures were drawn up as part of the national strategy for entrepreneurship: ‘Startup Portugal’.

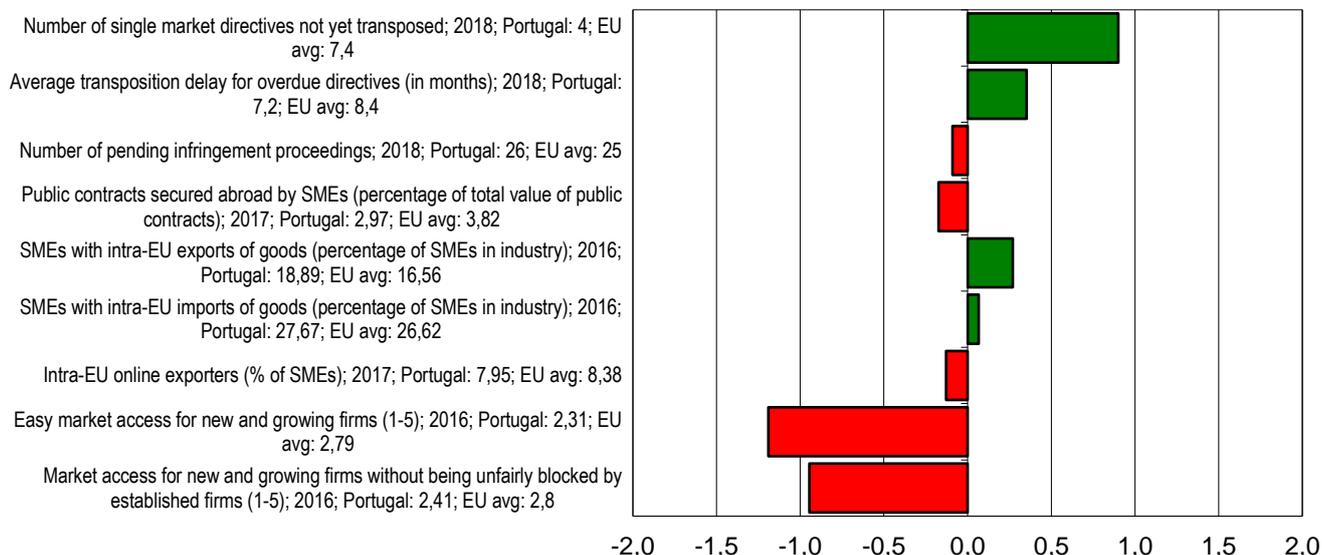
During the reference period, several measures, including the following, were adopted to improve access to finance for SMEs.

- ‘Legal framework for conversion of credits’ (*Regime Jurídico de conversão de Créditos*) offers the possibility for creditors to agree to credit owed to them being converted into an equity stake in a debtor business.

- An additional €3.7 billion was made available to the ‘Capitalise’ programme for four specific credit lines to support (i) micro, small and medium-sized enterprises (Capitalise Line 2018 - €1.6 billion); (ii) midcaps (Midcaps Line - €500 million); (iii) SME exports (€600 million); and (iv) the development of innovative products or services or process innovation by SMEs (€1 billion).
- With the adoption of the ‘financing line for financial intermediaries’ (*Linha de Financiamento a Intermediários Financeiros*), the Development Finance Institution (*Instituição Financeira de Desenvolvimento*) acts as a wholesale institution and operates using the commercial network of banks and other institutions in order to support the financing of SMEs and midcaps.
- ‘Preparation and Contingency Plan for the Departure of the United Kingdom from the EU – Brexit’ (*Plano de Preparação e de Contingência para a saída do Reino Unido da União Europeia*). A €50 million credit line was opened under the *Capitalise* programme for businesses that are exposed to the UK market. It aims to support investments related to their Brexit response strategies.
 - The Social Innovation Fund (*Fundo para a Inovação Social*)²⁹ is a public investment fund that promotes and supports social innovation and social entrepreneurship initiatives that provide innovative, effective and sustainable solutions to tackle social problems.
- The 200M Fund is a matching fund that aims to support co-investment in high-growth start-ups in Portugal with national or international private co-investors.
- The Business Development Support Line ADN 2018 provides a total of €10 million to help micro-enterprises access financing at the early stages of their life cycle.
- In addition, the government announced a new co-investment fund called ‘Portugal TECH’. It aims to invest in technology transfer projects, and has a budget of €100 million in venture capital. This is made available through a partnership between the Development Finance Institution, the European Investment Fund and private investors. The fund will invest not only in companies, but also in projects developed by universities, research centres, incubators and accelerators based in Portugal.

3.6 Single market

Variation from the EU average
(measured in standard deviations, EU average=0)



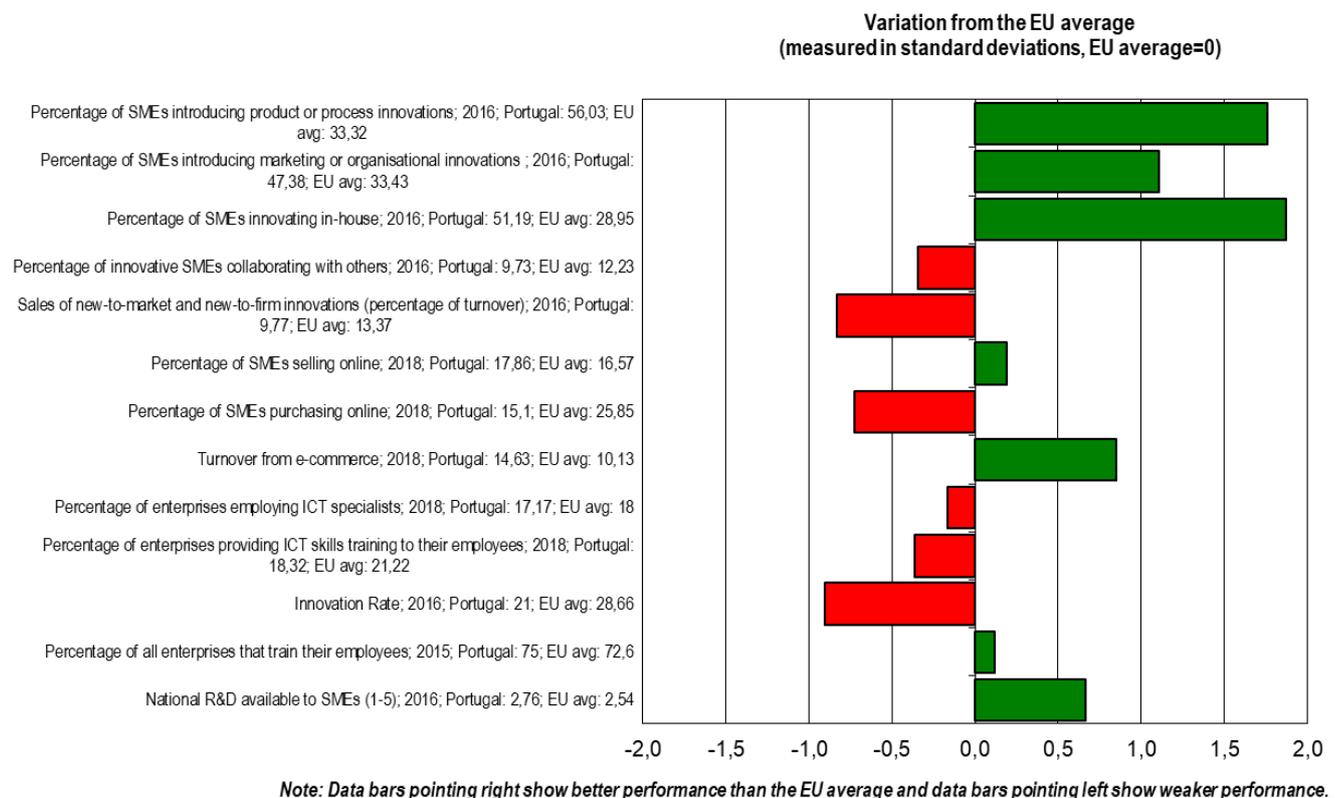
Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Portugal's performance in the single market area has improved significantly since 2008, but is currently below the EU average. According to the 2018 'Single Market Scoreboard', Portugal scored better than the EU average on transposing single market directives and on the number of infringement procedures, which have fallen from 40 to 26 since the last reference period. After tackling the problem of late transpositions 1 year ago, Portugal has concentrated on reducing other types of infringement. It also scored better than the EU average for services such as EURES, Your Europe, SOLVIT, points of single contact and professional qualifications. It is in line with the EU average on intra-EU trade in goods and close to the EU average for SME performance in intra-EU public procurement. On the other hand, Portugal is still one of the worst performers in terms of market access for new and growing firms. This is largely due to a lack of regulatory reform based on single market principles, notably those under the Services Directive (Directive 2006/123/EC).

Since 2008, Portugal has launched initiatives to help SMEs benefit from the single market. For example, it created an online portal so that SMEs can benefit from business opportunities in the EU. Since 2017, Portugal has also put in place measures for recognising and supporting national clusters from a range of sectors.

No significant measures applicable to the single market principle were put in place during the current reference period. However, as part of the Startup Portugal+ programme announced in July 2018, a new think tank is working on future support measures for scale-ups, for modernisation of industry and for promoting more and better access to the single market.

3.7 Skills & innovation



Overall, Portugal is in line with the EU average in skills & innovation.

Performance on the specific SBA criteria concerning 'Enterprises employing ICT specialists' and 'the percentage of enterprises providing ICT skills training to their employees' has deteriorated slightly since last year, but remains close to the EU average. This downward trend, in conjunction with other data mentioned

below, support the need for further efforts to improve digitalisation skills. While the share of Portuguese SMEs both selling and purchasing online has improved since the last reference period, the percentage of SMEs purchasing online remains below average.

On a positive note, Portugal is one of the best performers in the EU in terms of SMEs innovating in-house and introducing product

or process innovations. However, the innovation rate of SMEs is below the EU average. The OECD 2019 Economic Report highlights a need to focus policy attention in Portugal on getting more SMEs to participate in innovative activities. Another key issue is the relatively low market impact of innovation in Portugal (relatively low levels of medium-high tech product exports, knowledge-intensive service exports and sales of new to market/firm innovation³⁰). The prevalence of low value added sectors in overall job creation and growth mentioned in Chapter 1 is also related to this.

On digitalisation skills, a number of other sources point to weaknesses that hamper the potential for innovation and further productivity gains. Portugal ranks 24th in the EU on internet user skills and advanced digital skills³¹. The share of businesses that provide ICT skills training to their employees has been falling since 2014 and remains well below the EU average. Portugal also ranks well below average (26th in the EU in 2018) on the percentage of employees in SMEs that use computers with internet access³².

Although the percentage of companies that train their employees is on a par with the EU average, there is evidence that the resources devoted to continuous training and the percentage of staff trained are relatively low, particularly in micro-enterprises³³.

Since 2008, Portugal has implemented a series of measures in the area of skills & innovation. Two key measures to support the research and innovation activities of SMEs include the 'operational competitiveness and internationalisation programme' (*Programa Operacional Competitividade e Internacionalização*) and the national strategic reference framework programme (*Portugal 2020*).

Another relevant ongoing initiative is the Industry 4.0 initiative, a four-year programme that supports over 50,000 companies and trains 200,000 workers on digital competences.

During the reference period, the following measures were adopted.

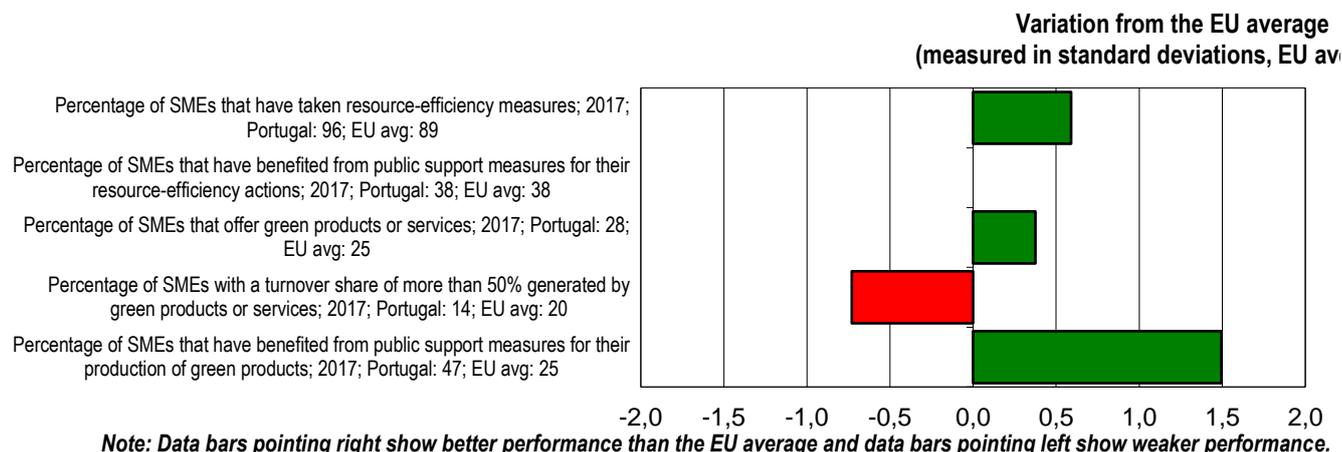
- 'Technological and business innovation strategy for Portugal 2018-2030' (*Estratégia de Inovação Tecnológica e*

Empresarial para Portugal 2018-2030) promotes growth, competitiveness, investment and prosperity in Portugal.

- Provision of competitive funding to 'collaborative laboratories (CoLABS)' – defined as non-profit private institutions or for-profit companies that connect different types of organisations ranging from other companies, research units, associated laboratories, associations, etc. This measure aims to generate qualified and scientific employment in Portugal by implementing research and innovation agendas in order to create economic and social value.
- Funding 'technological interface centres' (*centros de interface tecnológico*), which promote links between science, technology and the economy, and help companies with R&D, and technology transfer and dissemination. As part of the interface programme, the Fund for Innovation, Technology and Circular Economy finances cluster certification and technology transfer through technological interface centres and a network of collaborative labs.
- The 'Suppliers club' (*Clube de fornecedores*) helps integrate local players into international value chains by leveraging the multinational companies located in Portugal. The initiative is being implemented in phases. Two clubs are being set up - one for suppliers to Bosch, the other for suppliers to the nuclear industry. Phase 1 will identify a number of suppliers and 'interface entities' (suppliers that integrate into the supply chain). Tenders will then be launched to support integrated strategies with the suppliers and investment in these businesses.
- The 'research opportunities voucher' (*Vale Oportunidades de Investigação*) provides financial support to SMEs – with a maximum limit of €15,000 – to access R&D and technology transfer consultancy services.

The Portugal INCoDe.2030 initiative announced in this year's national reform programme will also include measures for boosting ICT skills.

3.8 Environment



Portugal’s performance on the environment is above the EU average, and the country has made progress since 2008. It has one of the highest shares of SMEs that have taken resource-efficiency measures and one of the highest shares of SMEs that have benefited from public support measures to make green products.

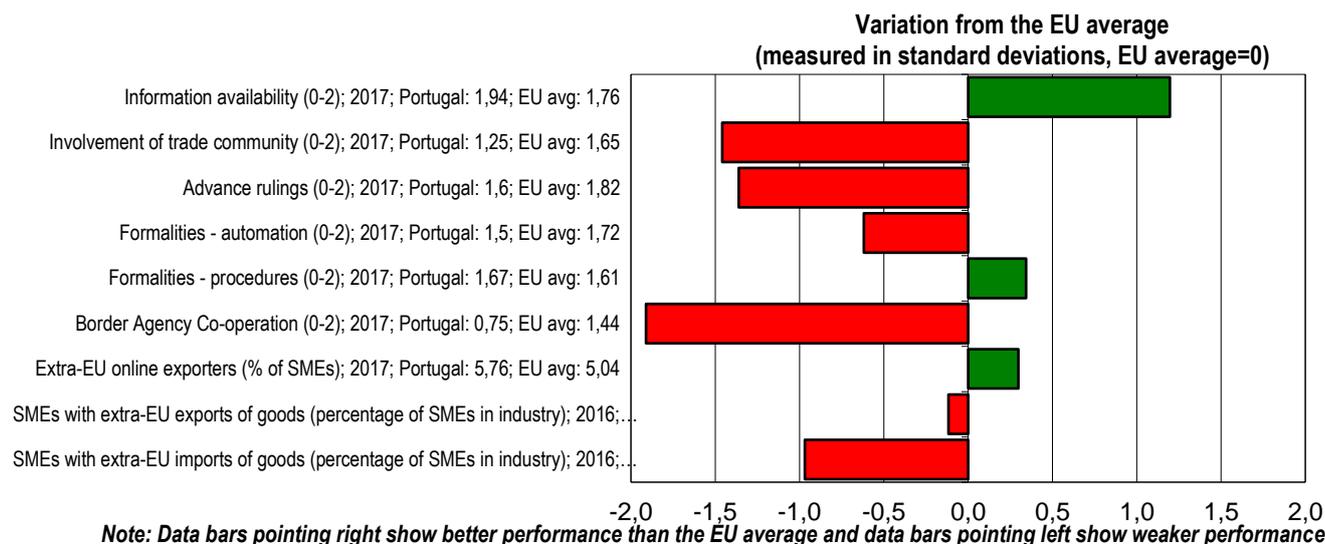
Since 2008, the Portuguese government has taken steps to encourage companies to become energy efficient and practice eco-innovation, for instance, by adopting tax incentives, green growth strategies and an action plan for the circular economy. Higher public and private investment in resource efficiency would strengthen the long-term sustainable growth potential of Portugal. A further challenge involves reducing the energy consumption of businesses. A broad set of strategies has made a significant contribution to this performance, including:

The action plan for the circular economy (*Plano de Ação para a Economia Circular*) and the 2014-2020 strategic urban waste plan (*Plano Estratégico para os Resíduos Urbanos*) aim to ensure a high level of environmental and human health protection by using appropriate processes, technologies and infrastructure. This also includes promoting the green economy.

Under the interface programme, the ‘energy efficiency credit line for SMEs’ (*Linha de Eficiência Energética para PMEs*) was also launched (€100m) to help manufacturing and tourism companies develop projects to reduce energy consumption and switch from fossil fuels to renewables. The ‘circular economy voucher’ (*Vale Economia Circular*), supported by the European Regional Development Fund, helps implement growth models aligned with national and international strategies and environmental commitments taken by Portugal. It was launched after a call for applications in July 2018. The voucher – with a maximum limit of €7,500 – helps SMEs access consultancy services so they can develop and implement circular economy business plans.

Moreover, the Energy Challenge - Startup Portugal+ measure launched in August 2018 supports technology-based start-ups with the initial development of innovative technological solutions in the areas of renewable energy, energy efficiency and generation from renewable sources. Planned funding is between €20,000 and €50,000 per project (non-refundable).

3.9 Internationalisation



Portugal is currently one of the weakest performers in this area in the EU.

Although various measures have been put in place, its performance is among the worst in the EU on many of the SBA criteria, in particular ‘involvement of the trade community’, ‘advance rulings’ and ‘border agency co-operation’.

The export performance of SMEs is also held back by barriers and weaknesses related to professional services as well as weaknesses in infrastructure (for example, ports).

One of the challenges facing internationalisation is the fact that a relatively high percentage of Portuguese businesses are micro-businesses that do not have the capacity to become significant exporters³⁴. Only 4.6% of Portuguese businesses have more than 10 employees, whereas the EU average is 7%. Performance of new firms in exports is also weak.

Last but not least, access to finance is also a challenge for Portuguese businesses seeking to grow internationally. The main developments in this area are covered in the access to finance chapter.

According to research by the National Productivity Board, there is a positive relationship between productivity and the level of internationalisation of Portuguese firms. The percentage of exports of goods and services in relation to the gross domestic product (GDP) has been steadily increasing since 2008 (44% of GDP in 2018 against 31% of GDP in 2008)³⁵. Moreover, the National Productivity Board notes that the positive development

of exports in recent years arises not only from favourable external demand but also from a series of reforms to help Portuguese businesses to become more active internationally. The objective of these reforms is to ensure better integration in markets and international value chains, greater diversification of markets and boost the quality and value added of the products exported. Boosting the productivity of Portuguese firms would also increase their level of internationalisation³⁶.

As mentioned earlier, Portuguese SMEs (particularly micro-businesses) also perform weakly on life-long learning. Increased provision of training (and also experience-based training) can help businesses further differentiate and improve export products and acquire the right skills for integrating international value chains³⁷. A number of such measures have already been put in place as mentioned below.

In recent years, the general economic climate has had a positive impact on SMEs’ international business. Although there are signs of a global economic slowdown, Portugal is forecast to continue strengthening its market share in international markets in 2019-2020³⁸.

Since 2008, several policy measures have been implemented to help Portuguese businesses to become more active in international markets. Measures to boost internationalisation are mainly managed by Portugal Global (*Agência para o Investimento e Comércio Externo de Portugal*). It is a specialised public agency that promotes trade and foreign investment by organising, for example, international fairs and providing training to SMEs on foreign markets.

In the reference period, the following measures were adopted to help businesses strengthen these capacities.

- Creation of the 'fund of funds for internationalisation' (*Fundo de fundos para a internacionalização*), a co-investment scheme to help Portuguese companies export goods (€100 million).
- The 'internationalisation opportunities voucher' (*vale oportunidades de internacionalização*) provides financial support to SMEs – with a maximum limit of €10,000 – so they can access consultancy services on diagnosing internationalisation competences, developing an internationalisation business plan and a marketing strategy.
- The 'Tech Visa' establishes a simplified visa scheme for technology companies to attract highly qualified and specialised people from outside the Schengen area.

Under the existing national strategic reference framework programme (*Portugal 2020*), as part of the 'SME internationalisation incentive system' (*Sistema de Incentivos Internacionalização das PME*) a call was launched for 'new exporters' with an allocation of €53 million. It aims to increase the number of new export companies or the international sales volume of companies that already export.

The 'Suppliers club' mentioned under skills & innovation will help businesses involved in supply chain cooperation with major international businesses based in Portugal. In the medium term, this should also lead to opportunities for supply chain cooperation on foreign markets.

Clusters also play an important role in capacity building. New initiatives for cooperation with clusters to develop strategies for achieving best sectoral performance should be launched towards the end of 2019.

4. Interesting initiative

Below is an example of a Portuguese initiative illustrating what governments can do to support SMEs.

IFD financing line for on-lending to SMEs

A state-backed credit line managed by the Development Finance Institution (*Instituição Financeira de Desenvolvimento / IFD*) in partnership with domestic banks has been launched. Its main goal is to support on-lending to SMEs. Banks perform the credit risk assessment based on public policy principles and goals and have to provide funds that match the amount of public money available.

The SME loan maturity is very long (up to 12 years), with a four-year grace period. Until the launch of this new instrument, there was a gap in the Portuguese banking system for this type of loan.

The first agreement of this type was signed between the IFD and BCP Bank in January 2019 to the tune of €60 million and is based on funding from the European Investment Bank. More agreements are expected to follow.

This is different from the state-backed credit lines for SMEs linked to the mutual guarantee fund run by SPGM.

References:

<http://www.ifd.pt/pt/produtos/feei/on-lending/linha-de-financiamento-no-ambito-de-atividades-de-lending/>

<http://www.ifd.pt/pt/produtos/feei/on-lending/linha-de-financiamento-no-ambito-de-atividades-de-lending/>

Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

² See point 1 of this fact sheet for further details about these figures and the source.

³ https://www.jornaldenegocios.pt/empresas/automovel/detalhe/faurecia_investe_415_milhoes_e_cria_400_empregos_em_braga_nca; <https://24.sapo.pt/economia/artigos/bosch-investimento-total-em-aveiro-ascende-a-262-milhoes-de-euros>; <https://www.publico.pt/2014/03/31/economia/noticia/autoeuropa-planeia-investimento-de-670-milhoes-e-criacao-de-500-empregos-1630493>; last accessed 13.05.2019

⁴ <https://www.scaleupportugal.tech/>; last accessed 13.05.2019

⁵ <https://tech.eu/free/21951/an-insiders-view-of-lisbons-rapidly-growing-tech-scene/>; last accessed 13.05.2019

⁶ <https://venturebeat.com/2018/10/03/web-summit-inks-128-million-deal-to-stay-in-lisbon-through-2028/>; last accessed 13.05.2019

⁷ Eurostat structural business statistics 'Survival rate 5' (number of surviving enterprises that were newly born in year t-5 divided by the number of enterprise births in year t-5).

⁸ www.europeanstartupmonitor2019.eu

⁹ Due to data availability, the data on high-growth firms refers to the 'business economy' only, which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.

¹⁰ In line with Commission Implementing Regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in the beginning of their growth and average annualised growth in number of employees greater than 10% per year over a three-year period. The share of high-growth enterprises is the number of high-growth enterprises divided by the number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2, last accessed 15.04.2019).

¹¹ See for example OECD SME and Entrepreneurship Outlook 2019, p. 363, Table E - Sectors where new enterprises create jobs: <https://www.oecd.org/industry/oecd-sme-and-entrepreneurship-outlook-2019-34907e9c-en.htm>

¹² The 2019 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

¹³ The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2019. All SBA principles, with the exception of the 'think small first' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

¹⁴ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. The national SME policy expert that PwC (DG GROW's lead contractor for the 2019 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

¹⁵ Unidade Técnica de Avaliação de Impacto Legislativo, the unit responsible for coordinating RIA and informing other government services. This is attached to the Ministry of the Presidency and Administrative Modernisation.

¹⁶ A minimum viable product, or MVP, is a product with good enough features to attract customers early in the product development cycle. Selling an MVP can help a business to quickly gather user feedback, in order to iterate and improve the product.

¹⁷ In particular, the first steps towards the creation of a Tourism Digital Academy in partnership with the network of tourism schools and an incubator specialised in the development of innovative solutions for the tourism sector.

¹⁸ Decree-law n° 9/1019 of 18 January 2019, Diário da República n° 13/2019, Série I de 2019-01-18, p. 353.

¹⁹ *ScaleUp Portugal 2018*, published in 2018, available at <https://www.scaleupportugal.tech/>, last accessed 10.05.2019.

²⁰ Decree-law n° 79/2017 of 30 June 2017 modifying the Code for Commercial Companies and the Code for Insolvency and Recovery of Enterprises (entry into force on 1 July 2017). See: <http://www.homepagejuridica.net/destaques-do-diario-da-republica/10301-decreto-lei-n-79-2017-de-30-de-junho.html>

²¹ See: <https://www.eurofound.europa.eu/observatories/emcc/erm/support-instrument/special-revitalisation-process>

²² Law n° 6/2018 of 22 February 2018 concerning the statute of the Mediator for Recovery of Enterprises (*Estatuto do mediador de recuperação de empresas*). See: <https://dre.pt/application/conteudo/114749189>

²³ Ordinance n° 315 of 10 December 2018 (minimum capital for civil responsibility insurance) and Ordinance n° 309 of 3 December 2018 on accreditation of entities for training mediators. See: <https://www.iapmei.pt/Paginas/Programa-Capitalizar.aspx>

²⁴ For example, the 2019 OECD Economic Survey of Portugal mentions too many VAT exemptions and reduced rates, see page 10: https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-portugal-2019_eco_surveys-prt-2019-en#page1.

²⁵ An external evaluation of 40 SIMPLEX+ measures was launched jointly with the Administrative Modernisation Agency (*Agência para a Modernização Administrativa*) and the Ministry of Presidency and Administrative Modernisation in May 2018. One key finding of this evaluation is that SIMPLEX+ led to important cost and time savings for business citizens and public

administration, including annual savings of €174 million in costs and 17.9 million hours in time for dealing with information obligations. The ‘automatic tax declaration’ and “Logistics Helpdesk” stand out in particular for their positive impact on businesses and the public.

²⁶ <https://www.intrum.com/press/publications/european-payment-report/>

²⁷ 2019 OECD Economic Survey of Portugal

²⁸ Portugal Investment Report 2018-2019 by LC Ventures, the National Federation of Business Angels (FNABA) and Building the Innovation Ecosystem, available at <https://rethink.beta-i.pt/2019/06/26/download-the-venture-capital-in-portugal-report/>

²⁹ Created under Decree law n° 28/2018. This is implemented by Portugal Social Innovation (*Portugal Inovação Social*), a public initiative for promoting social entrepreneurship and stimulating the impact economy. It was set up in 2014 with funding from the European structural and investment funds.

³⁰ See European Innovation Scoreboard 2019, Portugal fact sheet, available at <https://ec.europa.eu/docsroom/documents/35906>

³¹ See the Human Capital indicators in the Digital Economy and Society Index (DESI 2019), available at <https://ec.europa.eu/digital-single-market/en/news/digital-economy-and-society-index-desi-2019>

³² <https://ec.europa.eu/eurostat/web/skills/data/database>

³³ A recent report by the Portuguese Centre for Labour Relations (*Centro de Relações Laborais*), based on figures from 2017, noted a slight fall in resources allocated by Portuguese businesses to continuous training. It also reveals that only 12.9% of workers in Portuguese micro-enterprises benefited from continuous training. See: <https://www.crlaborais.pt/documents/10182/398250/Relat%C3%B3rio+emprego+e+forma%C3%A7%C3%A3o++2018/0bb988bd-a1b4-4eed-ab86-a0db03fb7d73>

³⁴ 2019 OECD Economic Survey of Portugal.

³⁵ Statistical Office: <https://www.pordata.pt/Portugal/Balan%C3%A7a+comercial+em+percentagem+do+PIB-2595>

³⁶ Conselho da Produtividade, 1st Annual Report 2018 https://conselhoproductividade.files.wordpress.com/2019/04/relatorio_produtividade_cpp_mar_2019_en.pdf

³⁷ Ordinance N° 309 of 3 December 2018 on the accreditation scheme for entities providing training. See: <https://www.iapmei.pt/getattachment/Paginas/Programa-Capitalizar/Portaria-309-2018-de-3-Dezembro.pdf.aspx?lang=pt-PT> and Ordinance n.º 315 of 10 December 2018

³⁸ 2019 European Semester Country Report – Portugal, European Commission: https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-portugal_en_0.pdf