

FRANCE

1. Introduction

SME's find the French business environment increasingly attractive, as they are provided with a large amount of support and funding, and administrative requirements continue to be simplified. However, at the time of writing this report (early December 2020), high production taxes and costs have still been putting French SMEs at a disadvantage. SMEs also face issues in hiring skilled workers and moving forward with their digital conversion. The government have announced various measures to improve the situation.

In 2020, the French government put in place many measures to help SMEs stay in business and retain their employees despite the COVID-19 pandemic and the policy actions adopted to combat it¹. However, value added was severely affected, particularly due to the general decrease in demand. With a fall of 13.0% in SME value added and 1.7% in SME employment, SMEs experienced a significant downturn in their performance². Most sectors recorded significant declines in SME value added, such as *construction*, dropping by 19.4%, *transportation and storage*, falling by 19.8%, and the most affected sector, *accommodation and food services*, falling by 34.1%. The largest decline in SME employment, by 11.9%, occurred in *administrative and support services*, followed by *accommodation and food services* with a drop of 8.6%.

For 2021, SME value added is expected to recover and grow by 6.3%. However, SME employment is forecast to decline further, by 0.2%. Overall, in 2021, SME value added and SME employment are expected to remain 7.5% and 1.9% below their respective values in 2019.

In 2020, SMEs generated 44.2% of overall value added in the French 'non-financial business economy', substantially lower than the EU average of 53.0%. The contribution of French SMEs to total employment was only 53.2%, 12.0 percentage points lower than the EU average. However, SME productivity, measured as value added per person employed, amounted to approximately EUR 48 600, significantly exceeding the EU average of EUR 40 000. French SMEs employed an average of 2.9 people, slightly fewer than the EU average of 3.7 people.

Figure 1: Number of enterprises, persons employed and value added in 2020

	Number of enterprises			Number of persons employed			Value added		
	France		EU-27	France		EU-27	France		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
Micro	2 721 974	95.8%	93.3%	4 036 198	25.8%	29.6%	169.3	18.4%	18.7%
Small	100 978	3.6%	5.7%	2 360 503	15.1%	19.7%	116.9	12.7%	17%
Medium-sized	15 719	0.6%	0.9%	1 940 428	12.4%	15.8%	119.2	13%	17.3%
SMEs	2 838 671	99.9%	99.8%	8 337 129	53.2%	65.2%	405.4	44.2%	53%
Large	3 718	0.1%	0.2%	7 326 148	46.8%	34.8%	512.5	55.8%	47%
Total	2 842 389	100%	100%	15 663 277	100%	100%	917.9	100%	100%

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term 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).

2. Key strengths

The French business environment is increasingly attractive for SMEs

Ranking 15th in the World Economic Forum's (WEF) 2019 Global Competitiveness Index, up 2 positions from the previous year, France scores especially well in terms of infrastructure (9th) and its enabling environment in general³. France ranks 12th in the Global Innovation Index, rising four positions from last year. The ranking in which France has increased the most is the Creative Outputs pillar (13th), as well as jumping 4 positions to 6th in the sub-pillar 'Intangible assets', an area in which France remains relatively strong⁴.

Moreover, in France, the time (in days) and cost to start a business (as a percentage of income per capita), were significantly lower compared to the EU average, reaching 4 days and 0.7% respectively in 2020 (EU average of 12.2 days and 3.25%)⁵.

Figure 2: Firms that agree with the statement: 'new firms can get most of the required permits and licenses in about a week'; and firms that agree with the statement: 'the people working for government agencies are competent and effective in supporting new and growing firms' (Likert scale: 1 being the worst and 5 the best)



Source: National Expert Survey (NES) of the Global Entrepreneurship Monitor (GEM), 2019⁶

Support and funding for start-ups and SMEs is gaining momentum

Since 2013, the French government has launched major initiatives to strengthen its start-up ecosystem. For example, the French Tech initiative is an ecosystem bringing together start-ups, investors, policymakers and community builders, and providing support to start-ups, seed funds, the tech visa scheme, and tech hubs in cities as well as outside France to help them grow⁷. With the 'French tech Next 40/120' programme being launched in 2019 and its associated FT120 stock market index, in the coming years French Tech will provide dedicated support to promising French companies experiencing a steady growth in order to increase the number of unicorns in the country (from 8 in 2020 to 25 by 2025)⁸.

In France, EUR 5.39 billion in capital risk was raised in 2020 (EUR 5.03 billion in 2019, EUR 3.624 billion in 2018 and EUR 2.563 billion in 2017) through a total of 620 business transactions⁹.

Created in 2013, Bpifrance ('Banque Publique d'Investissement') is the public bank for entrepreneurs and offers a 'one-stop' financing service to businesses, with priority given to SMEs. This service comprises a broad portfolio of financial instruments and consultation that supports businesses as they develop, from start-up and growth phase, to business transfer or buy-out. By sharing the risk, this service helps SMEs access the financing offered by banking partners and equity capital investors. In 2019, the bank provided SMEs with short-term funding of EUR 19.1 billion, guaranteed loans for EUR 8.5 billion, and direct and indirect investment for EUR 2.5 billion¹⁰.

Furthermore, in France, the cost of borrowing for small loans (below EUR 1 million) relative to large loans (the indicator was calculated by dividing the difference in the annual interest rate for loans up to EUR 1 million and loans over EUR 1 million with the average annual interest rate for loans of under EUR 1 million) and the annual average interest rate for small loans are significantly below the EU average (20.9 and 1.7 for France, and 29.4 and 2.9 for the EU in 2019)¹¹.

In 2020, the rising macroeconomic uncertainty caused by the pandemic affected the availability of external finance for SMEs¹². The various measures introduced by the French government, particularly the bank loans guaranteed by the State, worth EUR 300 billion, are supposed to provide

SMEs with sufficient access to external finance during the COVID-19 crisis. An example of support provided to start-ups (which often have limited capital) facing the consequences of the crisis was the 'Programme d'Investissements d'Avenir' and Bpifrance putting in place the French Tech Bridge programme in March 2020. This provided EUR 160 million to help start-ups financially bridge the period between two fund-raising events¹³. This measure was part of a broader package to step up innovation and help start-ups to develop.

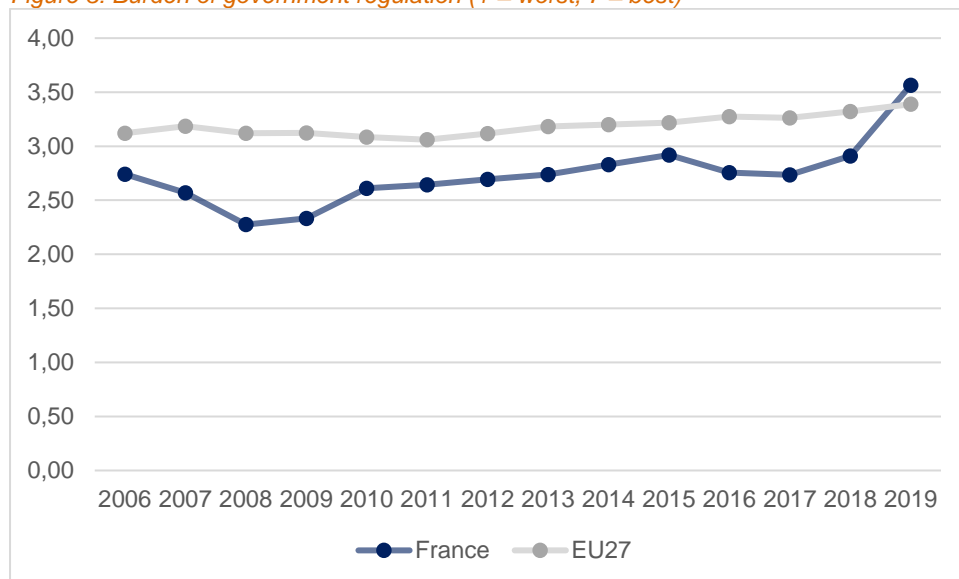
Taking steps to reduce the administrative burden.

In January 2009, the 'micro-entrepreneur' status was introduced, which aims to encourage new business creation and ease business transfer by simplifying administrative requirements such as completing registration through one simple document online. In addition, micro-entrepreneurs are not subject to VAT and only have to pay taxes and social contributions on what they earn, either monthly or quarterly¹⁴. Micro-entrepreneurs are also able to separate their personal and business assets to safeguard their personal assets from business creditors and effectively limit their liability. In 2019, a total of 1.71 million companies in France, out of around 4.7 million, were registered as 'micro-entrepreneurs', which represents an increase of 26.5% from the previous year¹⁵.

Since 2017, the government has been streamlining many time-consuming compliance and regulatory processes, which SMEs have greatly welcomed.

The Action Plan for Business Growth and Transformation (*PACTE – 'Plan d'Action pour la Croissance et la Transformation des Entreprises'*), adopted in 2019, aims to significantly reduce and simplify the obligations connected with employee thresholds (currently 199 obligations for SMEs), therefore helping SMEs to grow¹⁶. This action plan also seeks to simplify matters for entrepreneurs by creating a single online platform for business formalities, which will be put in place between 2021 and 2023.

Figure 3: Burden of government regulation (1 = worst, 7 = best)



Source: Global Competitiveness Report 2018-2019, 2019¹⁷

3. Key challenges

Production taxes in France are impairing competitiveness

The number of manufacturing companies has been decreasing in France for many years. The industrial sector represented 10.2% of GDP in 2016 against 14% in 2000 while it represents 20.6% in Germany and 14.6% in Italy¹⁸. In addition, the share of French exports in the euro area fell by 1.6% between 2007 and 2017¹⁹.

For years, the high level of production taxes and costs has put French products at a disadvantage. In 2019, the total amount paid in production taxes is estimated to correspond to 3.6% of the value added for that year against 0.5% in Germany²⁰. *Institut Montaigne* ranks France second among EU countries (behind Sweden) in term of the highest production taxes, amounting for around EUR 72 billion in 2018²¹. In total, French companies may have to deal with up to 200 different taxes. For an average company, this represents 66 taxes against 17 in Germany and 5 in the UK.

The situation is likely to improve in the coming years with the implementation of the 2021 Finance Law 2020-1721 (*Loi de finances pour 2021*) adopted in December 2020. The Law introduces a series of fiscal measures including the reduction of production taxes²². Both the CVAE-tax²³ based on corporate added value and CFE-tax²⁴ based on company real estate contribution have been cut by half starting from 1 January 2021²⁵.

There is an undersupply of skilled workers

The lack of qualifications is a long-lasting issue in the French educational system, which is exacerbated by strong socio-economic and regional inequalities. Between 2017 and 2019, it was even considered as the biggest problem for SMEs in the country²⁶.

Many young people leave the education system with few or no qualifications. In 2019, 80 000 young students left the educational system with no qualifications²⁷.

Entrepreneurship is rarely taught at school, and is rarely offered in professional training courses. Even though it has continued to gain prominence among students and workers, there is very little exchange between the educational institutions and SMEs despite some private initiatives such as the 'industry week'²⁸. When looking at entrepreneurship education at basic school (primary and secondary), France performs below the EU average, reaching 1.7 against the EU average of 2.1 (on a scale from 1 to 5). Similarly, regarding whether teaching in primary and secondary education provides adequate attention to entrepreneurship and new firm creation, France also ranked below the EU average of 1.9, reaching 1.7 (on a scale from 1 to 5, where 1 means the statement is completely false according to the experts and 5 means the statement is completely true)²⁹.

While France ranks 15th in the World Economic Forum's 2019 Global Competitiveness Report, its skill base is weak, ranking 35th in this respect, and 51st in terms of skills of future workforce.

More than 50% of companies still have difficulties filling their job positions³⁰, which reflects the inadequacy between the education provided and the skills sought by companies.

Growth in digital conversion is still slow among smaller companies

Digital transformation is difficult for French SMEs with only 29% having started (or achieved) digital conversion while 61% are not taking any steps in this direction (CPME, July 2019). SMEs with the lowest number of employees appear to have the lowest digital conversion: 20% for for

single-person companies, 34% for 1 to 9 employees, 43% for 10-19 employees, and 53% for 20-49 employees³¹.

Regarding businesses with less than 10 employees, a study – ‘Needs of VSE/SMEs’ – conducted in early 2020 before the crisis by the Boston Consulting Group and Ernst & Young for the Direction Générale des Entreprises (DG Enterprise) gives further details on digital transformation³²: fewer than 4 out of 10 Micro-, Small and Medium-sized Enterprises - MSMEs (37%) have a website (32% for single-person companies and 44% of companies with between 1 and 9 employees) while 9% have a commercial website.

The digitisation of French MSMEs, however, is progressing, even if France is ranked only 15th out of 28 EU Member States in terms of digital competitiveness, according to the analysis of the 2020 Digital Economy and Society Index (DESI). France’s ranking is improving since it was 16th in 2019 and 17th in 2018³³. This trend is confirmed in the field of integration of digital technologies by companies (‘dimension 4’ of the DESI), where France gained 2 places in the overall ranking in 2020, reaching 11th position. France’s strengths include the share of companies using electronic information exchange solutions (48%), which is significantly higher than the EU average (34%). Weaknesses include internet visibility and online sales.

To help SMEs, particularly the smaller ones, with their digital transformation, in 2018, the French government launched the initiative ‘France Num’. This initiative aims to make entrepreneurs aware of the advantages of digital technology, with a website providing companies with content on digital transformation. The initiative also supports companies wishing to go digital. In addition, as part of the recovery plan, France Num has launched a number of measures to raise awareness of and provide support for digitisation.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

The country has weathered two periods of lockdown as with most EU countries, creating exceptional situations and uncertainties for SMEs’ cash flow. The government is supporting all SMEs, but SMEs in sectors like *tourism, hotel, catering/restaurants, sport, culture, transport or events*, have been hit harder than others.

EUR 27.3 billion (solidarity fund) was disbursed to more than 2 million SMEs³⁴ (as of 26 May 2021), and close to 600 000 SMEs had already asked for a state guaranteed loan – known as a ‘PGE’ – for a total of EUR 122 billion (as of 16 October 2020)³⁵. In March 2020, 7 million employees were under the partial unemployment scheme. 8.6 million in April, 7.2 million in May, 3.5 million in June, 1.9 million in July, 1.3 million in August, and 1.1 million in September.



GREEN TRANSITION OF SMES

In 2019, France ranked 10th in the EU-28 Eco-innovation composite index with a score of 107, slightly above the EU average³⁶. More specifically, France ranks above the EU average regarding the eco-innovation inputs, the eco-innovation activities and the resource-efficiency outcomes.

The decarbonisation of the industry is a major priority under the Recovery Plan, as EUR 300 million (out of EUR 1 billion in total) will be devoted to this over 2020-2022. It will support energy efficiency, low-carbon heat and many other smaller investment projects³⁷.



SOCIAL ASPECTS OF SUSTAINABILITY

Since 2018, the 'right-to-make-mistakes' allows companies to avoid penalties by the administration for their first mistake, provided it was an honest mistake and was not an attempt to cheat or circumvent the system³⁸.

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- ⁴ WIPO (2020), *Global Innovation Index 2020*, available at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020.pdf
- ⁵ World Bank Doing Business (2020), available at: <http://www.doingbusiness.org/methodology/resolving-insolvency>
- ⁶ Global Entrepreneurship Monitor (2019), National Expert Survey (NES) of the Global Entrepreneurship Monitor (GEM), available at: <http://www.gemconsortium.org/>
- ⁷ La French Tech. Available at: <https://lafrenchtech.com/en/how-france-helps-startups/french-tech-120/>
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- ¹¹ ECB (2019), available at: <http://sdw.ecb.europa.eu/browse.do?node=9484266>
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