



2021 SME COUNTRY FACT SHEET'S BACKGROUND DOCUMENT

# PORTUGAL

## 1. Introduction

Portugal is one of the EU's strongest performers in entrepreneurship and has a vibrant start-up ecosystem. In addition, Portuguese small and medium-sized enterprises (SMEs) are relatively strong innovators and leaders in sustainability. However, the business environment is negatively affected by some aspects of the Portuguese justice and legal system (particularly the time it takes to resolve civil and commercial cases and the low level of protection for borrowers and lenders) and late payments. The administrative burden also remains a significant issue<sup>1</sup>. Although Portugal has put in place various measures to improve access to finance and digital skills, with some positive developments taking place, certain challenges still remain. Moreover, the relatively low level of public and private R&D investments (0.64% and 0.74% of GDP respectively in 2019), limited cooperation between academia and businesses<sup>2</sup> and the poor monitoring and coordination of the smart specialisation agenda<sup>3</sup> hampers the potential for upgrading the Portuguese research and innovation (R&I) system.

SMEs are particularly important for Portugal's 'non-financial business economy'. In 2020, they generated 67.4% of value added and accounted for more than three-quarters of employment (76.2%) against 53.0% and 65.2% respectively in the EU. Portuguese SMEs employed an average of 2.9 people in 2020, less than the EU average of 3.7. Their productivity, calculated as value added per person employed, was approximately EUR 23 300, around half the EU average.

The COVID-19 pandemic and ensuing policy decisions made 2020 a particularly difficult year for SMEs in Portugal. In 2020, SME value added and SME employment fell by 10.1% and 3.9% respectively<sup>4</sup>. The *accommodation and food services* sector experienced a sharp contraction, with SME value added declining by 42.9% and SME employment falling by 9.8%. Another badly affected sector is the *administrative and support services* sector, with SME value added and SME employment dropping by 20.6% and 12.6% respectively. The *information and communication* sector, in contrast, performed particularly well, with value added growing by 5.6% and employment by 5.3% in 2020.

With the introduction of a more stringent lockdown in mid-January 2021, Portugal's GDP fell again in the first quarter of 2021, but is projected to recover in the second quarter, with a major rebound in the summer months<sup>5</sup>. Businesses' expectations also play an important role in how the pandemic affects the economy. According to a recent World Bank Survey, Portuguese businesses expect it to take 5-6 months on average to achieve a normal level of sales<sup>6</sup> (earlier estimates for 2021 had predicted increases in SME value added and SME employment of 10.1% and 4.6% respectively).

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

	Number of enterprises			Number of persons employed			Value added		
	Portugal		EU-27	Portugal		EU-27	Portugal		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
<b>Micro</b>	831 700	95.1%	93.3%	1 321 211	39.4%	29.6%	20.8	24.6%	18.7%
<b>Small</b>	35 944	4.1%	5.7%	687 133	20.5%	19.7%	17.5	20.7%	17.0%
<b>Medium-sized</b>	5 598	0.6%	0.9%	547 756	16.3%	15.8%	18.7	22.1%	17.3%
<b>SMEs</b>	<b>873 242</b>	<b>99.9%</b>	<b>99.8%</b>	<b>2 556 100</b>	<b>76.2%</b>	<b>65.2%</b>	<b>57.0</b>	<b>67.4%</b>	<b>53.0%</b>
<b>Large</b>	924	0.1%	0.2%	796 404	23.8%	34.8%	27.6	32.6%	47.0%
<b>Total</b>	<b>874 166</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3 352 504</b>	<b>100.0%</b>	<b>100.0%</b>	<b>84.6</b>	<b>100.0%</b>	<b>100.0%</b>

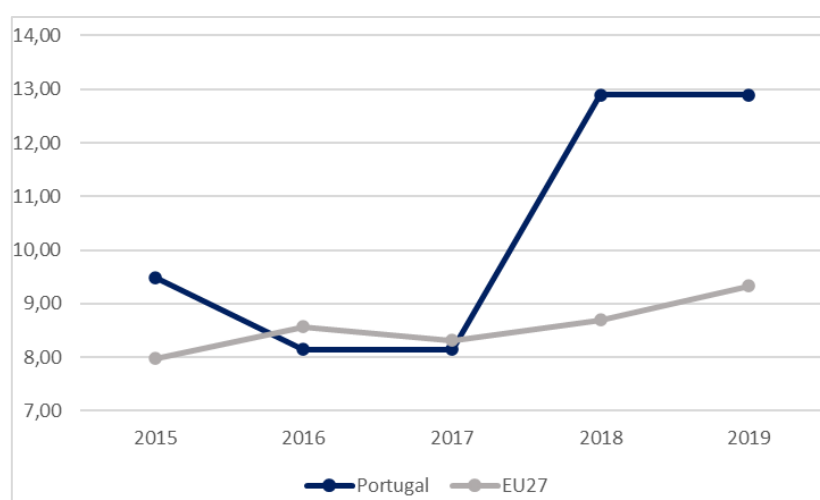
Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial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

### Portugal is one of the EU's strongest performers in entrepreneurship

Portugal has a strong, tech-based start-up ecosystem and one of the highest shares of high-growth enterprises in the EU at 14.15%<sup>7</sup>. Early-stage entrepreneurial activity has shot up in recent years, and now surpasses the EU average<sup>8</sup>.

Figure 2: Total early-stage entrepreneurial activity



Source: Global Entrepreneurship Report, 2019<sup>9</sup>

Support measures to launch tech-based companies and help young entrepreneurs are in place, including financial support for self-employment, training activities and start-up vouchers to support entrepreneurial projects at the ideas stage<sup>10</sup>.

In addition, entrepreneurship is now part of the education curriculum, and mentoring initiatives have been launched in collaboration with university incubators and start-ups. Entrepreneurship education in Portugal seems to be succeeding, with 75% of its citizens reporting that school education helped them develop a more entrepreneurial attitude, one of the highest values in the EU<sup>11</sup>. Entrepreneurship also receives one of the highest levels of media attention<sup>12</sup>.

### **Portuguese SMEs are leading in sustainability**

Portugal performs above the EU average in sustainability, with 97% of SMEs having taken sustainability actions, one of the highest shares in the EU<sup>13</sup>.

The government has addressed environmental challenges with several political measures such as incentives to improve energy efficiency and subsidies for renewable energy sources. These have reached many SMEs – almost half of Portuguese SMEs that produce green products or provide green services have benefited from government support, which is double the EU average<sup>14</sup>. Over the last decade, there has also been an increase in the use of renewable energy sources in the country, which represented 30.3% of the energy consumed in Portugal in 2018<sup>15</sup>, against an EU average of 18.9%<sup>16</sup>.

On policy efforts to support sustainability, Portugal launched the National Energy and Climate Plan 2030 in May 2020 (*Plano Nacional Energia e Clima 2030*), which sets ambitious objectives for the green energy transition.

The ecosystem for social enterprises appears rich and diverse. It enjoys increasing relevance for different social enterprise traditions, such as government and sector initiatives and bodies, and an increasing number of initiatives for education and training, including higher education institutions, consultants, incubators, and learning and exchange platforms. The funding of social enterprises continues to evolve and become more diverse, with philanthropic foundations and the development of social finance prominent<sup>17</sup>.

Portugal has also used part of the EU structural funds allocated to it for the period up to 2020 to experiment with new financing instruments for innovation and social investment. In this regard, it is important to highlight the Portugal Social Innovation initiative (Portugal Inovação Social) created with European Social Fund support.

### **Portuguese SMEs are relatively strong innovators**

According to the European Innovation Scoreboard 2020, Portugal is a 'strong innovator', especially in terms of 'SMEs innovating in-house', 'Broadband penetration', and 'SMEs with product or process innovations'<sup>18</sup>. More than half of Portuguese SMEs innovate in-house and/or have introduced product and process innovations, when only 3 in 10 SMEs do so on average in the EU. In addition, more than half of Portuguese SMEs have introduced marketing or organisational innovations, which is significantly above the EU average<sup>19</sup>.

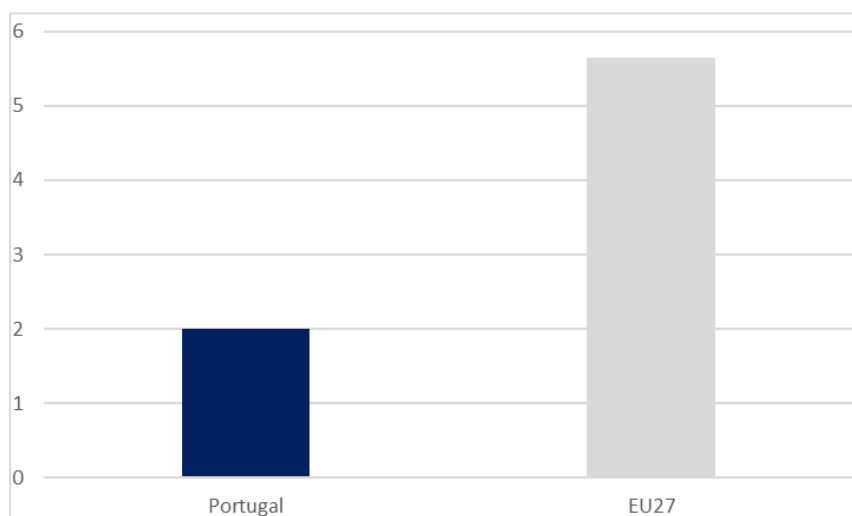
However, sales of new-to-market or new-to-firm innovations are a weak point as they represent just 9.7% of turnover, below the EU average of 12.4%<sup>20</sup>. R&D expenditure in the business sector, the production of intellectual assets and the innovation environment have also been identified as areas where improvement is needed<sup>21</sup>.

### 3. Key challenges

#### **Some aspects of the Portuguese justice and legal system negatively affect the business environment**

Portugal has already put in place many reforms to simplify and dissolve procedures in its judicial system and continues to implement the reform agenda. The time needed to resolve civil and commercial cases has been cut considerably since 2012 and is now close to the EU median<sup>22</sup>. However, as is the case in a number of other EU Member States, weaknesses persist. Further work is needed to improve service integration and make Portugal's justice system more accessible, efficient and responsive to the needs of people and businesses<sup>23</sup>. In addition, Portugal is one of the countries that offers the least legal protection to borrowers and lenders in the EU, as revealed by its lower than average score in the World Bank's Strength of legal rights index<sup>24</sup>. These conditions negatively affect the business environment and may have a disproportionate effect on SMEs due to their limited resources.

*Figure 3: Strength of legal rights index (0-12)*



Source: World Bank Doing Business, 2020<sup>25</sup>

#### **Despite some progress, Portugal continues to lag behind in digital skills**

According to the Digital Economy and Society Index (DESI) for 2020, Portugal continues to perform below the EU average in digital inclusion and skills. The country has made progress compared to 2019, moving up two positions (now 21st out of 28 EU countries) thanks to an improvement in the basic level of digital skills and a greater proportion of ICT graduates. However, half of the Portuguese population still lacks basic software skills and lags behind the EU average<sup>26</sup>. This affects the capacity of SMEs to cover their staff needs and develop e-commerce.

This in turn has an impact on the potential for businesses to fully exploit digital technologies. According to the 'Integration of digital technologies' component of the DESI report, Portugal

performs close to the EU average on integration of digital technologies in businesses, but is below average on e-commerce, cross-border e-commerce and use of digital technologies to exploit B2B, B2C and B2G opportunities.

Improving digital skills is at the centre of the country's strategic policies on digitalisation. The National Strategy for Artificial Intelligence (*Estratégia Nacional para a Inteligência Artificial*)<sup>27</sup>, launched in 2019, includes action lines related to inclusion and education. The Portuguese government also adopted a new action plan for digital transition (*Plano de Ação para a Transição Digital*) in 2020, which includes training and digital inclusion as one of its three areas of focus<sup>28</sup>. Examples include the UpSkill programme and in-depth IT training in partnership with the Institute for Employment and Vocational Training (IEFP), universities, polytechnics and companies.

### **Portuguese SMEs face difficulties in accessing finance and with late payments**

Portugal has put in place numerous measures to help SMEs access finance, and has made progress on six of the specific SME performance review indicators in this field since the previous review. However, access to finance is still a barrier for Portuguese SMEs, as revealed in the World Bank's Doing Business rankings, the 2020 OECD Financing SMEs and Entrepreneurs Scoreboard, and the ECB's 2020 SAFE survey<sup>29</sup>.

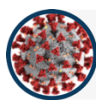
According to data from BPStat (Portuguese statistical office), the total value of bank loans granted to businesses in Portugal increased slightly from 2019 until spring 2020, and then went up more sharply (10% increase) from the start of the crisis in February 2020 to the end of the year. There were also improvements in a number of specific SME-relevant criteria related to loans (for example, the number of rejected loan applications fell).

Access to alternative sources of finance, particularly to venture capital, has experienced ups and downs over the years, and SMEs are particularly affected by limited access to these types of finance. From 2017-2018 there was a 23.1% year-on-year increase in total venture capital investments to EUR 32 million, followed by a more gradual increase from 2018-2019<sup>30</sup>. According to the Portuguese Securities Market Commission (CMVM) and its annual reports on venture capital activity, venture capital investments represented an average of 0.10% of GDP in 2017-2019<sup>31</sup>.

Late payments are also still a major issue for SMEs. It took 56.67 days on average to get paid in Portugal in 2020, 2 days more than the EU average. The situation has improved since 2018 (reduction of 6 days). However, the European Payment Report published by Intrum in September 2020 reveals that 56% of respondents in Portugal confirm that the widening gap between payment terms and the time taken to receive a payment is a real risk to the sustainable growth of their business<sup>32</sup>.

The delay in payments by public authorities in Portugal is significant (24 days on average in 2020, which is 8 days longer than the EU average)<sup>33</sup>.

## 4. Other key SME-related brief insights



### IMPACT OF COVID-19 CRISIS ON SMES

In light of the COVID-19 crisis, over 100 000 Portuguese companies applied to temporarily lay off staff in 2020<sup>34</sup>. In April 2020, 25% of companies were unable to make payments beyond 1 month, with this number rising to 50% in the *accommodation and restaurant* sector<sup>35</sup>. The Portuguese government launched a number of measures to mitigate the effects of the pandemic in 2020, including financial support lines for micro and small firms<sup>36</sup>, as well as for medium-sized firms<sup>37</sup> (*Linha de Apoio à Economia – COVID 19*), temporary suspension of some taxes<sup>38</sup>, and extraordinary support measures and incentives to protect jobs<sup>39</sup>. The government announced additional measures in mid-January 2021 in response to the second lockdown (including subsidies for businesses particularly hard hit by the crisis, a new credit line of EUR 1 100 million for exporting firms in industry and tourism sectors and the reintroduction of a simplified lay-off scheme).



### MARKET ACCESS

Portugal performs below the EU average in Single market. According to the 2020 Single Market Scoreboard, it scored better than the EU average in incorporating single market directives into national law, although time for compliance and infringement procedures are on the rise<sup>40</sup>.

In addition, new and growing SMEs in Portugal face some of the highest barriers in the EU to entering new markets, such as not being able to afford the costs of market entry or being blocked by established firms<sup>41</sup>. 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<sup>42</sup>.



### REGULATORY BURDEN

Portugal performs in line with the EU average on responsive administration. However, as mentioned earlier, there is evidence that businesses still face issues with the administrative burden. One key aspect in need of improvement is the relatively long time it takes to get permits and licences – among the highest in the EU<sup>43</sup>. The government is addressing the regulatory burden through various initiatives as part of the SIMPLEX programme to simplify and digitalise public services<sup>44</sup>.

Moreover, regulatory impact analysis has been extended, and now includes systematic tests on the impact on SMEs, as well as 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.

In addition, the relatively low level of public and private R&D investments (0.64% and 0.74% of GDP respectively in 2019), limited cooperation between academia and businesses and the poor monitoring and coordination of the smart specialisation agenda hampers the potential for upgrading of the Portuguese R&I system.

- 
- <sup>1</sup> According to the 2020 edition of the fiscal competitiveness observatory study carried out by Deloitte (September 2020), 55% of respondents confirmed that the administrative and regulatory burden and taxation are the key obstacles to business investment in Portugal. See: <https://www2.deloitte.com/pt/pt/pages/tax/articles/observatorio-competitividade-fiscal-2020.html>
- <sup>2</sup> Portugal ranked 25th in the EU on 'public-private scientific co-publications' in 2019 and 20th on 'public expenditure on R&D financed by business enterprise (national) as % of GDP' in 2018. Data: Eurostat.
- <sup>3</sup> [https://ec.europa.eu/regional\\_policy/en/information/publications/brochures/2014/smart-specialisation-and-europes-growth-agenda](https://ec.europa.eu/regional_policy/en/information/publications/brochures/2014/smart-specialisation-and-europes-growth-agenda)
- <sup>4</sup> The data for 2020 are estimates 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).
- <sup>5</sup> European Economic Forecast, Winter 2021 (interim), 11 February 2021 ([https://ec.europa.eu/info/sites/info/files/economy-finance/ip144\\_en\\_1.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip144_en_1.pdf))
- <sup>6</sup> World Bank Group, *Enterprise Surveys Follow-up on COVID-19, Portugal 2021 – Round 2*.
- <sup>7</sup> Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*, available at: <https://www.gemconsortium.org/data/key-aps>
- <sup>8</sup> Ibid.
- <sup>9</sup> Ibid.
- <sup>10</sup> Informa (2020), *Biblioteca Informa*, available at: <https://biblioteca.informadb.pt/>
- <sup>11</sup> Global Entrepreneurship Monitor (2019), *National Expert Survey*, available at: <http://www.gemconsortium.org/data/key-nes>
- <sup>12</sup> See Note 6.
- <sup>13</sup> European Commission (2020), *Eurobarometer on SMEs, start-ups, scale-ups and entrepreneurship*, available at: [https://ec.europa.eu/growth/smes/sme-strategy/performance-review\\_en](https://ec.europa.eu/growth/smes/sme-strategy/performance-review_en)
- <sup>14</sup> Ibid.
- <sup>15</sup> Direção-Geral de Energia e Geologia (2018), *Balanços Energéticos*, available at: <https://www.dgeg.gov.pt/pt/estatistica/energia/balancos-energeticos/balancos-energeticos-nacionais/>
- <sup>16</sup> Eurostat (2018), *Renewable energy statistics*, available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Renewable\\_energy\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php/Renewable_energy_statistics)
- <sup>17</sup> European Commission (2019), *Social enterprises and their ecosystems in Europe. Updated country report: Portugal*. Author: Sílvia Ferreira. Luxembourg: Publications Office of the European Union. Available at <http://ec.europa.eu/social/main.jsp?advSearchKey=socenterfiches&mode=advancedSubmit&catId=22>
- <sup>18</sup> European Commission (2020), *European Innovation Scoreboard*, available at: [https://ec.europa.eu/growth/industry/policy/innovation/scoreboards\\_en](https://ec.europa.eu/growth/industry/policy/innovation/scoreboards_en)
- <sup>19</sup> Eurostat (2016), *Community innovation survey*, available at: [http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards\\_en](http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en)
- <sup>20</sup> Ibid.
- <sup>21</sup> See Note 18.
- <sup>22</sup> European Commission (2020), *EU Justice Scoreboard*, available at: [https://ec.europa.eu/info/sites/info/files/justice\\_scoreboard\\_2020\\_en.pdf](https://ec.europa.eu/info/sites/info/files/justice_scoreboard_2020_en.pdf)
- <sup>23</sup> <https://www.oecd-ilibrary.org/docserver/184acf59-en.pdf?expires=1615200224&id=id&accname=oid031827&checksum=ECDDEE73A2A3B43567C8513F092202D>
- <sup>24</sup> World Bank Group (2020), *Doing Business in Portugal*, available at: <https://www.doingbusiness.org/en/data/exploreeconomies/portugal>
- <sup>25</sup> See Note 24.
- <sup>26</sup> European Commission (2020), *The Digital Economy and Society Index (DESI)*, available at: <https://ec.europa.eu/digital-single-market/en/digital-economy-and-society-index-desi>. See also the specific report on integration of digital technology in enterprises: <https://ec.europa.eu/digital-single-market/en/integration-digital-technology-enterprises>
- <sup>27</sup> Portugal INCODE (2019), *Portugal lança a Estratégia Nacional para a Inteligência Artificial*, available at: <https://www.incode2030.gov.pt/destaque/portugal-lanca-estrategia-nacional-para-inteligencia-artificial>
- <sup>28</sup> Portuguese Council of Ministers (2020), *Resolução do Conselho de Ministros nº 30/2020*, available at: <https://dre.pt/application/file/a/132140881>
- <sup>29</sup> [https://www.ecb.europa.eu/stats/ecb\\_surveys/safe/html/ecb.safe202011~e3858add29.en.html#toc21](https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe202011~e3858add29.en.html#toc21)
- <sup>30</sup> Source: OECD data on venture capital investment.
- <sup>31</sup> <http://www.cvm.pt/>
- <sup>32</sup> Intrum Justitia (2020), *European Payment Index*, available at: [www.intrumjustitia.com](http://www.intrumjustitia.com)
- <sup>33</sup> Source: SME Performance Review 2020/2021 data (graphs).
- <sup>34</sup> International Labour Organisation (2020), *Portugal: Uma análise rápida do impacto da COVID-19 na economia e no mercado de trabalho*, available at: [https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---ilo-lisbon/documents/publication/wcms\\_754606.pdf](https://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---ilo-lisbon/documents/publication/wcms_754606.pdf)
- <sup>35</sup> Tavares, Nuno and Osório de Barros, Gabriel (2020), *COVID-19: Capacidade das empresas para assegurar o pagamento das remunerações numa situação de paragem total da atividade*. Boletim Mensal de Economia Portuguesa. Available at: <https://www.gee.gov.pt/pt/estudos-e-seminarios/artigos-category/30151-covid-19-capacidade-das-empresas-para-assegurar-o-pagamento-das-remuneracoes-numa-situacao-de-paragem-total-da-atividade>

- 
- <sup>36</sup> SPGM Sociedade de Investimento (2020), *Linha de Apoio à Economia COVID-19 – MPE*, available at: <https://www.spgm.pt/pt/catalogo/linha-de-apoio-a-economia-covid-19-mpe/>
- <sup>37</sup> Garantia mutua (2020), *Linha de Apoio à Economia – COVID 19 - Médias Empresas, Small Mid Caps e Mid Caps – Documento de divulgação*, available at: [https://www.spgm.pt/fotos/produtos\\_documentos/20200929\\_documento\\_divulgacao\\_linha\\_apoio\\_economia\\_covid\\_19\\_medias\\_empresas\\_small\\_e\\_mid\\_caps\\_12213854145f7452dfa9b0f.pdf](https://www.spgm.pt/fotos/produtos_documentos/20200929_documento_divulgacao_linha_apoio_economia_covid_19_medias_empresas_small_e_mid_caps_12213854145f7452dfa9b0f.pdf)
- <sup>38</sup> Portuguese Parliament (2020), *Lei nº 29/2020*, available at: <https://dre.pt/pesquisa/-/search/139209028/details/maximized>
- <sup>39</sup> Portuguese Council of Ministers (2020), *Declaração de Retificação nº 14/2020* <https://dre.pt/home/-/dre/130835104/details/maximized>
- <sup>40</sup> European Commission (2020), *Single Market Scoreboard*, available at: [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_1243](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1243)
- <sup>41</sup> See Note 6.
- <sup>42</sup> See Note 40.
- <sup>43</sup> See Note 6.
- <sup>44</sup> Government of Portugal (2020), *SIMPLEX programme*, available at: <https://www.simplex.gov.pt/>