Are EU SMEs recovering from the crisis?

Annual Report on EU Small and Medium sized Enterprises 2010/2011

Rotterdam, Cambridge, 2011

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Client: European Commission, DG-Enterprise

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Preface

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The views expressed herein are those of the consultant, and do not represent any official view of the Commission. The responsibility for the content of this report lies with Ecorys Netherland BV. Quoting numbers or text in papers, essays and books is permitted only when the source is clearly mentioned.

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Summary

This Annual Report on European SMEs presents and analyses the most important trends for EU SMEs in 2010/11. The central theme of the report this year is “Have European SMEs recovered from the crisis?”

The evidence compiled and analysed for this report points at the start of a modest recovery in 2010. In 2011, this recovery is forecasted to consolidate and, most importantly, to lead to an increase in employment in SMEs. Due to the uncertain economic and financial environment, this recovery remains fragile for the time being. Throughout the downturn, however, SMEs retained their position as the backbone of the European economy**.** In 2010, there were almost 20.8 million SMEs in the EU of which the lion´s share – 19.2 million (or 92.1 percent of all EU business) – were micro-firms with less than ten employees. As in previous years, the share of large businesses, i.e. non SMEs, remains marginal in terms of the number of enterprises (43,000 or 0.2 percent of the total). Altogether these SMEs provided more than two-thirds (87.5 million) of all employment opportunities in the private sector in EU-27. Also, 58.4 percent of the total Gross-value Added (GVA) produced by private businesses in the EU in 2010 was accounted for by SMEs.

While SMEs continued to be the backbone of the EU´s economy, they had to operate in an uncertain economic climate in 2010/11. Despite this challenging environment, the EU´s SMEs started to bounce back after the sector had been hit by the recession in 2009. The number of SMEs in the EU remained at the 2009 level with a total of 20.8 million. This stabilisation followed on the foot of a considerable decline in numbers (-2.1 percent) in 2009. The combined gross value added (GVA of SMEs grew strongly by 3.4 percent after a decline of 6.4 percent in 2009. However, it is too early to call this a full-blown recovery as on the employment side the turnaround was still lagging behind. The downward slide of the number of employees that started in 2009 (-2.7 percent) slowed down in 2010 to -0.9 percent, but still resulting in a loss of more than 823,000 jobs in the EU-27´s.

Looking further into the future, as of September 2011, the prospects for the current year do give reason for cautious optimism, despite continuously deteriorating macro-economic forecasts throughout this year. The contribution of EU SMEs to delivering jobs seems more promising for the years 2011 than for 2010. For the current year, forecasts for all three major SME aggregates are up. The number of SMEs is expected to rise by 0.9 percent accompanied by an increase in SMEs´ Gross Value-Added by 3.9 percent. Even the number of employees is expected to modestly increase after a two year slump (0.4 percent). It has to be said, however, that at this time come with a higher than usual degree of uncertainty given the current volatile environment.

On the level of different country groupings and individual Member States, there were some considerable differences in trends in 2010. In the report the effects of the crisis on EU SMEs have been assessed for groups of countries within the EU. This report distinguishes for example the EU-15, the EU-12, Euro zone countries, Non-Euro zone countries, crisis- and non-crisis countries. By 2010, the number of SMEs fell only in the EU-15; in the five other country groups, the number of SMEs stayed the same or increased. Employment growth in SMEs was negative in 2010 in all six country groups, whereas value added was on the rise in all country groups except for the crisis countries. SMEs in the non-Euro zone have lost more GVA and employment in the crisis year of 2009 than the SMEs in the Euro zone, but they have also recovered more strongly in 2010 than the Eurozone as a whole.

Zooming in on the level of individual Member States, three groups can be distinguished based on individual growth rates of GVA and employment of SMEs in 2010:

1. The group of (P-P) countries – this group has a positive growth rate of both, GVA and employment, and includes Austria, Germany, Luxembourg, Malta, Romania, Sweden and United Kingdom.
2. The group of (N-N) countries – this group has a negative growth rate of both, GVA and employment and covers Greece, Ireland, Spain, Latvia and Lithuania.
3. The group of (P-N) countries - this group has a positive growth rate of GVA but a negative growth rate of employment, amounting to a jobless recovery. This group contains Belgium, Bulgaria, the Czech Republic, Denmark, Estonia, France, Italy, Cyprus, Hungary, Netherlands, Poland, Portugal, Slovenia, Slovakia and Finland.

The diverging SME trends along these three different country groupings is –at least to some degree - due to differences in macroeconomic, export and innovation performance as well as structural factors. It should be noted, however, that the observations over this particular year, i.e. 2010, have to be seen in the context of a highly volatile environment. Hence, it is not clear to what extent the observed classification will hold in the future.

The still cautious mood of EU SMEs as a whole was evidenced by the only marginally increasing levels of investments per person employed during 2009 (€ 6,748) and 2010 (€ 6,857). The sectors with particular strong investments were electricity, gas and water supply and mining and quarrying, while on the other end of the scale were construction and hotels and restaurants.

By size class, the performance of SMEs during the recession was most constant for micro enterprises while SME-recovery in 2010 was spearheaded by the small- and medium-sized enterprises. By industrial sector, SMEs dominate in both gross value added (GVA) and employment in construction, wholesale and retail trade, hotel and restaurants and real estate, renting and business activities. During the crisis year 2009, manufacturing saw the biggest decline in the number of SMEs. In terms of GVA in 2010, the SMEs in the manufacturing sector, the utility sector and the transport, storage and communication sectors exhibited the highest growth. On the other hand, SMEs in the mining and quarrying sector, the construction sector and the hotels and restaurants sector had the lowest GVA growth in 2010.

Comparing the EU with major partner countries such as the United States and Japan, reveals some interesting differences: SMEs in the United States have shown a negative growth in numbers during 2007-2009. During the recession of 2009 the United States had a stronger drop in SME employment (-6.0 percent) than the EU (-2.7 percent). In Japan the downward trend in SME development in terms of numbers, employment and value added already occurred much earlier than the recession in Europe.

All in all, in 2010, at the EU level SMEs were on their way to recover from the 2008/2009 recession, although it remained a jobless recovery in many instances. A modest increase of employment in EU-27 SMEs is only expected for 2011. At the same time, at country level, there are notable differences: a few Member States´ SME sectors show a full recovery at pre-crisis level combined with an actual increase in SME employment, while there are also countries, in particular those stuck in an overall economic recession, where the SME sector is stagnating or even further contracting in both value-added as well as employment terms. In particular the SMEs in Member States that are leading in innovation are recovering faster in terms of value added than Member States that are modest innovators.

1 Introduction

This report aims to present an up-to-date picture of the overall situation of SME development in Europe. The report is meant as a reference for policymakers and other stakeholders in the field. The report does not provide policy recommendations but informs the reader about the trends that affect European SMEs, giving an overview of their size, structure and performance in the European economy. Furthermore, the report compares the development of European SMEs with those in third countries such as the United States and Japan.

Throughout the report the central question is 'Are European SMEs recovering?' from the deep financial and economic crisis in 2009? This question has been analysed from various angles, most importantly in terms of the growth in value added and employment in SMEs. Although no particular attention is paid to specific Member States, insights are provided on groups of EU Member States, such as the "old" versus the "new" Member States, Euro zone versus non-Euro zone countries and Crisis versus non-Crisis countries.

This report on European SMEs is based on data extracted from the Eurostat Structural Business Statistical database, which at the time of writing this report had data up to 2007. These data were updated to 2010 and forecasted up to 2011, using data gathered from national statistical offices.

Box 1. The SME size class definitions

Three classes of SME can be identified: micro enterprises, small- and medium scale enterprises are distinguished. Micro enterprises are enterprises that employ up to 9 people. Small enterprises employ between 10 and 49 people. Medium enterprises employ between 50 and 249 people. Large enterprises are thus defined as having 250 or more employees.

The statistics presented in this report cover the non-financial business economy. This includes NACE Rev. 1.1 sections C to K thus excluding agriculture, forestry, fishing, education, health, etc.[1] In addition, this report draws on recent literature that traced how macroeconomic developments affected SMEs as well as the policy themes presented in the ten Small Business Act (SBA) principles.

The European Union (EU) is still recovering from the global financial crisis but has been able to demonstrate its resilience through, among other things, export-driven growth (See table 1.1). The EU's real GDP increased by 1.8 percent in 2010. However, growth was expected to slow down in 2011.

Table 1.1 compares the macroeconomic performance of the EU-27 to the Euro zone, the US and Japan for the past three years, offering projections for 2011 and 2012. The table clearly shows the recessionary impacts in 2009 with an export led recovery following in 2010. In that year, data show strong export growth, moderate GDP growth and slight employment declines. Moderate growth for all macroeconomic indicators is anticipated for the coming two years. The OECD expects for the Euro zone GDP to grow by two percent in both 2011 and 2012[2]. The IMF expects a gradual but

[1] These sectors are excluded as per the official Eurostat definition of the "non-financial business economy". Member States have agreed that SBS – due to a variety of technical or substantial reasons- is not compiled for these sectors.

[2] OECD (2011), 'Economic Outlook, General assessment of the macroeconomic situation', Volume 2011/1, Pg. 12.

uneven recovery for Europe in 2011-12 with lower growth and unemployment for the peripheral countries of the Euro zone.[3]

Table 1.1 Macroeconomic indicators for the EU-27, Euro zone, USA and Japan (Annual Growth Rates in %)

	2008	2009	2010	2011	2012
Exports (goods and service)					
EU-27	1.5	-12.4	10.7	7.3	6.5
Euro zone	0.9	-13.1	11.2	6.9	6.2
USA	6	-9.5	11.9	7.8	9.3
Japan	1.6	-23.9	24.2	1.0	3.8
Real GDP Growth					
EU-27	0.5	-4.2	1.8	1.8	1.9
Euro zone	0.4	-4.1	1.8	1.6	1.8
USA	0	-2.6	2.8	2.8	2.9
Japan	-1.2	-6.3	3.9	1.4	2.1
Employment					
EU-27	0.9	-1.9	-0.5	0.4	0.7
Euro zone	0.6	-2.0	-0.5	0.4	0.7
USA	-0.7	-5.0	-0.6	0.8	1.3
Japan	-0.3	-1.6	-0.6	-0.2	0.1

Source: European Economic Forecast – Spring 2011/ Eurostat; IMF World Economic Outlook – April 2011

Financial stimulus and accommodative macroeconomic policies have helped – temporarily – the United States out of the crisis and into a recovery[4]. The US forecast for the coming years is uncertain. Forecasts earlier in the year predicted a continued recovery, with a 2.8 percent increase in 2011 and a 2.9 percent increase in 2012. This recovery was expected to come from a return of private final demand. Releases of recent statistics on the growth of the economy and the labour market, however, do point more in the direction of, at best, a very modest and delayed recovery.

Japan's financial conditions have been weakened by the appreciation of the yen, decrease in equity prices, large amounts of public debt and an ageing population's fiscal needs. This, coupled with weak domestic demand and a decline in exports, explain Japan's bleak economic outlook for 2011 and a small recovery in 2012[5]. After the earthquake and tsunami in March 2011, Japan's economy was again seriously hit.

Strong domestic demand and increases in trade have stimulated economic growth in many emerging countries, especially in Asia. China's economy is the strongest among emerging Asian countries with GDP growth of 10.5 percent in 2010 and an expected increase of 9.2 percent in 2011[6]. India's low reliance on exports, strong capital inflows and policy reforms have boosted economic activity and growth[5].

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3 IMF (2011), 'World Economic Outlook', Tensions from the Two-speed Recovery, Unemployment, Commodities and Capital Flows, April 2011

4 IMF (2010), 'World Economic Outlook: Risk, Recovery and Rebalancing, October 2010,' World Economic and Financial Surveys, www.imf.org/external/pubs/ft/weo/2010/02/index.htm. Pg. 68-70.

5 IMF (2010), 'World Economic Outlook: Risk, Recovery and Rebalancing, October 2010,' World Economic and Financial Surveys, www.imf.org/external/pubs/ft/weo/2010/02/index.htm. Pg. 7,17, 63-64.

6 European Commission (2010a), 'European Economic Forecast – Autumn 2010,' Directorate-General for Economic and Financial Affairs, http://ec.europa.eu/economy_finance/eu/forecasts/2010_autumn_forecast_en.htm. Pg. 170-172.

The OECD[7] reports that labour markets in most European countries have adjusted to the recession of 2008-2009 differently than in North America. In Europe there have been smaller declines in labour input but larger drops in output. Most European countries experienced stronger reductions in working time. Hence the risk of a jobless recovery is likely to be higher in Europe than in North America.

Notwithstanding the EU's GDP growth in 2010, the EU economy as a whole is still frail and growth among Member States is highly fragmented. Some EU Member States have built up large economic, financial and fiscal imbalances, which have raised the deficit of vulnerable economies. Governments – in particular in Eurozone countries – have recently focused principally on budget consolidation by imposing strict saving programmes on public expenditure. The short-term ramifications of this strategy in terms of curtailing overall demand are starting to make themselves felt in slowing down the economic recovery with negative implications also for most SMEs. The financial crisis also continues to cast it shadows over SMEs' ability to access finance. Credit standards for SMEs have tightened in many Member States[8].

On the level of individual Member States, Germany is the leading economy in the EU consisting of 20 percent of the EU's GDP. Germany's GDP growth of 3.6 percent in 2010 is expected to remain well above the Euro average in 2011. Poland is the only country that managed to avoid a recession since the onset of the crisis in 2008, demonstrated by a GDP growth of 1.7 percent in 2009 and a continued growth of 3.8 percent in 2010. Slovakia and Sweden showed growth rates in 2010 of 4.0 percent and 5.5 percent respectively, whereas countries such as Greece, Portugal and Ireland have performed poorly due to budgetary problems and the subsequent implementation of tough austerity programmes.

Based on this mixed macroeconomic picture within the EU the following picture appears to emerge: while on the EU aggregate level EU SMEs are recovering, on a more disaggregate/country level, the SME sectors in Member States are following actually different trends determined largely by macroeconomic and structural factors (including innovative capacity).

2 EU-wide trends

2.1 The status quo of the EU SMEs in the European economy in 2010

Small and Medium Enterprises (SMEs) remain the back bone of the EU economy. Given that 99.8 percent of all enterprises are SMEs – a ratio that has been fairly stable over the past years – the typical EU´s enterprise is an SMEs, or more specifically a micro-enterprise with less than ten employees. In 2010, 19.2 million micro-enterprises operated in the EU, comprising 92 percent of all European enterprises. This is in stark contrast with the number of large enterprises, accounting for only 0.2 percent (See table 2.1).

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7 OECD (2010a), 'General Assessment of the Macroeconomic Situation,' OECD Economic Outlook, Volume 2010/2, www.oecd.org/dataoecd/36/57/43117724.pdf. Pg. 18-26.

8 OECD (2010a), 'General Assessment of the Macroeconomic Situation,' OECD Economic Outlook, Volume 2010/2, www.oecd.org/dataoecd/36/57/43117724.pdf. Pg. 47-52.

In employment terms, as in previous years, SMEs provided about two-thirds of workers in the non-financial business economy in 2010. Large enterprises accounted for the remainder. Due to larger scales and higher capital intensity, the picture for gross value added (GVA) is less skewed, although SMEs still accounted for nearly 59 percent of GVA in 2010.

Sector wise, SMEs are more likely to be active in service than in manufacturing activities when compared to large enterprises. In 2010 for instance, some 12.6 million SMEs or more than half of all European SMEs were engaged in trade (NACE sector G), real estate, renting and business activities (NACE sector K)[9] (See Table 2.2). Forty percent of larger enterprises were active in manufacturing, while the corresponding share for SMEs was just above ten percent in 2010. Part of the reason for the prominent representation of SMEs in services is the fact that services tend to be less capital-intensive than most manufacturing activities which in turn is conducive to SMEs which – in general- tend to have more difficulties in building up larger capital stocks as compared to larger firms.

Table 2.1 Number of enterprises, employment and gross value added in EU-27, by size class, 2010 (estimates)

	Micro	Small	Medium	SMEs	Large	Total
Enterprises						
Number	19,198,539	1,378,401	219,252	20,796,192	43,034	20,839,226
%	92.1	6.6	1.1	99.8	0.2	100
Employment						
Number	38,905,519	26,605,166	21,950,107	87,460,792	43,257,098	130,717,890
%	29.8	20.4	16.8	66.9	33.1	100
Gross value added						
EUR Millions	1,293,391	1,132,202	1,067,387	3,492,979	2,485,457	5,978,436
%	21.6	18.9	17.9	58.4	41.6	100

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

[9] The main activities of NACE sector K encompass a wide range of economic activities including three subsections of real estate activities, four subsections of renting of machinery and equipment without operator and of personal and household goods, six subsections of computer and related activities, two subsections of research and development, and eight subsections of other business activities.

Table 2.2 Number of enterprises by sector of industry, EU-27, 2010 estimates

		Micro	Small	Medium	SMEs	Large	Total
c-i, k	**Total non-financial business economy By NACE section**	19,198,539	1,378,401	219,252	20,796,192	43,034	20,839,226
C	Mining and quarrying	15,667	4,794	941	21,402	275	21,677
D	Manufacturing	1,760,912	311,564	77,335	2,149,811	17,226	2,167,037
E	Electricity, gas and water supply	34,753	3,815	2,213	40,781	993	41,774
F	Construction	2,789,236	208,857	22,385	3,020,478	2,373	3,022,851
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	5,968,300	361,222	42,324	6,371,846	6,948	6,378,794
H	Hotels and restaurants	1,552,574	151,018	12,066	1,715,658	1,527	1,717,185
I	Transport, storage and communication	1,109,424	93,533	16,956	1,219,913	4,046	1,223,959
K	Real estate, renting and business activities	5,967,673	243,598	45,032	6,256,303	9,646	6,265,949

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Interestingly, despite a continuous increase in their total employment by SMEs (at least up until the economic and financial crisis set in) the average size of European SMEs in terms of employment seems to decline marginally. The EU SMEs are expected to have employed on average 4.21 people per enterprise in 2010 which was down from 4.40 persons in 2003 (see table 2.3). It should be noted that this seemingly small changes gather in importance when multiplied by the sheer number of SMEs existing in the EU. A minuscule change in average firm size, where this ratio is constructed for large numbers, may imply large employment effects at national and the EU-level.

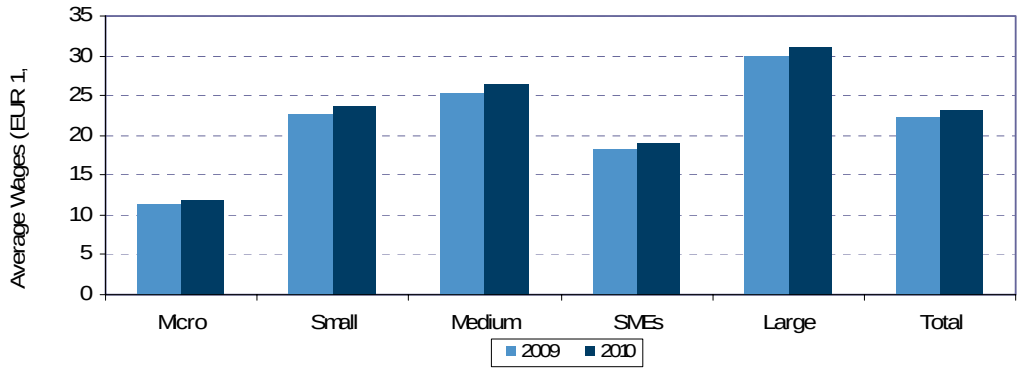
Table 2.3 Average firm size of SMEs and large enterprises, EU-27, 2003-2010

	2003	2004	2005	2006	2007	2008	2009	2010
SMEs	4.40	4.39	4.34	4.35	4.30	4.27	4.25	4.21
Large	1005.22	1007.57	1006.03	1003.99	1001.29	1000.35	1002.71	1005.18

For large EU enterprises, the average firm size remained largely unchanged over the past few years (see table 2.3 and annex table A5). The changes that occurred during the time are rather minuscule, certainly in relative terms.

There is another interesting aspect of SMEs as employers. Salaries in SMEs traditionally trail those of larger enterprises by a certain margin. Hence, the average wage in large enterprises was 2.6 times higher than in micro-firms in 2010. Within SMEs, the average wage is lowest in micro-enterprises (see figure 2.1). In fact, small- and medium-sized firms´ pay levels are closer to those of larger firms than they are vis-à-vis the micro-businesses. The average wage in EU SMEs are lowest in construction as well as hotels and restaurants while highest in utilities, mining and transport, and storage and communication. Again, a crucial explanatory factor in this context could be the capital-intensity of the sector. Sectors with relatively large capital requirements are also expected to be associated with higher wage levels.

Figure 2.1 Average wages (EUR 1,000) per person employed by size class, EU-27, 2009-2010 (estimates)



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

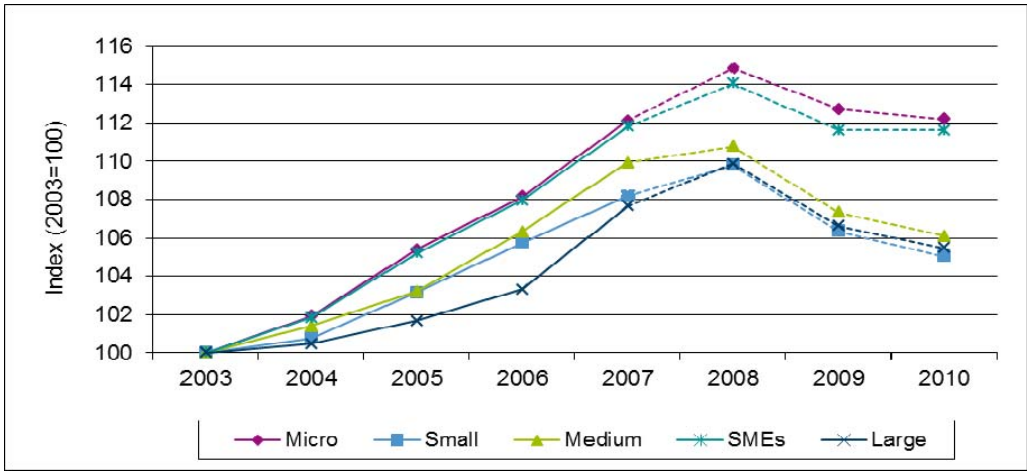
2.2 The overall trends in SME performance indicators

Given SMEs' importance for the overall economy, it is logical that also this sector went through a rough patch when the economic and financial crisis started in 2008. Estimates for the year 2010 and forecasts for the years ahead suggest that on an EU aggregate level EU SMEs start to recover. While in 2009 the sector suffered considerable declines in terms of all important aggregates – the number of SMEs, the Gross Value Added (GVA) they produced and, last but not least, the number of employees on their payrolls – the year 2010 already saw a comeback in some of those categories. Overall, the picture emerging is one of SMEs slowly recovering, but on a fragile footing.

The crisis that hit the EU-27 in 2009, decreasing its GDP by 4.2 percent, had immediate impact on SMEs. The number of SMEs in 2009 fell, with small and medium size classes being hit harder than micro firms. In the aggregate, however, SMEs declined less in number than large enterprises.

By 2010, the decline in the number of SMEs was halted (figure 2.2 and table 2.4). By 2011, their numbers are expected to increase slightly (figure 2.2 and table 2.4). It is noteworthy that the decrease in their numbers has been relatively smaller and the subsequent recovery faster than for large enterprises. A number of factors may have driven this development: this includes the more limited exposure to manufacturing activities, a sector hit particularly hard by the export slump which was mainly affecting manufacturing industries and occurred in the immediate aftermath of the crisis. Also, the lesser dependence on access to the financial markets for corporate financing might have alleviated the decline on the SME side. In addition, the decline in SME numbers might have been countered by a rise in start-ups. Often, economic downturns do trigger an increase in the creation of new businesses as the depressed condition of the economy improves start-up conditions (due to depressed prices of inputs, reduced real estate prices, lower wage levels, etc.), and bolsters the population of potential entrepreneurs (e.g. laid off employees).

Figure 2.2 Number of enterprises by size class, EU-27, 2003-2010 (2003=100)[10]



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Table 2.4 Annual growth percentages for number of enterprises, employment and gross value added, EU-27, 2008-2010 (estimates)

	Micro	Small	Medium	SMEs	Large	Total
Enterprises						
2008	2.1	1.3	0.7	2.0	2.0	2.0
2009	-2.0	-3.2	-3.1	-2.1	-3.1	-2.1
2010	0.1	-1.0	-1.1	0.0	-0.9	0.0
Employment						
2008	1.9	1.1	0.7	1.3	1.9	1.5
2009	-2.0	-3.4	-3.2	-2.7	-2.9	-2.8
2010	-0.8	-1.0	-1.0	-0.9	-0.6	-0.8
Gross value added						
2008	1.6	1.2	0.1	1.0	-0.2	0.5
2009	-4.8	-6.3	-8.5	-6.4	-7.6	-6.9
2010	2.6	3.1	4.6	3.4	4.8	3.9

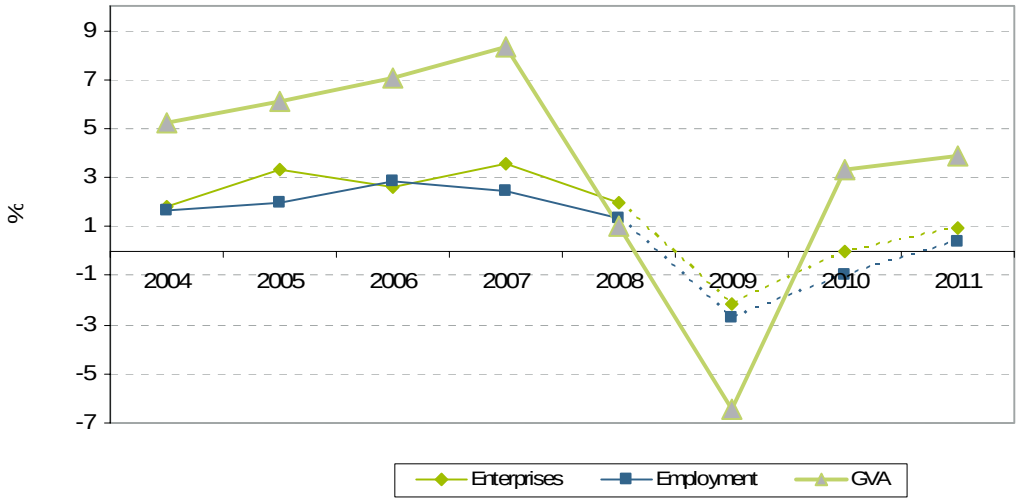
Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

While the number of SMEs remained stable in 2010, their combined business volume saw an even stronger comeback and reversal of the decline in 2009 (figure 2.3 and table 2.4). Gross value added – a good estimate of SMEs' business activities of EU SMEs – bounced back by 3.4 percent in 2010. This alone did not make up fully the 6.4 percent of the preceding year. but with forecasts for 2011 also on the positive side, there is a good chance that the EU´s SMEs will have made up the losses caused by the 2008/2009 in a limited amount of time, provided the macro-economic environment does not head for another recession. Another indicator for SMEs business volumes, turnover, confirms this positive trend. Turnover of European SMEs was only down in 2009. By 2010, growth in their turnover had already been restored. The recovery was most pronounced in the medium-size class, presumably because they are relatively more involved in exporting than small and micro enterprises.

[10] Data collected for years 2008-2010 are now-casts

The story on employment in 2010 is, unfortunately, still a different one. Employment in SMEs kept declining in 2010 by 0.9 percent (figure 2.3 and table 2.4) following on an even steeper decline in 2009 (-2.7 percent). While the loss of jobs appeared to have slowed down in 2010 and forecasts for the near future are positive (figure 2.4 and table 2.3), clearly, the recovery in employment terms was yet on its way in 2010 and the return to the pre-crisis employment levels was likely to take longer than with the other aggregates.

Figure 2.3 Annual growth percentages for number of enterprises, employment and GVA of SMEs, EU-27, 2004-2011[11]



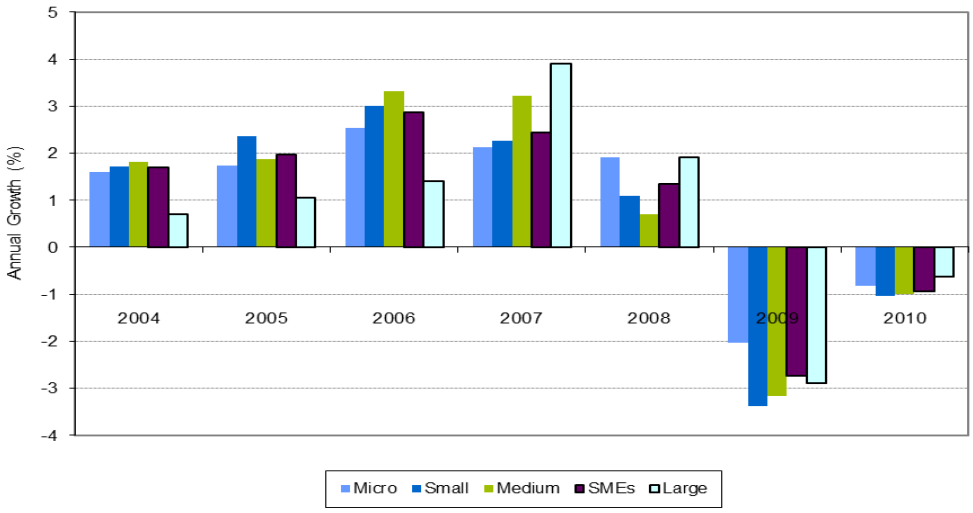
Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

The less volatile trend for employment as compared to the other aggregates and in particular to GVA can be explained by different factors. Firstly, employment changes tend to oscillate, almost by nature, less wildly than those aggregates measuring business activity. At the same time, in particular during the 2008/2009 crisis, political support measures for business played an important role in alleviating the crisis. A pivotal element in this context were the programmes employed by various national governments to subsidies employees´ wages for a limited time, easing the pressure on SMEs (and other firms) to lay off employees due to sudden decline in orders. This external support, in turn, meant that in the recovery period the gains were less pronounced than those for, say, GVA as many jobs could have been preserved. However, the volatility of the business prospects may also have a subdued effect on hiring new employees in many Member States.

The largest declines in SME employment were in manufacturing, construction and real estate. In all sectors SME employment decreased in 2009 except for hotels and restaurants. In large enterprises all sectors showed lower employment in that year.

[11] Data for 2008-2011 are estimated.

Figure 2.4 Annual growth of the number of persons employed by size class, EU-27, 2004-2010 (in percent)[12]



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

In absolute terms, SMEs shed more jobs than large enterprises. This is hardly surprising, given that in 2009 the SME labour force was twice that of large enterprises. Hence, since 58 percent of the total loss of employment in the EU occurred within SMEs in 2010, in relative terms the losses in the SME segment were more limited.

Interestingly, self employed, i.e. businesses that consist of only one person, have hold up comparatively well during the crisis

According to the European Employment Observatory Review 2010 – which looked at the impact of the crisis on self-employment[13] -the self-employed have shown considerable resilience to the economic crisis, as the relative decline in employment was higher for paid workers. In 2009, there was a one percent fall in the number of self-employed whereas there was a two percent drop in the number of dependent employees.

In some countries, even an increase in self-employment has been observed (e.g. Czech Republic, Greece, Latvia and the United Kingdom), while in others (Croatia and the Netherlands) an initial increase in self-employment was followed by a decrease (explained by self-employed persons transferring their formal business to an informal one in the 'grey' economy).

In order to better assess the future prospects of EU´s SMEs it is also useful to consider further aggregates, such as gross investment and profitability. The most recent figures suggest still a rather high degree of uncertainty and that, indeed, a further recovery of EU´s SMEs cannot be taken for granted.

A key condition for an economic recovery is business´ confidence in the future. Investments by businesses are typically seen as an indicator of the level of confidence in the economy. For SMEs

[12] Data for years 2008-2010 are now-casts

[13] A self-employed person usually has the following characteristics: the person is excluded from employment protection, holds control over his time, and possesses the means and bears the financial risk for his or her business.

the propensity to invest has been calculated and is presented in table 2.5. It is measured by taking the investment in tangible goods as a percentage of the gross value added of a particular size class.

The results for the crisis period are obvious: Despite the – at least temporary – macro-economic recovery, the propensity to invest ratio has not substantially improved since the onset of the crisis. In comparison with 2008, the propensity to invest by SMEs was curtailed slightly, falling from 19 percent to 17.6 percent in 2009 and to 17.2 percent in 2010. The fall in investment levels in 2010 was across all enterprise size-classes in the non-financial business economy (see table 2.5). However, looking at the investments per person employed, a small increase can be noted from figure 2.5.

Intriguingly, the micro size class appears to have a propensity to invest of 20 percent, the highest propensity of all size classes in 2009. One reason for this may be scaling effects: businesses have to make certain minimum fixed investments regardless of their size and their turn-over. As a result, many micro firms have to make investments that are quite considerable compared to their business´ size and output (think of delivery vans, for instance). The average value added in micro-enterprises and large enterprises in 2010 is expected to amount to respectively, € 67,369 and € 57.8 million. By sector, the propensity to invest is highest in mining and quarrying as well as utilities, while the lowest is in construction.

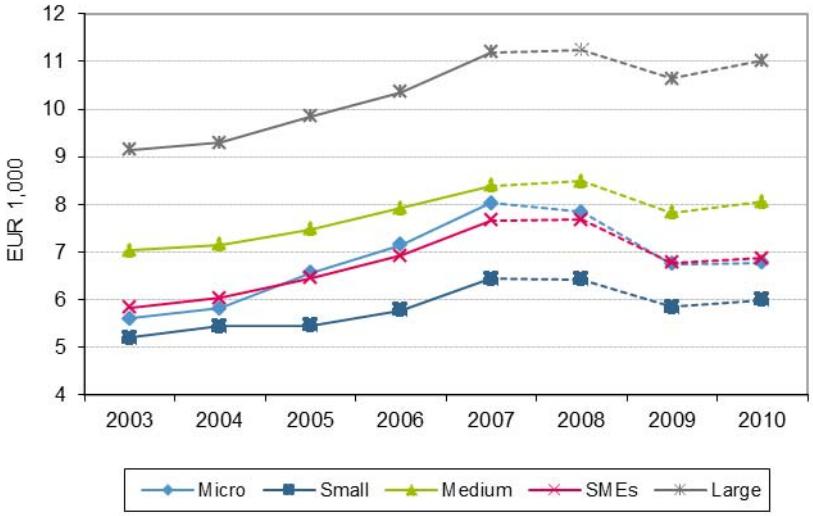
Table 2.5 Estimated propensity to invest by size-class and sector of industry, EU-27, 2010 (in percent)

		Micro	Small	Medium	SMEs	Large	Total
c-l, k	**Total non-financial business economy By NACE section**	**20.4**	**14.1**	**16.6**	**17.2**	**18.9**	**17.9**
C	Mining and quarrying	33.6	49.5	52.4	47.3	89.9	74.9
D	Manufacturing	13.9	13.1	14.1	13.7	14.8	14.3
E	Electricity, gas and water supply	51.9	46.0	36.7	42.3	38.0	39.0
F	Construction	12.8	10.1	12.6	11.7	12.3	11.8
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	13.1	12.2	13.8	12.9	16.5	14.0
H	Hotels and restaurants	19.4	14.3	17.0	17.2	14.3	16.5
I	Transport, storage and communication	23.1	20.9	22.3	22.1	22.6	22.4
K	Real estate, renting and business activities	27.7	14.5	17.4	21.8	9.9	18.5

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Note: The propensity to invest indicator gives information on the extent to which entrepreneurs in a size class are investing against the yardstick of value added generated in that year. The large enterprises in mining and quarrying have the highest propensity to invest in table 2.5, meaning the investments of these enterprises equalled 90% of their value added. The lowest propensity to invest in table 2.5 was in small enterprises in construction; these enterprises invested to the sum of 10.1% of their value added in 2010.

Figure 2.5 Gross investments (EUR 1,000) per person employed in SMEs and large enterprises, EU-27, 2003-2010[14]



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Note: The indicator of gross investment per person employed in figure 2.6 gives information on the capital intensity of enterprises by size classes. Not surprisingly the large enterprises have the highest investment per person employed and the small and micro enterprises the lowest.

The investment propensity of all businesses is also a dependant of their profitability. After all, profits are an important source of funding for future investment. For the purpose of this report profitability is defined as GVA minus Wages and Imputed Wages of Self-Employed as a percentage of turnover[15].

When distinguished by size-classes, profitability appears to be lowest in micro-enterprises and highest in large enterprises in 2009 (table 2.6). This is in line with findings for previous years. By sector of activity, SMEs in the hotel, and restaurant industries were found to be unprofitable in 2009, especially micro-firms; the most profitable SMEs were in real estate, renting and business activities as well as mining and quarrying.

In comparison with the profitability reported in the annual report on EU SMEs in 2009, the profitability of the EU SMEs has declined. This does not bode well for their ability and willingness to invest in the near future. However, it should be noted that such investment decisions are also influenced by a number of other factors.

[14] Data for years 2008-2010 are now-casts.

[15] This definition was taken to ensure comparability with data calculated and presented in previous Annual Reports on EU SMEs.

Table 2.6 Profitability of enterprises by size-class and sector of industry, EU-27, 2009[16] (estimates)

		Micro	Small	Medium	SMEs	Large	Total
c-i, k	**Total non-financial business economy By NACE section**	**7**	**10**	**10**	**9**	**10**	**10**
C	Mining and quarrying	32	23	26	26	19	21
D	Manufacturing	8	12	10	11	10	10
E	Electricity, gas and water supply	14	15	10	12	22	18
F	Construction	10	15	14	13	13	13
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	1	5	5	4	3	4
H	Hotels and restaurants	-19	8	18	-4	21	1
I	Transport, storage and communication	3	10	13	9	25	18
K	Real estate, renting and business activities	19	20	17	19	8	16

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Note: The profitability measure indicates in which size class and sector of industry enterprises are making profits. Please note that of all sectors only in mining and quarrying and real estate, renting and business activities the profitability measure for the micro enterprises is higher than for the large enterprises.

2.3 Industrial sector analysis

The trends for the economy as a whole as described above are, of course, complemented by slightly different developments on the sectoral level:

Three quarters of SMEs, or more than 15 million, were concentrated in three industries in 2010:

- Retail trade and repair/maintenance activities;
- Renting, real estate and business activities and;
- Construction.

The crisis in 2008 and 2009 hit, however, the manufacturing sector hardest. The number of SMEs declined by 2.7 percent in 2010. Of the three most important sectors, construction turned in the worst performance with -2.3 percent. In these sectors, but also in all others the performance of small- and medium-sized firms was trailing that of micro-firms. In fact, of the three it was only the micro-firms segment which averted a decline in numbers in 2010. Partially, this might be due to a more technical effect, as small and medium firms that would shrink in size due to economic difficulties, would eventually drop into the micro-firm category, thereby increasing the number of micro-firms while, simultaneously, reducing the one of small- or medium-sized firms. At the same time, small and medium sized SMEs are more likely to be active in export activities, which knew a particularly sharp decline in 2008/2009.

[16] In the above calculations on profitability the share of imputed wages of the self-employed in value added from the 2009 Annual Report on European SMEs was applied. It should be noted that the proposed method of calculating profitability cannot exclude a bias towards larger firms. Given their – on average- hgher capital-intensity, they can also expect a relative higher operating surplus which – in turn- may boost their profitability performance vis-à-vis SMEs.

By 2010, the number of SMEs was hardest hit in manufacturing. In construction, the micros experienced less contraction than the medium- and large enterprises; the same applies to the trade sector. In hotels and restaurants the number of micro-enterprises decreased. The number of SMEs increased most in the utility sector (see table 2.7).[17]

Table 2.7 Annual growth percentage for number of enterprises by size-class and sector of industry, EU-27, 2010 (estimates)

		Micro	Small	Medium	SMEs	Large	Total
c-i, k	**Total non-financial business economy By NACE section**	**0.1**	**-1.0**	**-1.1**	**0.0**	**-0.9**	**0.0**
C	Mining and quarrying	2.4	-0.5	-0.4	1.6	4.2	1.6
D	Manufacturing	-2.6	-3.5	-3.2	-2.7	-3.2	-2.8
E	Electricity, gas and water supply	8.0	2.5	1.1	7.0	1.8	6.9
F	Construction	-2.3	-2.5	-4.0	-2.3	-3.9	-2.3
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	-0.2	-0.8	-0.6	-0.2	0.4	-0.2
H	Hotels and restaurants	-0.9	0.0	1.5	-0.8	1.5	-0.8
I	Transport, storage and communication	-0.7	-0.1	0.5	-0.6	2.3	-0.6
K	Real estate, renting and business activities	2.8	2.3	2.6	2.7	1.2	2.7

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Within the non-financial business economy the turnover per person employed in SMEs is highest in utilities, mining and trade and lowest in construction as well as hotels and restaurants (table 2.8).

Table 2.8 Turnover (EUR 1,000) per person employed in SMEs and large enterprises by sector of industry, EU-27, 2009-2010

		2009		2010	
		SMEs	Large	SMEs	Large
c-i, k	**Total non-financial business economy By NACE section**	**155**	**234**	**162**	**247**
c	Mining and quarrying	325	387	323	393
d	Manufacturing	134	299	146	329
e	Electricity, gas and water supply	1089	558	1108	570
f	Construction	105	202	109	209
g	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	257	333	269	350
h	Hotels and restaurants	45	60	46	62
i	Transport, storage and communication	138	165	143	173
k	Real estate, renting and business activities	113	84	114	85

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

[17]) It is important to note that the number of enterprises per size-classes is subject to a technical phenomenon, the so-called "size-band" -effect: a firm which, for example, in a recession sheds employees and thus decreases its firm-size may switch from one size class to a smaller if in the process of the down-sizing it trespasses a respective threshold. As a consequence there is a simultaneous decrease in the number of enterprises for the size-class it used to be in (say small-sized) and an increase in the new category (say micro-firms). Therefore, an increase in the number of enterprises in a given size-class is not always a positive sign. It may, in an extreme scenario, may just be the result of a decreasing number of firms elsewhere. The importance of this effect is extremely difficult to quantify in the absence of access to micro-data for individual firms.

In terms of employment, within the SME size class, the larger employers can be found in mining and quarrying and in the utilities sector. The smallest firm sizes can be found in real estate, renting and business activities, which have on average three employees.

In the large enterprises the construction sector has the lowest number of people per enterprise whereas the transport and mining sectors have the highest number of persons employed per enterprise (see annex table A5).
Sectors in which SMEs dominate in both GVA and employment are construction, wholesale and retail trade, hotel and restaurants, and real estate, renting and business activities (table 2.9).

Table 2.9 Employment, GVA and labour productivity by size class and sector of industry, EU-27, 2010 (estimates)

		Employment (total=100%)			GVA (total=100%)			Labour productivity (EUR 1,000/ employed person)		
		SMEs	Large	Total	SMEs	Large	Total	SMEs	Large	Total
c-i, k	**Total non-financial business economy By NACE section**	**67**	**33**	**100**	**58**	**42**	**100**	**40**	**57**	**46**
c	Mining and quarrying	34	66	100	35	65	100	110	102	105
d	Manufacturing	59	41	100	45	55	100	40	69	52
e	Electricity, gas and water supply	23	77	100	23	77	100	162	158	159
f	Construction	88	12	100	82	18	100	37	58	39
g	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	72	28	100	70	30	100	34	37	35
h	Hotels and restaurants	82	18	100	76	24	100	19	28	21
i	Transport, storage and communication	48	52	100	36	64	100	44	75	60
k	Real estate, renting and business activities	66	34	100	72	28	100	53	40	49

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

2.4 EU SME performance compared with US and Japan

In the US, the number of SMEs fell in 2009, whereas the number of large enterprises increased slightly (see figure 2.6). Recent surveys of small businesses indicate the sentiment in the sector in terms of balance of firms, but provide little by way of hard data on performance. Those carried out by the National Federation of Independent Business[18] show that general optimism began to pick up in 2010 and into 2011 before falling back recently. Nevertheless, general business optimism in mid-2011 was slightly higher than it was at the start of 2010, which itself was noticeably higher than at

[18] Small Business Economic Trends, National Federation of Independent Business (http://www.nfib.com/research-foundation/surveys/small-business-economic-trends)

the start of 2009. The survey shows a balance of small businesses reducing staff in 2009, 2010 and into 2011, although the size of this balance of firms has been much reduced (to single digit figures) since mid 2010. Drawing on these data, one commentator on the US economy[19] takes the view that a key factor in the poor economic performance of the US economy from mid 2009 to mid 2011, particularly in terms of employment growth, was the performance of the SME sector (here defined as those with less than 500 employees) but that the sector strengthened in the second half of 2010 (when it accounted for 60% of the overall increase in jobs in the economy) and into 2011. However, the general pattern through the previous economic cycle of the SME sector entering recession sooner than the larger company sector but emerging first from recession, is not thought to have occurred over 2008-11. Instead, as well as entering recession sooner, the SME sector as a whole also recovered later, primarily due to the unfavourable sectoral mix of SMEs. The US is expected to see accelerated jobs growth in the economy as a whole, and the SME sector will benefit from that.

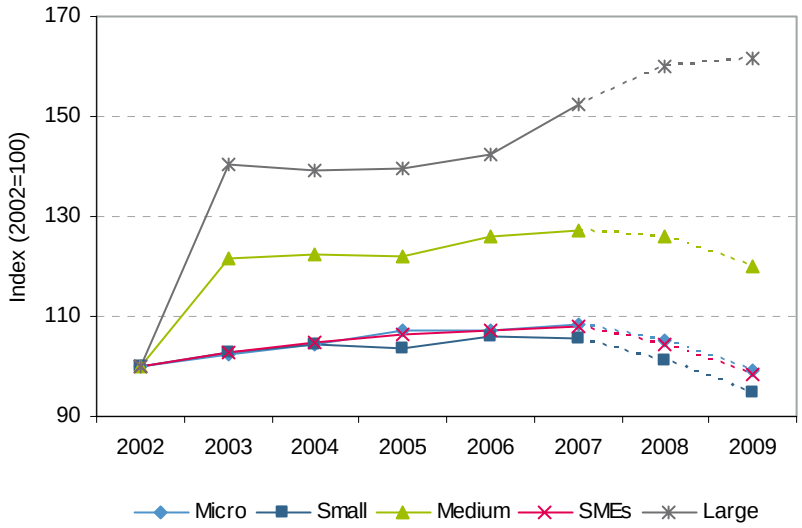
Development of value added in the US SMEs shows fluctuating growth since 2003 and negative growth as of 2007, except for mining and quarrying and the utility sector in Annex table A3. Labour productivity in US SMEs recovered in 2009 across all sectors, as they started to produce again, but with fewer employees than before the crisis (See Annex table A4).

The current US Administration pays a lot of attention to boosting SMEs recovery and therefore SMEs are high on President's Obama political agenda. His State of the Union Address in 2010 and 2011 clearly emphasized a need to promote jobs, growth, innovation and double export in the next five years. Several different initiatives have been adopted to support SMEs recovery. The most important include:

- Small Business Job Act of 2010 putting more capital in the hand of entrepreneurs through enhanced loan provisions of $12 billion. It envisaged also a federal financial help for institution building (support to Small Business Development Centres), export support and various tax incentives;
- President's Executive Order on improving Regulation and Regulatory Review. This is implemented by the Small Business Administrations and appears to be comparable to EU's SME Test;
- Start-up America, an initiative aimed at accelerating high-growth entrepreneurs by unlocking access to capital, improving mentoring schemes, reducing administrative barriers;
- National Export Initiative envisaging to double U.S. exports over the next five years, with a key priority to expand exports by small businesses, which have never exported.

[19] TD Economics, part of TD Bank Group, http://www.td.com/economics/special/bc0511_sme.pdf.

Figure 2.6 Number of enterprises by size class, United States, 2002-2009 (2002=100)[20]



Source: OECD Structural Business Statistics/US Census Bureau/Cambridge Econometrics/Ecorys

In the US the average firm size of large enterprises appears to have increased in 2009 (see table 2.10)[21]. In addition, in both small and large American enterprises, the number of people employed declined from 2008 to 2009, especially in large enterprises. The decline in employment in both SMEs and large American enterprise was respectively, 6.0 percent and 6.1 percent. These declines in employment were much larger than in the EU in 2009 (See table 2.4). Given the restrictions in terms of comparability of size classes between the US and the EU, a comparison of the average firm size between the US and the EU is not very useful.

Table 2.10 Number of persons employed and average firm size in SMEs and large enterprises in business economy in United States, 2008-2009[22]

		2008		2009	
		SMEs	Large	SMEs	Large
Number of persons employed	X 1,000	38,391	44,768	36,096	42,042
Average firm size	Number	9.26	429.43	9.25	399.36

Source: OECD Structural Business Statistics/US Census Bureau/Cambridge Econometrics/Ecorys

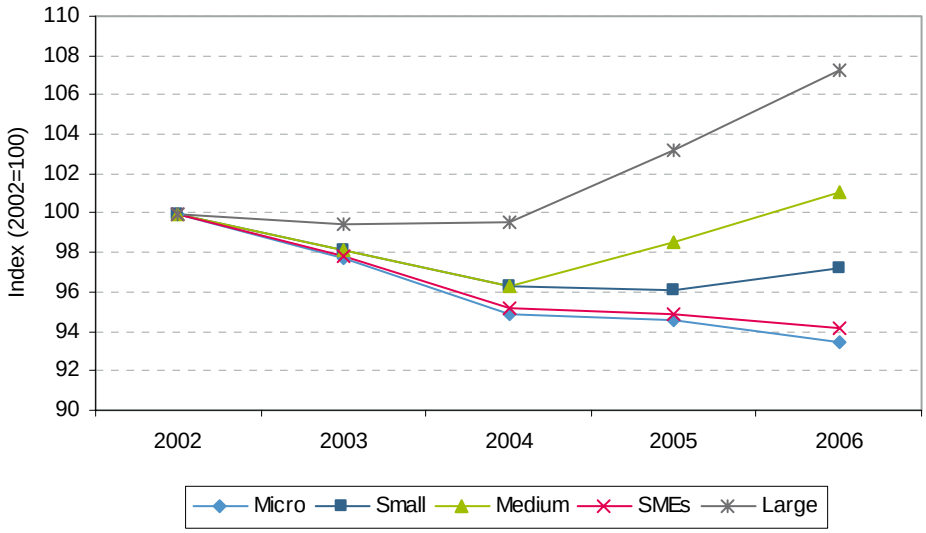
Data on the number of enterprises in Japan are scarce. Figure 2.7 reveals a decreasing trend for the number of enterprises up to 2004. In all size classes except for micro enterprises the number of enterprises increased in the period 2004-2006. Only for large enterprises the number of enterprises reached a higher level than in 2002.

[20] The US Small Business Administration applies different business size standards per sector to reflect industry differences. The most common size standards are: 500 employees for most manufacturing and mining industries; 100 employees for wholesale trade industries; USD 7 million of annual receipts for most retail and service industries; USD 33.5 million of annual receipts for most general & heavy construction industries; USD 14 million of receipts for all special trade contractors; USD 0.75 million of receipts for most agricultural industries.

[21] We assume in the analysis of the data in Table 2.10 that most American small Enterprises have less than 250 employees.

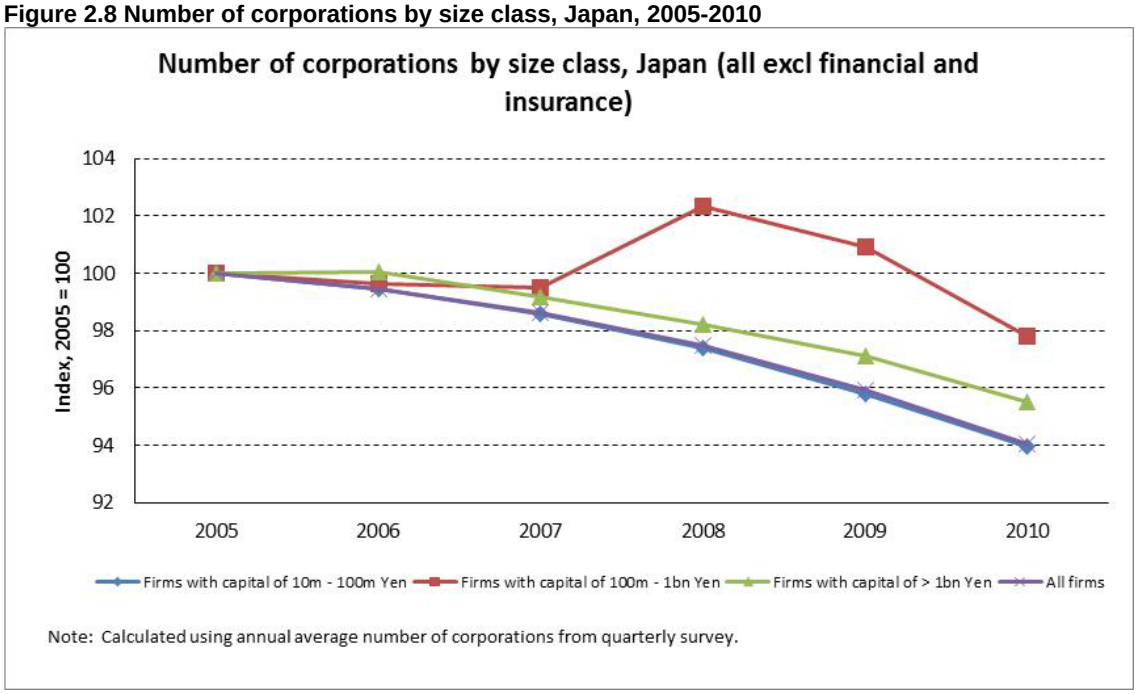
[22] No data are available for these years for Japan. The US Small Business Administration applies different business size standards per sector to reflect industry differences. The most common size standards are: 500 employees for most manufacturing and mining industries; 100 employees for wholesale trade industries; USD 7 million of annual receipts for most retail and service industries; USD 33.5 million of annual receipts for most general & heavy construction industries; USD 14 million of receipts for all special trade contractors; USD 0.75 million of receipts for most agricultural industries.

Figure 2.7 Number of enterprises by size class, Japan, 2002-2006 (2002=100)[23]



Source: OECD Structural Business Statistics/White Paper on SMEs in Japan/Cambridge Econometrics/Ecorys
N.B. The figures for 2007 for Japan cover only a limited number of sectors, i.e. the manufacturing sector, therefore they are not included in the figure. Moreover, for Japan no data are available at OECD after 2007.

Figure 2.8 Number of corporations by size class, Japan, 2005-2010



Source: Ministry of Japan: "Financial Statements Statistics of Corporations by Industry, Quarterly, various issues.

Another source of information on the performance of different size of firms in Japan is the Financial Statements Statistics of Corporations published by Ministry of Finance[24] (figure 2.8). However, this

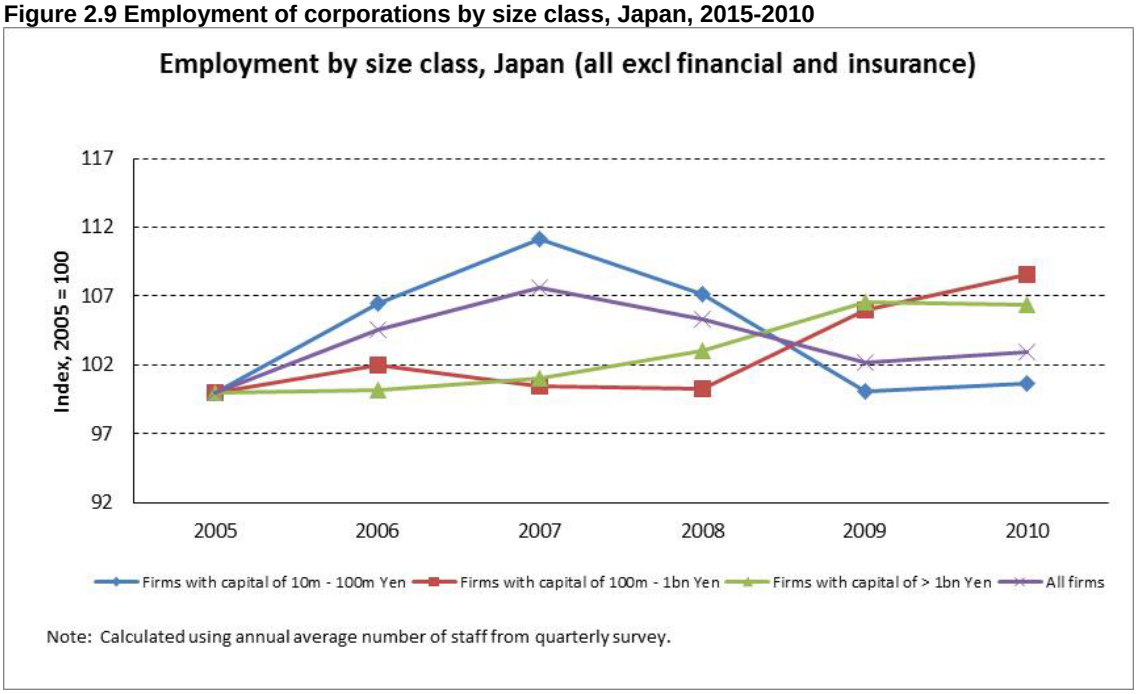
[23] In Japan SMEs cover business establishments with 300 or fewer workers (100 or fewer in wholesaling and services, 50 or fewer in retailing and eating and drinking places) as defined under the revised Small and Medium-sized Enterprise Act.

[24] http://www.mof.go.jp/english/pri/reference/ssc/historical.htm

source classifies the size of corporation by its capital rather than size of workforce. Also, there is little sectoral detail available (e.g. manufacturing and all industries excl finance and insurance only). The limited data available show that the overall number of corporations in Japan has fallen steadily over 2006-2010, with the number in 2010 some 5 percent lower than in 2006. This trend has been dominated by changes in the number of smallest companies in particular (the group which comprises 97% of all corporations). The rate of decline in the number of firms since the onset of the global recession has been stronger among smaller sized corporation than among the larger companies. This is the case for the manufacturing sector as well as the economy as a whole, even though the rate of decline in firm number has generally been larger in manufacturing than in the rest of the economy.

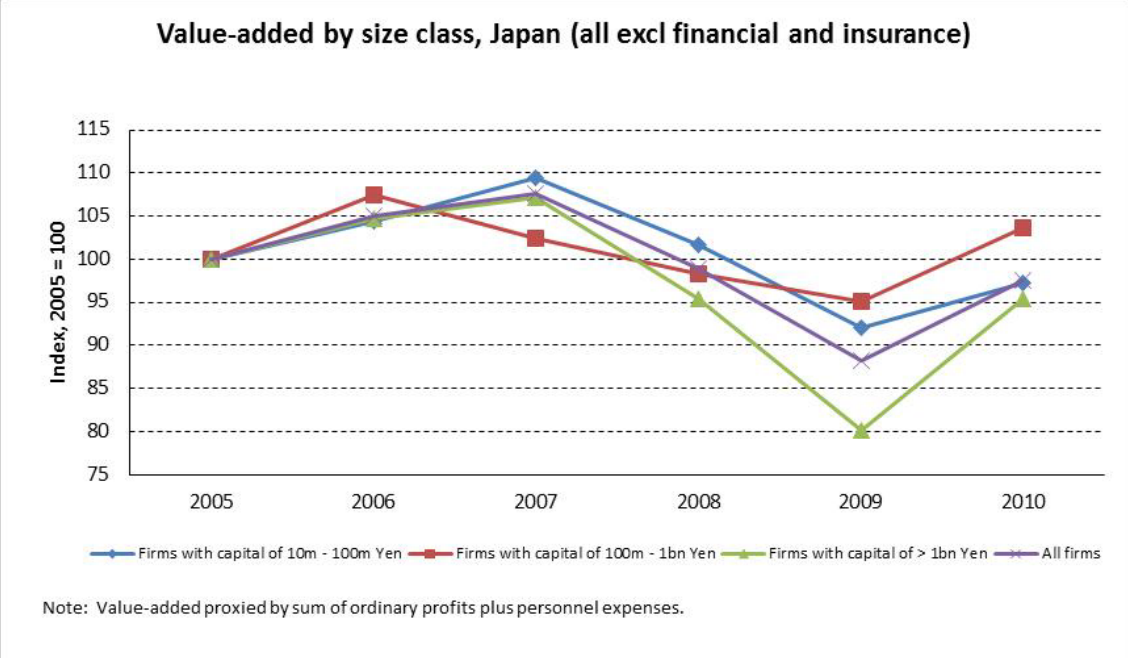
The data show that overall employment (in the sectors covered) in Japan picked up slightly in 2010 after showing annual falls in 2008 and 2009 (figure 2.9). The recovery in 2010 is due almost entirely to increases in the small and medium sized corporations (which together account for 80 percent of staff). However, during the recession, employment in the largest corporations held up and indeed increased, though this was very much a reflection of developments outside manufacturing. In 2009, at the depths of the recession, employment in the largest manufacturing companies fell by over 1.5 percent, although this was a weaker decline than seen among the smallest companies.

Figure 2.9 Employment of corporations by size class, Japan, 2015-2010



Source: Ministry of Japan: "Financial Statements Statistics of Corporations by Industry, Quarterly, various issues.

Figure 2.10 Value added of corporations by size class, Japan, 2005-2010



Source: Ministry of Japan: "Financial Statements Statistics of Corporations by Industry, Quarterly, various issues.

Value-added recovered in 2010 but did recover all the sharp losses of 2009 (or indeed those of 2008). Overall, the recovery in 2010 was strongest among the largest companies, but they were also the grouping that suffered the sharpest fall in 2009 (figure 2.10). There are slight differences in the profile for manufacturing and non-manufacturing sectors, for which the largest companies have seen the strongest recovery in value-added. In non-manufacturing it was the smaller companies that experienced the greatest declines in 2008 and 2009.

According to the Ministry of Economy Trade and Industry (METI), SMEs in Japan account for 99.7 percent (4,198 million) of all 4.21 million enterprises, 70 percent of employees and 54 percent of the amount of value-added in the manufacturing industry. However the number of SMEs continues to decline over the long term.

SME policies are implemented through the cooperation of various related organisations. An SME Agency is responsible for the formulation of nationwide SME policies. It cooperates closely with METI regional offices, local prefectures, SME regional support centres, and Chambers of Commerce.

In the Budget allocation for 2010, the Government managed to secure an increase of 2.1 billion yen (out of total 191.1 billion yen) as expenditures for SMEs. Facilitation of SME financing and policies on Research and Development for job creation are prioritized in the budget allocation. Government financial institutions provide 9 percent of all loans to SMEs. Added to official credit guarantees, the ratio rises to 23 percent.

Other actions currently undertaken by the Japanese Government focus in particular on:

- Tax reductions and exemptions measures – SMEs enjoy a reduced rate of corporate tax;
- SME assistance centres help SMEs to improve their managerial competencies, providing training;
- Assistance in finding highly qualified personnel, training on how to benefit and engage in Research and Development.

3 Different trends of EU-SMEs by Member States Groupings

3.1 Country / Member States differences

The effects of the crisis on EU SMEs are, of course, not equal across all Member States with different sectoral characteristics and economic performances in each country.

In order to better understand how the crisis´effects on national SME sectors on the Member States level, it is interesting to analyse the performance of a number of alternative country groupings. Therefore, this section gives insights into the SME development of certain groups of Member States, including

- The “old” versus the “new” Member States;
- The Euro zone versus the non-Euro zone countries;
- The “crisis” versus the “non-crisis” countries.

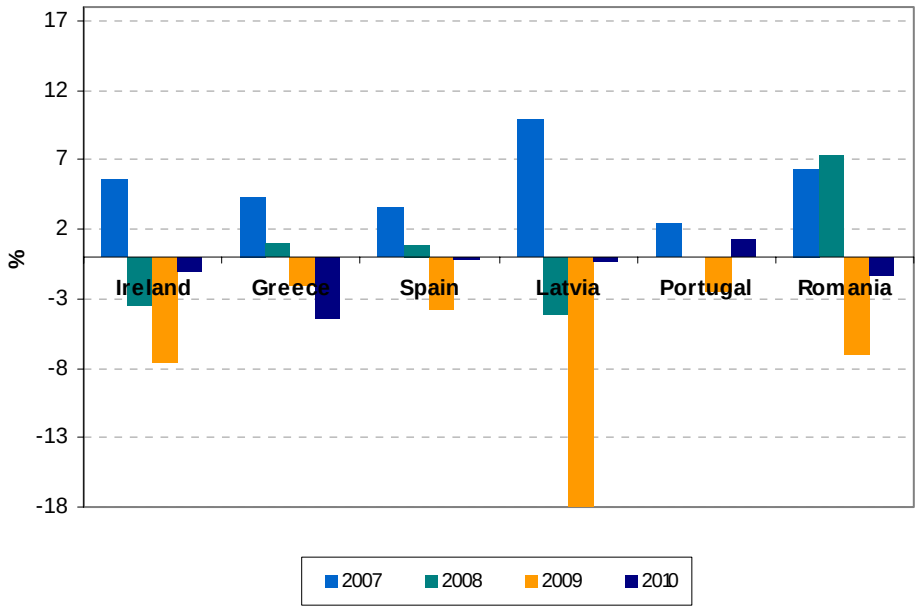
While the first two need no further introduction, the definition of "crisis" and "non-crisis" countries merits some explanatory remarks: To form the group of crisis countries, we looked at stagnating and negative GDP growth over a number of recent years, unemployment rates, government debt and debt-to-GDP ratios as well as financial assistance packages. Member States with negative GDP growth rates in the last two consecutive years and/or requiring external financial assistance programmes financial assistance to stabilise the public finance situation as of April 2011 (see figure 3.1), would include Greece, Ireland, Romania, Latvia, Portugal and Spain. In a further step, the specific performance of the SME sector was considered. Consequently, the list of countries was shortened as Romania was excluded from the group of crisis countries. Despite a negative real GDP growth of Romania in 2010 (-1.3 percent forecasted by Eurostat in the European Economic Forecast - Spring 2011), the country shows favourable development of GVA and employment in the SME sector. The GVA of Romanian SMEs grew by 5.8 percent in 2010, while that of micro enterprises recorded an even higher growth of 6.5 percent in the same period. Micro, small and medium-size enterprises in transport, storage and communication generated the highest GVA increases, accounting for 11.6, 11.5, and 10.5 percent, respectively. In terms of employment, the sharpest growth in micro, small and medium size enterprises in 2010 was reported in real estate, renting and business activities, 9.5, 7.2 and 9.2 percent respectively, followed by wholesale and retail trade.

Figure 3.2 shows real GDP growth for the EU-27, EU-15, the Euro zone and the crisis countries, with the crisis countries having negative growth rates in both 2009 and 2010[25]. All country groups experienced the crisis in 2009 and all country groups, except for the crisis countries, managed to recover one year later, assisted by their better macroeconomic situation.

[25] It should be noted that the countries in the four country groups (EU-27, EU-15, Euro zone and crisis countries) are not mutually exhaustive. Greece, for example, falls into the "crisis" category and is, simultaneously, also member of the EU-27,
EU-15 and Euro zone.

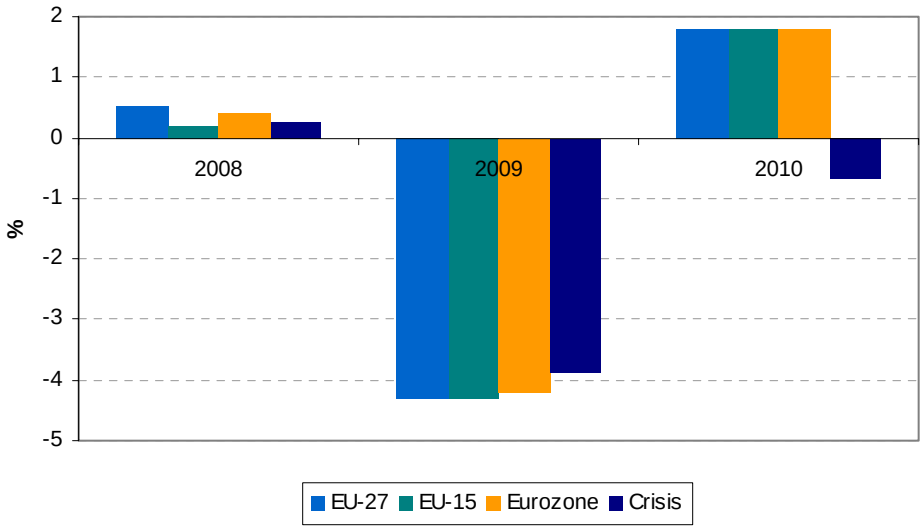
Spain, Ireland and Greece had the highest unemployment rates in the Euro zone (respectively, 20.1 , 13.7 and 12.6 percent). In the non-Euro zone, Latvia had the highest unemployment rate (18.7 percent).

Figure 3.1 EU Member States with negative real GDP growth during 2008-2010



Source: European Economic Forecast 2011

Figure 3.2 Real GDP growth rates for EU-27, EU-15, Eurozone and crisis countries, 2008-2010



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

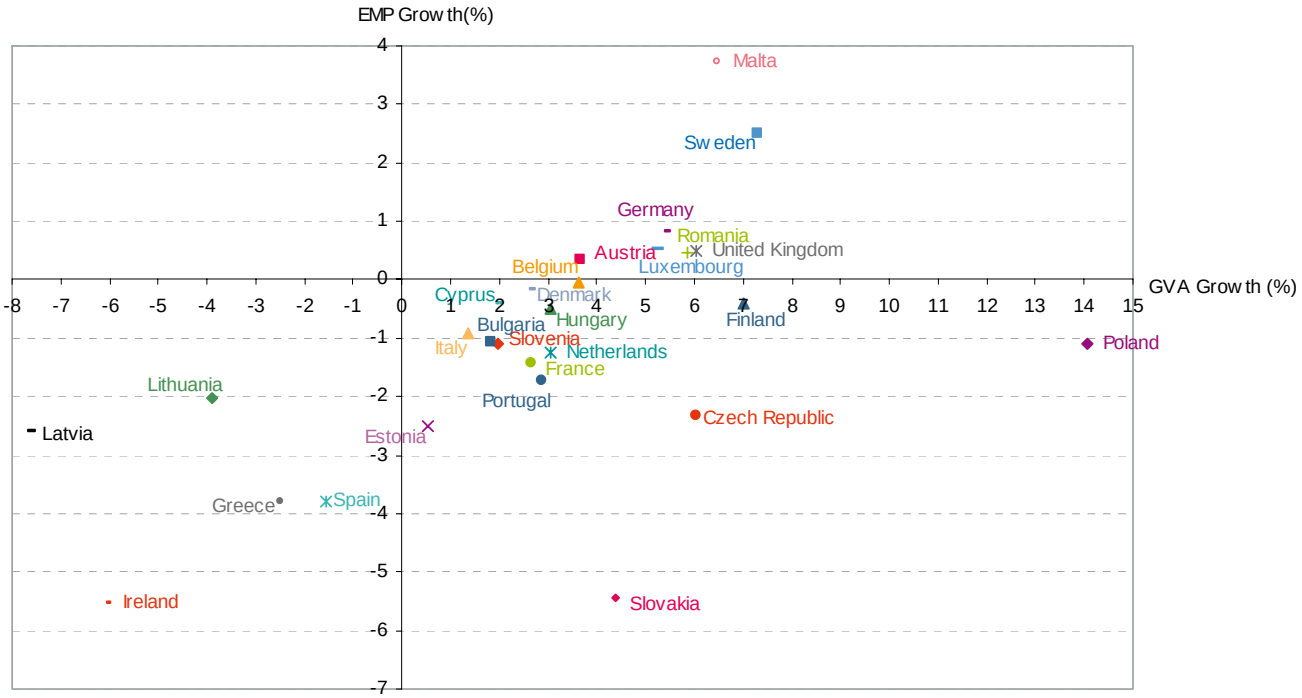
In all groups of EU countries, except for the crisis countries, one can see that the recovery of European SMEs in 2010 took place as evidenced by growth in GVA. Employment in SMEs in all country groups was still declining in 2010in combination with growth in GVA. This implies an improvement in labour productivity. Only in the old Member States did the number of SMEs shrink in 2010. In the other country groupings the number of SMEs rose again, especially in the new Member States (see table A1 in the Annex for more detailed information).

Apart from SMEs in the crisis countries, EU SMEs are recovering after the crisis year 2009 initiated by an EU-wide growth in GVA. At the same time, SMEs in most Member States remain cautious in terms of their hiring policies. By size class, it can be observed that - as a group – micro enterprises faced the lowest decline in terms of GVA and employment in 2009, but that in 2010 recovery in GVA was led by the small- and notably the medium-sized enterprises.

In figure 3.3, EU Member States are grouped together and are focused on their individual growth rates of GVA and employment of SMEs in 2010.

4. The group of P-P countries has a positive growth rate of both GVA and employment and includes Austria, Germany, Luxembourg, Malta, Romania, Sweden, and the United Kingdom.
5. The group of N-N countries has a negative growth rate of both GVA and employment and covers Greece, Ireland, Spain, Latvia and Lithuania.
6. The group of P-N countries has a positive growth rate of GVA but a negative growth rate of employment, a so-called jobless recovery, and contains Belgium, Bulgaria, the Czech Republic, Denmark, Estonia, France, Italy, Cyprus, Hungary, Netherlands, Poland, Portugal, Slovenia, Slovakia and Finland[26].

Figure 3.3 Value added at factor costs and employment growth rates of SMEs, 2010 (estimates)

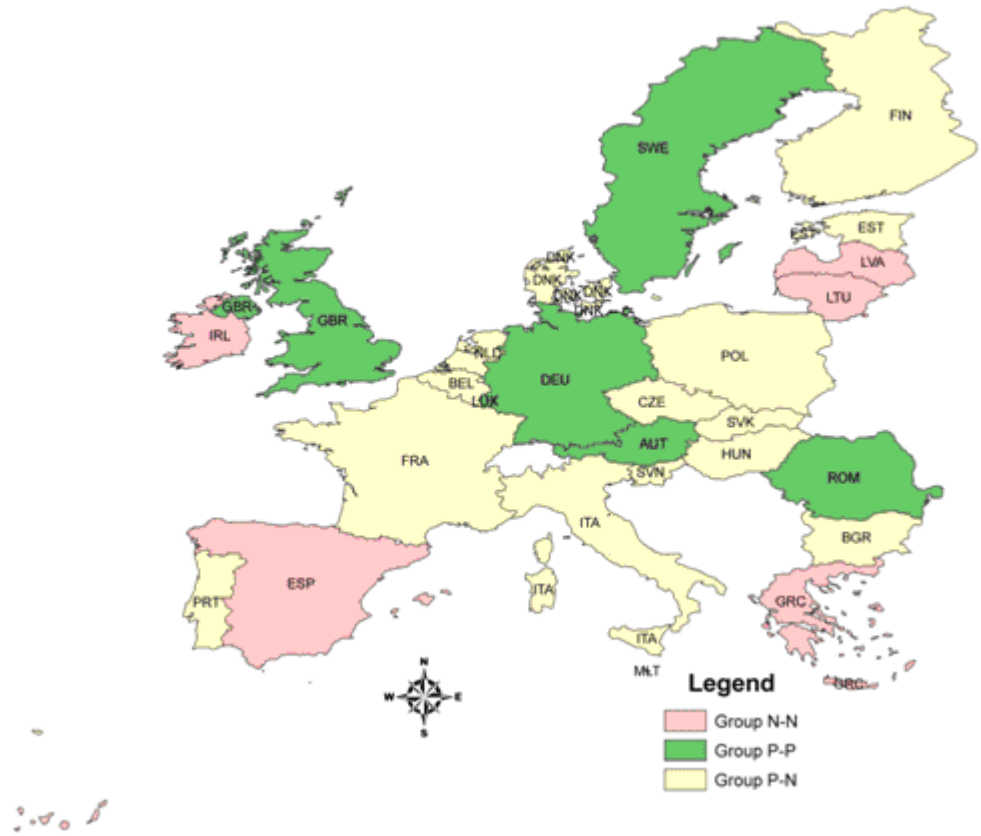


Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

The above categorisation in SME development of Member States in 2010 is geographically presented in figure 3.4.

[26] There is no Member State in 2010 that had a negative growth rate for GVA and a positive growth rate for employment (N-P), hence the first quadrant in Figure 2.9 is empty.

Figure 3.4 Categorisation of SME performance of EU Member States according to estimated value added and employment growth rates, 2010



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Table 3.1 examines which of the above three categories (P-P, P-N, N-N) belong to the Euro zone and/or to the non-Euro zone countries. The distribution of the three categories is more or less the same over the two zones. For both zones, most of the countries fall into the category (P-N) with a jobless recovery. The phenomenon of the "jobless growth" in many Member States can be – indirectly - attributed to the subsidised reductions in working time during the crisis which helped to avert mass lay-offs in many industries. Due to this public support programmes, businesses were able to keep employees ion their payrolls which they otherwise would have been forced to lay off in the crisis and, eventually, re-employ after the crisis had subsided. Hence, while these support programmes are generally regarded as having played a positive role in avoiding a deepening of the downturn they come with the side-effect of a more subdued job surge as the recovery sets in.

Table 3.1 Distribution of Member States according to three categories in the Euro zone and non-Euro zone (P-P. P-N, N-N), 2010

Euro zone countries			Non-Euro zone countries		
(P-P)	**(P-N)**	**(N-N)**	**(P-P)**	**(P-N)**	**(N-N)**
Germany	Belgium	Ireland	Romania	Bulgaria	Latvia
Luxembourg	Estonia	Greece	Sweden	Czech Rep.	Lithuania
Malta	France	Spain	UK	Denmark	
Austria	Italy			Hungary	
	Cyprus			Poland	
	Netherlands				
	Portugal				
	Slovenia				
	Slovakia				
	Finland				

In addition, some interesting results emerge when the performance of individual countries or country groupings is linked to the performance of SMEs by industry broken down by size class[27]:

Above average GVA growth

- In the manufacturing sector mainly in the medium size class. Poland, Germany, Sweden and Finland are the countries with the highest sectoral GVA growth in SMEs in 2010;
- In the electricity, gas and water supply mainly in the medium size class with Poland, Malta, Finland and Sweden having the highest sectoral GVA growth in SMEs in 2010;
- In the transport, storage and communication sectors most dominantly in the medium sized enterprises in the following countries: Poland, Romania and Sweden.

About average GVA growth

- In the wholesale and retail trade sectors, mainly in the medium size class.

Below average GVA growth

- In the sector mining and quarrying notably in the micro enterprises;
- In the entire construction sector;[28]
- In the hotels and restaurants sector with lowest GVA growth in the micro enterprises.

In all sectors apart from the real estate, renting and business activities and construction the recovery in SMEs in terms of GVA has been led by the medium size enterprises.

Table 3.2 shows that value added in all sectors, except for mining and quarrying, increased on average the most in the P-P countries and the least in the N-N countries.

[27] The average growth of GVA by EU SMEs in 2010 is estimated at 3.4 percent.

[28] In a number of "crisis" countries, e.g. in Spain, it was, indeed, this sector which was at the centre of the downturn also for SMEs.

Table 3.2 Average annual growth percentage for gross value added by sector of industry for SMEs, by three country groups in the EU27, 2010 (estimates)

Average sectoral growth	P-P countries	P-N countries	N-N countries
SME sector as a whole	5.7	3.8	-4.3
C. Mining and quarrying	0.4	3	-2.7
D. Manufacturing	6.1	5.4	2.1
E. Electricity, gas and water supply	6.7	3.7	-1.2
F. Construction	4.2	4	-8.9
G. Wholesale and retail trade; repair of motor vehicles, motorcycles and personal household goods	5.1	3.5	-5.7
H. Hotels and restaurants	5.3	3.7	-3.2
I. Transport, storage and communication	7.2	4.8	-6.2
K. Real estate, renting and business activities	5.6	2.1	-5.2

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

3.2 Explaining the performance differences of Member States

There are a number of structural factors that had an effect on the performance of the SME sector in individual Member States. Within the limits of this report only a selected number of issues could be analysed in greater detail. These include GDP as well as export growth and innovation, but also the impact of the industrial composition of an economy on the performance of the national SME sectors. GDP growth can be clearly established as a determining factor for the recovery of SMEs as expressed in the increase in GVA in 2010. Thus, in more technical terms, when real GDP growth is regressed on or correlated with the GVA of SMEs in 2010 a significant relationship is found with a correlation coefficient of 0.53. It should be noted that – given the overwhelming share that SMEs represent in the entire business economy – the close link between the development of their business and that of the overall economy as expressed in GDP growth is not surprising. However, as the example of Romania shows, there can be also exceptions to that rule.

The link between the growth rate of GVA and the export of goods and services (change on the preceding year) of EU Member States seems also intuitively to make sense and is confirmed – at least for the year 2010 – by the results of a regression analysis. The analysis, however, also shows the link to be less strong than with GDP growth (correlation coefficient: 0.33). When countries have strong exports, their SMEs generally recover quickly through indirect exports, in terms of GVA and vice versa. This tendency manifests itself in particular in the performance of medium-sized SMEs which have a higher share of directly exporting firms as compared to other SMEs. Hence, medium-sized SMEs experienced a much steeper downturns and upswings throughout the crisis as compared to smaller SMEs (see also table 2.4). In addition, many smaller SMEs are indirectly exposed to export markets, e.g. as suppliers of inputs into final products. The correlation results show the importance of exporting as a factor for growth, which is in line with insights of the economic growth literature. The weaker link of SMEs GVA development with exports can be attributed in part to the relatively low number of directly exporting SMEs in most Member States. This, in turn, may have several causes. Apart from some structural explanations linked to the limited capacity of SMEs to cater to markets abroad, there is also evidence for factors that could be potentially be influenced by policies. (For instance, a recent study by DG Enterprise on the

internationalisation of SMEs found that many SMEs lack some of the skills and, most of all, the time required to start international operations.)

Another important factor highly correlated to the growth performance of SMEs is innovation. Innovation is fundamental, especially in crisis times, for stimulating the expansion of SMEs, either into existing or new markets. Despite the clear link between innovation and the growth of a country´s SME sector there is still a lot of catching up to be done by many Member States in this area (box 2). The Small Business Act for Europe pointed out that only around three out of ten SMEs in the EU have new products or have income from new products. Innovation opens the way to new and improved products and services, new business processes, new markets and new management concepts. There is one important caveat to the role of innovation: its most important impact is felt

Box 2 Innovation in the EU

Innovation is very important as it allows SMEs to recover faster from adverse shocks. For example, the group of P-P countries that had both positive GVA and Employment growth in 2010 was on average more innovative, as measured by the 2010 Innovation Union Scoreboard, than the N-N group of countries, which had both negative GVA and Employment growth. Further analysis showed that the external adverse shocks seem to hit initially across all SMEs equally, whether innovative or not. The overwhelming majority of SMEs carry out innovation neither based on R&D nor as a linear process. The processes of SMEs are driven by clients, suppliers or within networks and clusters.

The potential for innovation in SMEs has been hindered by a few problems, including access to finance for riskier projects; access to technology; complex and costly IP rights; a shortage of qualified personnel; and limited resources. In a survey of 1,000 SMEs in the UK, for example, only 16 percent of the SMEs spent a part of their income on new product and service development[29] . One of the main deterrents for innovation is the inability of SMEs to adopt and make use of training support. Even with substantial changes in the business environment, SME take up of public training initiatives is relatively low[30]. Therefore promotion of continuous firm-based training for lower skilled workers is needed. There is also a role for SMEs to make newly learned skills available to lower skilled employees. Otherwise a wedge will be driven in the productivity levels of the employees[31].

Policy responses to those challenges have been formulated on different political levels:The Europe 2020 Strategy is to help the EU to come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion[32]. Two of the seven flagship initiatives of the Europe 2020 Strategy are in particular relevant for this report:

1.) “Innovation Union” to improve framework conditions and access to finance for research and innovation; and,

2.) “An industrial policy for the globalisation era” to improve the business environment notably for SMEs.

[29] Blackburn (2010)
[30] Fadahunsi A. and M. Senko (2010)
[31] Nelson (2010)
[32] European Commission (2010), ‘Europe 2020, A strategy for smart, sustainable and inclusive growth’, COM(2010) 2020.

Government sponsored support programmes to build the capacity of SMEs have been developed at both the national and regional levels. The European Commission's Framework Programme for R&D and Innovation (FP7) for 2007-2013 has stimulated R&D activities in the SME sector. However, the resources allocated to SMEs are limited, with only 25 percent of the budget dedicated to enterprise research[33]. An increased budget and more SME specific programmes at the EU level could further increase innovation possibilities according to UEAPME.

As SMEs do not have the same resources as larger firms it is important for them to develop external relationships. Networks and clusters have been important platforms for SMEs to communicate as well as to share lessons and best practices amongst themselves. The SME association in Europe, the UEAPME, has proposed the establishment of training centres, laboratories and incubators to create an environment more conducive to innovation.

Source: DG ENTR, mimeo.

With the help of a classification scheme applied In DG ENTR´s Innovation scoreboard, this innovation-SME growth nexus can be illustrated. According to the 2010 Innovation Scoreboard, based on 25 Innovation and Research Indicators, the following categories for the EU 27 Member States were identified:

- *Category 1 (G1): Modest innovators*: Bulgaria, Latvia, Lithuania and Romania (innovation well below that of the EU27 average);
- *Category 2 (G2): Moderate innovators*: Czech Republic, Greece, Hungary, Italy, Malta, Poland, Portugal, Slovakia and Spain (innovation below that of the EU27 average);
- *Category 3 (G3): Innovation followers*: Austria, Belgium, Cyprus, Estonia, France, Ireland, Luxembourg, Netherlands, Slovenia and the United Kingdom (innovation close to that of the EU27 average);
- *Category 4 (G4): Innovation leaders*: Denmark, Finland, Germany, Sweden (innovation well above that of the EU27 average).

The correlation between the growth rate of GVA in 2010 and the Innovation Category according to the 2010 Innovation Union Scoreboard appears to be significantly different from zero (0.296) [34]. This positive correlation suggests that countries with a higher innovation performance recover faster and better from the crisis in 2009 (table 3.3). The positive correlation is also reflected in the fact that the growth rate of GVA is on average highest (5.578) for the Innovation Leaders (Category 4) and lowest (-0.954) for the Modest Innovators (Category 1).

[33] UEAPME (2010)

[34] Correlation coefficients can have values between -1 and +1. A correlation coefficient of 0.296 means a positive association between the variables involved.

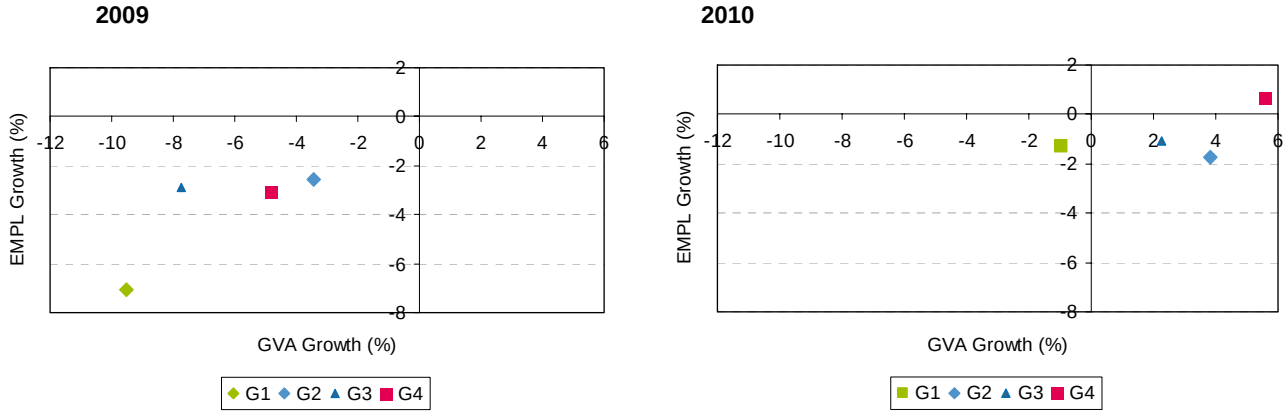
Table 3.3 Correlation between the growth rate of gross value added and the innovation category, 2010

Innovation Category	Average GVA 2010
Innovation Category 1 (G1): Modest Innovators	-0.954
Innovation Category 2 (G2): Moderate Innovators	3.808
Innovation Category 3 (G3): Innovation Follower	2.272
Innovation Category 4 (G4): Innovation Leaders	5.578
	Correlation between Growth Rate GVA at Factor costs and Innovation Category: **0.296** (significantly different from 0).

Source: Ecorys

Also the change between 2009 and 2010 in both GVA and employment for SMEs in the four different groups of innovators (G1, G2, G3, G4) was examined. As can be seen from the figure below, the innovation leaders (G4) progress the most in both growth in GVA and employment in the recovery period right after the crises. On the other hand, the modest innovators (G1) are still in the fourth quadrant of the figure below, implying a negative growth of both GVA and employment (figure 3.5).

Figure 3.5 The relation between the innovation performance, GVA and employment growth of SMEs, EU-27, 2009-2010



Category 1 (G1): Modest innovators
Category 2 (G2): Moderate innovators
Category 3 (G3): Innovation followers
Category 4 (G4): Innovation leaders

Note: *The performance of Innovation leaders is 20% or more above that of the EU27; of Innovation followers it is less than 20% above but more than 10% below that of the EU27; of Moderate innovators it is less than 10% below but more than 50% below that of the EU27; and for Modest innovators it is below 50% that of the EU27.*

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys/ DG ENTR.

Finally, an important question is whether Member States are converging or diverging in terms of SME development. In terms of the standard deviation of the indicators GVA and employment over the period 2003-2010, a diverging trend can be observed during the period leading up to the crisis, although more for GVA than for employment. Thereafter, some convergence can be seen in 2009 and 2010 (see Table 3.4). In good times, therefore, SME development indicators across Member States diverged whereas in the crisis years these indicators become more aligned.

Table 3.4 Standard deviation for gross value added and employment of SMEs, EU individual member states, 2003-2010 (Index 2003=100)

	2003	2004	2005	2006	2007	2008	2009	2010
Gross value added	100	104	110	116	124	122	114	118
Employment	100	101	103	105	107	108	104	104

*No data available for 2004 and 2005 for Malta

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

4 Other important SME trends

This section reviews a two SME policy issues which have proven of being of particular importance in recent times:

- Firstly, providing "honest" entrepreneurs which have failed once with the possibility is an important measure for an economy to fully realise its entrepreneurial potential. This holds particular true for the current period of financial and economic crisis where bankruptcies occur more frequently than at more stable times.
- Secondly, access to finance remains a challenge for many of the EU´s SMEs throughout the crisis and there is an ongoing discussion about if and how public support can alleviate this problem

4.1 Second chance for entrepreneurs seeking a fresh start

Turning first to the issue of "second chance" the Small Business Act[35] stipulated in 2008 that honest entrepreneurs who have bankruptcy, some 700000 SMEs on average per year, should quickly get a second chance.

Research shows that 50 percent of enterprises do not survive the first five years of their life[36] and the economic crisis has only increased the vulnerability of start-up companies. In 2009, bankruptcies in the Euro zone grew by 46 percent and continued to grow another 5 percent in 2010. An estimated 1.7 million jobs were lost due to insolvencies in 2009, which is a 22 percent increase from 2008[37]. As bankruptcy leaves debts unpaid and destroys capital and jobs, the European Commission[38] states that enhancing the survival rate of businesses and encouraging entrepreneurs in financial distress to take action early on is crucial to ensuring the stability of the economy.

Coinciding with the adoption of the SBA in June 2008, some progress has been reported on preventing SMEs from falling into bankruptcy and improving bankruptcy procedures to increase the likeliness of a second chance. Member States appear to recognise the link between receiving a

[35] European Commission (2008), 'Think Small First', A Small Business Act for Europe, COM(2008) 394 final.

[36] European Commission (2007), 'Overcoming the stigma of business failure – for a second chance policy,' COM (2007) 584 final.

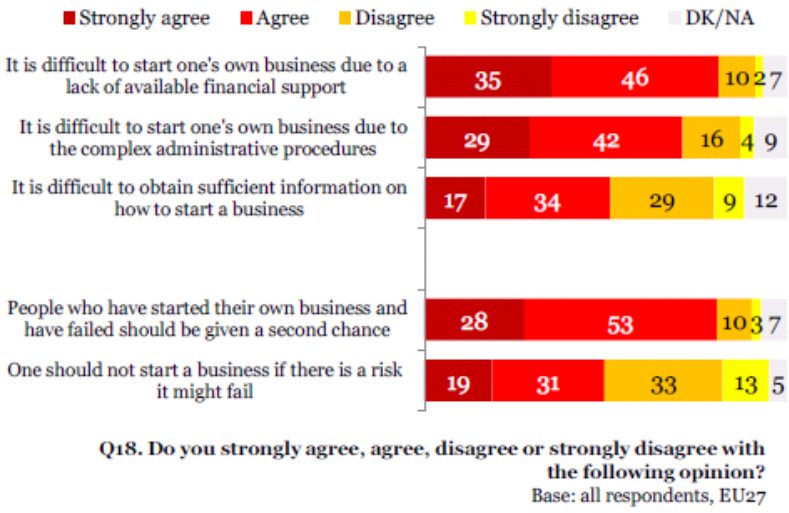
[37] European Commission (2011), 'A Second Chance for Entrepreneurs: Prevention of Bankruptcy, Simplification of Bankruptcy Procedures and Support for a Fresh Start.' Expert Group, Pg. 3.

[38] European Commission (2011), 'Review of the "Small Business Act" for Europe' COM (2011) 78 final.

second chance and job creation or retention. For example, entrepreneurs in financial distress in Sweden can receive advice and negotiation assistance through the 'Business Emergency Treatment' initiative; France and Italy have licensed insolvency practitioners to supervise the process and pay creditors; and Ireland has taken measures to reduce the time for court proceedings[39]. However, many obstacles still stand in the way of failed SMEs receiving a second chance.

One pivotal problem in this context is the stigma associated with failure is hampering the success of SMEs. There is evidence that when entrepreneurs are faced with financial difficulties, they are reluctant to seek assistance at an early stage due to the fear of losing control over their businesses or by their inability to admit defeat[37]. Although only 4-6 percent of bankruptcies are fraudulent[36], the public and creditors often relate bankruptcy to corruption or incompetence, which illustrates the need to distinguish between honest and dishonest entrepreneurs. On the other hand, the 2009 Flash Euro barometer No283 "Entrepreneurship in the EU and beyond,"[40] indicates that 81 percent of the population surveyed in the EU-27 Member States strongly agreed that failed businesses should be given a second chance. This is a slight increase from the same survey that was conducted in 2007 and shows that the majority of the public is becoming more and more in favour of giving bankrupt businesses an opportunity for a fresh start.

Figure 4.1 Barriers to entrepreneurship – EU 27



Source: Flash Eurobarometer 283 – The Gallup Organization

Another potential barrier for starting up again are bankruptcy procedures. They can be a lengthy and costly process taking anywhere between four months and nine years[36]. Faster and more transparent bankruptcy procedures would allow entrepreneurs to save the value of their assets and improve a business's odds of getting a second chance. The European Commission has recommended that governments limit the time to discharge and settle debts to a maximum of three years by 2013. In-court procedures, however, should be seen as a last resort as out-of-court settlements are more cost effective and efficient.[37]

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39 EurActiv (2011), 'How many bankrupt companies get a second chance?' http://www.euractiv.com/en/enterprise-jobs/bankrupt-companies-get-second-chance-news-502496.

40 European Commission (2009), 'Entrepreneurship in the EU and Beyond, a Survey in the EU, EFTA countries, Croatia, Turkey, the US, Japan, South Korea and China,' Flash Eurobarometer No 283, The Gallup Organization, ec.europa.eu/public_opinion/flash/fl_283_sum_en.pdf. Pg. 79-81

Most entrepreneurs are not willing to start-up their own company if they know in advance that they would not be given a second chance[41]. If given the chance, failed entrepreneurs do learn from their mistakes and are generally more successful the second time round creating more jobs and a higher turnover than first timers[38]. The European Commission,[36] in recognising the importance of promoting entrepreneurship and a second chance suggests implementing early warning tools (such as the EC's online self-assessment tool), providing access to additional funding, developing policies that are conducive for SMEs, and removing the stigma of failure.

In addition to the above literature review on second chance, information was gathered on second chance from a total of 37 countries, including all EU-27 Member States. The compiled evidence suggests that – while some initiatives have been recently taken - "second chance" is still not yet a high priority.

But not all is gloomy for re-starters. Coinciding with the adoption of the SBA in June 2008, some progress has been reported on preventing SMEs from falling into bankruptcy and improving bankruptcy procedures to increase the likeliness of a second chance. Member States appear to recognise the link between receiving a second chance and job creation or retention. For example, entrepreneurs in financial distress in Sweden can receive advice and negotiation assistance through the 'Business Emergency Treatment' initiative; France and Italy have licensed insolvency practitioners to supervise the process and pay creditors; and Ireland has taken measures to reduce the time for court proceedings[42]. In 2010, Belgium provided financing to assist bankrupt entrepreneurs through the provision of counseling services and assessments aimed at strengthening their skills. Also there are public information campaigns to promote a positive attitude towards re-starters in Belgium society. Belgium has also established a Centre for Enterprises in Difficulty (CED), which provides advice and counseling services to SMEs faced with financial issues. Further measures will be implemented in 2011 under the Credit for Second Chance policy, which will improve access to finance for second chance SMEs. Iceland is expecting new policy measures for failed SMEs in 2011, aimed at improving the attitudes towards entrepreneurs seeking a fresh start.

Sweden, Austria, Romania, Serbia and Hungary all have reported improvements to policies for streamlining bankruptcy procedures and ensuring that re-starters are treated equally. The Swedish government implemented new measures to encourage entrepreneurs to start a business again after bankruptcy by reducing the long-term risks involved in starting up businesses. Austria and Romania are in the process of reforming insolvency laws to improve the efficiency and shorten the timeframe of insolvency procedures. Romania's Law no.169/2010 was approved for amendment of the non-fraudulent bankruptcy, reducing the insolvency procedures to one year. Serbia has also implemented a new bankruptcy law to decrease the duration of bankruptcy proceedings to less than two years. Finally, the same policies apply for re-starters as for start-ups in Hungary.

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41 Lee, S.H. et al (2010), 'How do bankruptcy laws affect entrepreneurship development,' Journal of Business Venturing, Vol. 26, Issue 5, pp. 505-520.

42 EurActiv (2011), 'How many bankrupt companies get a second chance?' http://www.euractiv.com/en/enterprise-jobs/bankrupt-companies-get-second-chance-news-502496.

4.2 Access to finance

In particular in the current, still fragile environment, SMEs depend critically on external sources of finance as is confirmed by the latest Survey on the access to finance of SMEs[43]. This is also underpinned by the aforementioned flagship initiative of the Europe 2020 Strategy.

In general, external financing for SMEs has improved in the Euro zone in late 2010 (which was the latest available data for the aggregate EU-level) according to the ECB[44]. However, 24 percent of SMEs reported a worsening in their access to bank loans whereas 12 percent have reported improvements. SMEs' need for bank loans increased by 3 percent during March to September 2010 as compared to the previous six months. Access to finance was expected to improve for industrial SMEs and to be subdued for all other sectors, except construction which would further deteriorate.

SMEs in the Euro zone have received the majority of their external funding through overdrafts and credit lines, which has been an important tool for SMEs to balance finances in between paying suppliers and receiving money from consumers. One third of SMEs received funding through bank loans while from 2009 to 2010, alternative sources of funding rose, specifically trade credits and leasing as well as hire-purchase and factoring. The increasing need for inter-company financing is a result of high interest rates, loans convents, and additional bank commission charges.

Fewer firms applied for bank loans for fear of rejection or because they still had sufficient internal funds; at the same time, more of the firms that applied for loans received the full amount of funding that they requested. In Spain, for example, during the first half of 2010, 77 percent of the firms applying for loans received 75 percent or more of the amount requested.

A good relation between banks and SMEs is not always obvious. Although banks are the primary source of information for financing, only about 23 percent of SMEs in Greece turn to banks first when seeking finance information or advice[45]. Forty-two percent of SMEs in Greece also felt that services offered by banks were not tailored to their needs. A recent study conducted by Gines Hernandez-Canovas and Pedro Martinez-Solano (2010) emphasized the importance of trust between firm and bank in improving access to finance and reducing the borrowing costs[46].

The ECB reported that in the last quarter of 2010 net demand for loans increased for both SMEs and large firms in the Euro zone, which is another sign of the recovery[47]. The increase in net demand for loans is for financing inventories and working capital.

In comparison with the United States, there are different links between SMEs and capital markets. SMEs in the USA appear to have closer and more profitable links to private equity and capital markets than SMEs in Europe. Explanations for this fact include tax policies, unifications of markets, regionally clusters and cultures of entrepreneurial dynamism.

According to an OECD Working Party the SMEs continue to suffer from deteriorated access to finance after the crisis[48]. Emergency programmes have been implemented but new post-crisis measures must solve the obstacles in obtaining finance for new, innovative and fast growing companies. For example, during the crisis in Japan, the government provided assistance through

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43 ECB (2011) Survey on the access to finance of SMEs in the Euro Area, September 2010 to February 2011, 27 April 2011
44 ECB (2010)
45 Hyz (2010)
46 Hernandez-Canovas G. and P. Martinez Solano (2010)
47 ECB (2011)
48 OECD (2010c),

the Emergency Guarantee Program that increased lending to SMEs from regional banks and state-affiliated financial institutions[49]. However, access to finance for SMEs in Japan during more stable economic periods has always been difficult. The Innovation Network Corporation of Japan (INCJ) suggests creating a lending system that places more emphasis on the business value of the intellectual property owned by the SME.

To address the financial needs of European SMEs, the EU has established the Financial Instruments of the Competitiveness and Innovation Framework Programme (CIP), which will assist 400,000 small businesses by 2013, in addition to the financial schemes at national level. The CIP financial instruments cover access to investment lending, venture capital for early and expansion stages of innovative SMEs, and guarantees. The European Regional Development Fund (ERDF) is also improving access to finance for SMEs by dedicating a budget of €23bn[50].

5 Conclusions

The effects of the financial and economic crisis of 2009 were still felt by European SMEs in 2010. The number of SMEs stabilised in 2010, albeit with declines in the small and medium size classes, while the micro enterprises by and large stood up well to the adverse economic conditions. By 2010, the turnover of European SMEs recovered with a growth of 2.6 percent in the aggregate.

The beginning recovery of EU SMEs in 2010 has, therefore, been mainly featured growth in numbers of turnover and value added, whereas only from the year 2011 they will be joined by employment. This forecast, however, critically depends on the further macro-economic and political developments, especially, but not exclusively, as regards the Eurozone. Despite a recent increase in the levels of investment by European SMEs in 2010, after two years of decline and reduced profitability, the beginning recovery looks still fragile.

In addition, the turnaround does not cover all Member States. The picture of SME performance in 2010 in terms of value added and employment in the EU can be drawn up in triplicate. First there is a small group of Member States whose SMEs had both positive growth in value added and employment (P-P countries): Austria, Germany, Luxembourg, Malta, Romania, Sweden and United Kingdom. Second there is a small group of Member States whose SMEs had both negative growth in value added and employment (N-N countries): Greece, Ireland, Spain, Latvia and Lithuania. Third there is the bulk of Member States whose SMEs exhibited a positive growth in value added and a negative growth in employment (P-N countries): Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, France, Hungary, Italy, Netherlands, Poland, Portugal, Slovakia and Slovenia.

Such differences can also be found on the level of country groupings with the EU-27 area. In the old Member States (EU-15) the number of small- and medium enterprises fell by 1 percent, whereas in the new Member States (EU-12) the number of small and medium enterprises grew by 2.3 percent in 2010, suggesting a more dynamic rebound of SMEs after the crisis in the new Member States. Comparing the SME performance in the Euro zone- and the non-Euro zone

[49] Blair (2010)
[50] European Commission (2009)

countries in 2009, SMEs have lost more in terms of growth of value added and employment in the non-Euro zone than in the Euro zone countries. It should be noted that the recovery in GVA and employment of SMEs in 2010 was more or less at the same level of growth in the two zones.

So what are the factors that determined whether a country, or a particular country grouping for that matter, experienced an early recovery of its SME sector already in 2010 or was still caught in the downturn that year?
For the countries worst affected by the economic and financial crisis- i.e Greece, Ireland, Spain, Latvia and Lithuania- the downturn of the SME sector was still continuing in 2010. Not just for this group as a whole but also for all other Member States individually, the analysis contained in this report establishes a clear link between the overall macro-economic growth of an economy and the performance of its SME sector. Given the importance of SME for the overall economy this might be an obvious correlation, but there are also notable exceptions to this nexus (e.g. Romania, where despite a negative GDP growth, the country's SMEs were still thriving).

There are other factors where the link to SME growth might be a bit less obvious: the export performance and the innovative capacity of an economy are also intrinsically linked to a Member State´s SME sector performance based on the evidence for the most recent year, 2010. These findings need to be further substantiated by further and more-long term analysis. Still, they provide some indications for, at least some, elements of a potential policy strategy towards a more broad-based and sustained SME recovery in all Member States.

There is a host of additional factors known to affect the performance of a country´s SME. In fact, there is too many for all of them to be studied at the same level of detail for this limited report. Most of these factors are addressed in the EU´s Small Business Act (SBA) which was launched in 2008. The SBA embraces a long list of measures in 10 different policy areas to be taken both, on the EU-level as well on the Member State level. A recent review of the SBA in February 2011 has put particular emphasis on three areas:

- "Think Small first" – encapsulating all initiatives geared towards creating a legislative and administrative environment that is SME-friendly;
- "Access to finance" – asking to reinforce all instruments which help SMEs to improve their financial situation;
- "Access to markets" – which encompasses not only measures helping SMEs tapping into fast-growing markets overseas, but also into those right on their front door, i.e. the single market as well as the markets created through public procurement.

The fragile and only partial recovery of SMEs in the EU 2010 further increases the pressure on policy makers, both on the EU as well as on the national level, to speedily implement what they have committed to under the SBA agenda. Decisive and rapid improvements towards a friendlier SME administrative and legislative environment are an indispensable precondition for an SME recovery. The Commission via DG ENTR is fully engaged in steering and monitoring the SBA implementation process. To this effect, it has -in cooperation with Member States- recently set up a network of SME envoys. These envoys, all of which high-ranking official within national administrations, are the champions of the SME cause on the national level. They are to drive the SBA implementation process so as to ensure that domestic SMEs benefit from more business-friendly framework conditions. At the same time, the network helps to exchange information on best practises. DG ENTR further supports this policy process with the help of its own SME envoy who ensures that also on the EU level administrative and legislative conditions become more favourable to SMEs. In addition, DG ENTR continues to produce the SBA country fact sheets which are the most complete and essential source of statistical fact and specific SME policy information for the individual Member States. As such, they have become a quintessential element in the monitoring

of the implementation of the SBA agenda. The most recent edition of the SBA country fact sheets (for EU-27 plus 10 non-Member States) has been published along side this report.

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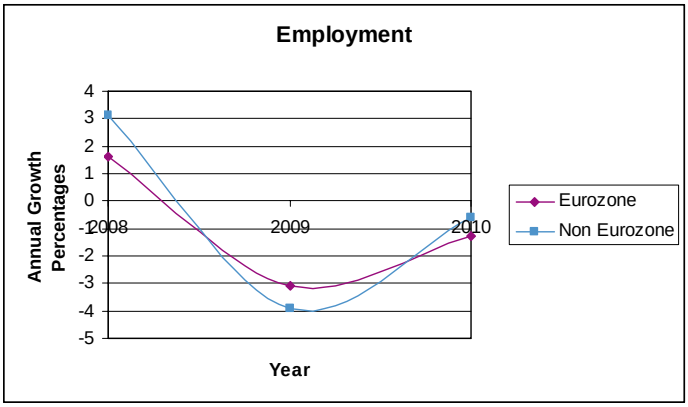
Annex – Additional Tables

Table A1 Annual growth percentages for employment and gross value added, 2008-2010

		Micro	Small	Medium	SMEs	Large	Total
Employment							
EU-15	2008	1.6	1.0	0.4	1.1	1.7	1.3
	2009	-1.8	-3.1	-3.6	-2.7	-3.3	-2.9
	2010	-0.7	-1.0	-1.3	-1.0	-0.8	-0.9
EU-12	2008	4.5	4.1	2.0	3.5	3.1	3.4
	2009	-3.6	-4.0	-5.3	-4.3	-4.1	-4.2
	2010	-0.9	-1.2	-1.7	-1.2	-2.0	-1.4
Eurozone	2008	1.6	2.3	0.7	1.6	1.9	1.7
	2009	-2.4	-3.2	-3.9	-3.1	-2.7	-3.0
	2010	-1.1	-1.3	-1.8	-1.3	-1.2	-1.3
Non-Eurozone	2008	5.0	2.6	1.8	3.1	3.0	3.1
	2009	-3.0	-3.9	-5.2	-3.9	-5.1	-4.3
	2010	-0.2	-0.7	-1.0	-0.6	-1.6	-0.9
Crisis	2008	0.8	-0.3	-1.0	-0.2	0.6	0.0
	2009	-6.7	-7.9	-9.0	-7.7	-6.7	-7.4
	2010	-2.4	-3.7	-4.5	-3.5	-2.6	-3.2
Non-Crisis	2008	3.3	3.0	1.6	2.7	2.7	2.7
	2009	-1.7	-2.5	-3.3	-2.4	-2.9	-2.6
	2010	-0.4	-0.5	-0.8	-0.5	-1.0	-0.7
Gross Value Added							
EU-15	2008	3.3	2.1	1.6	2.4	1.5	2.0
	2009	-4.0	-5.1	-6.1	-5.0	-5.6	-5.2
	2010	2.1	2.5	3.5	2.7	3.8	3.2
EU-12	2008	13.1	10.8	8.0	10.6	10.2	10.1
	2009	-6.8	-4.7	-9.5	-7.6	-4.3	-6.3
	2010	2.6	2.7	3.3	2.9	3.4	2.9
Eurozone	2008	5.9	4.1	2.6	4.3	3.8	3.9
	2009	-3.3	-2.2	-5.0	-3.7	-4.3	-4.0
	2010	1.8	2.2	3.0	2.4	3.4	2.8
Non-Eurozone	2008	10.6	9.2	7.5	9.0	8.0	8.5
	2009	-8.5	-9.6	-12.0	-10.2	-6.3	-8.6
	2010	3.3	3.3	4.1	3.5	4.0	3.6
Crisis	2008	3.9	1.8	2.1	2.5	3.2	2.8
	2009	-8.0	-9.9	-9.9	-9.2	-5.0	-7.7
	2010	-3.9	-3.5	-1.7	-3.0	-0.6	-2.0
Non-Crisis	2008	8.5	6.9	4.9	6.8	5.8	6.3
	2009	-4.6	-3.8	-7.1	-5.4	-5.0	-5.2
	2010	3.8	4.0	4.6	4.1	4.6	4.2

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Graph A1 Annual growth percentages of Employment and GVA estimated for SMEs in the Eurozone and non-Eurozone, 2008-2010



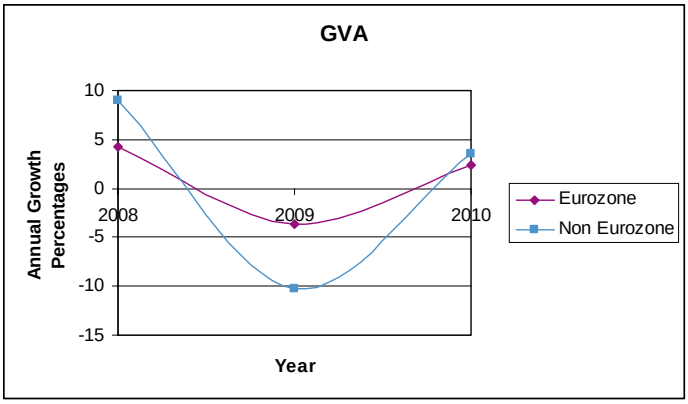


Table A2 OECD Indicators of Employment Protection, with innovation leaders indicated in green, and moderate innovators in red.

	Protection of permanent workers against (individual) dismissal	Regulation on temporary forms of employment	Specific requirements for collective dismissal	**OECD employmentprotection index**
Canada	1.17	0.22	2.63	**1.02**
United Kingdom	1.17	0.29	2.88	**1.09**
United States	0.56	0.33	2.88	**0.85**
South Africa	1.91	0.58	1.88	**1.35**
Ireland	1.67	0.71	2.38	**1.39**
Sweden	**2.72**	**0.71**	**3.75**	**2.06**
Australia	1.37	0.79	2.88	**1.38**
Russian Federation	2.79	0.79	1.88	**1.80**
New Zealand	1.54	1.08	0.38	**1.16**
SlovakRepublic	**2.45**	**1.17**	**3.75**	**2.13**
Netherlands	2.73	1.42	3.00	**2.23**
Switzerland	1.19	1.50	3.88	**1.77**
Japan	2.05	1.50	1.50	**1.73**
Iceland	2.12	1.54	3.50	**2.11**
Israel	2.19	1.58	1.88	**1.88**
CzechRepublic	**3.00**	**1.71**	**2.13**	**2.32**
Denmark	**1.53**	**1.79**	**3.13**	**1.91**
Germany	**2.85**	**1.96**	**3.75**	**2.63**
Chile	2.59	2.04	0.00	**1.93**
Hungary	**1.82**	**2.08**	**2.88**	**2.11**
Korea	2.29	2.08	1.88	**2.13**
Estonia	2.27	2.17	3.25	**2.39**
Finland	**2.38**	**2.17**	**2.38**	**2.29**
China	3.31	2.21	3.00	**2.80**
Austria	2.19	2.29	3.25	**2.41**
Poland	**2.01**	**2.33**	**3.63**	**2.41**
Slovenia	2.98	2.50	2.88	**2.76**
Italy	**1.69**	**2.54**	**4.88**	**2.58**
Portugal	**3.51**	**2.54**	**1.88**	**2.84**
Belgium	1.94	2.67	4.13	**2.61**
India	3.65	2.67	0.00	**2.63**
Indonesia	4.29	2.96	0.00	**3.02**
Norway	2.20	3.00	2.88	**2.65**
Greece	**2.28**	**3.54**	**3.25**	**2.97**
France	2.60	3.75	2.13	**3.00**
Spain	**2.38**	**3.83**	**3.13**	**3.11**
Luxembourg	2.68	3.92	3.88	**3.39**
Brazil	1.49	3.96	0.00	**2.27**
Mexico	2.25	4.00	3.75	**3.23**
Turkey	2.48	4.88	2.38	**3.46**

Source. OECD Indicators of Employment Protection, 2008

Table A3 Value added at factor costs in SMEs in US and Japan, 2003-2009 (Index 2003 = 100)[20,23]

		2003	2004	2005	2006	2007	2008	2009
USA								
c-i, k	**Total non-financial business economy By NACE section**	100	97	104	107	101	95	95
c	Mining and quarrying	100	108	129	150	136	155	128
d	Manufacturing	100	100	106	111	105	94	94
e	Electricity, gas and water supply	100	103	104	121	115	115	124
f	Construction	100	98	121	111	103	92	84
g	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	100	94	97	100	95	88	90
h	Hotels and restaurants	100	98	102	107	104	95	96
i	Transport, storage and communication	100	102	108	111	104	101	102
k	Real estate, renting and business activities	100	95	99	103	99	96	100
Japan								
c-i, k	**Total non-financial business economy By NACE section**	**100**	**99**	**93**	**88**			

Source: OECD Structural Business Statistics/US Bureau of Economic Analysis//White Paper on SMEs in Japan/Cambridge Econometrics/Ecorys

Table A4 Labour productivity in SMEs in US and Japan, 2003-2009 (Index 2003 = 100)[20,23]

		2003	2004	2005	2006	2007	2008	2009
USA								
c-i, k	**Total non-financial business economy By NACE section**	**100**	**95**	**92**	**101**	**96**	**93**	**100**
c	Mining and quarrying	100	104	119	126	101	103	119
d	Manufacturing	100	100	107	111	105	102	112
e	Electricity, gas and water supply	100	105	104	122	116	117	132
f	Construction	100	94	57	98	92	91	101
g	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	100	93	99	100	96	93	102
h	Hotels and restaurants	100	94	98	99	95	92	99
i	Transport, storage and communication	100	101	108	108	103	100	109
k	Real estate, renting and business activities	100	94	96	95	91	85	89
Japan								
c-i, k	**Total non-financial business economy By NACE section**	**100**	**102**	**94**	**89**			

Source: OECD Structural Business Statistics/US Bureau of Economic Analysis/US Census Bureau/White Paper on SMEs in Japan/Cambridge Econometrics/Ecorys

Table A5 Average number of persons employed in SMEs and large enterprises by sector of industry, EU-27, 2008-2010 (estimates)

		2008		2009		2010	
		SMEs	Large	SMEs	Large	SMEs	Large
c-i, k	**Total non-financial business economy By NACE section**	**4.27**	**1,000.35**	**4.25**	**1,002.71**	**4.21**	**1,005.18**
c	Mining and quarrying	11.13	1,859.95	11.13	1,767.78	10.86	1,670.49
d	Manufacturing	8.80	755.21	8.77	752.77	8.70	751.04
e	Electricity, gas and water supply	10.03	1,300.17	9.58	1,296.27	9.05	1,268.64
f	Construction	4.15	682.12	4.02	685.75	3.99	692.27
g	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	3.67	1,286.19	3.65	1,294.31	3.63	1,297.41
h	Hotels and restaurants	4.60	1,160.12	4.61	1,145.35	4.63	1,133.20
i	Transport, storage and communication	4.78	1,668.51	4.82	1,611.03	4.85	1,559.24
k	Real estate, renting and business activities	3.03	1,004.39	3.06	1,013.56	3.05	1,026.78

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Table A6 Number of enterprises,in EU-27, by size class and NACE section, 2010 now-casts

	Micro	Small	Medium	SMEs	Large	Total
Enterprises						
Number	19,198,539	1,378,401	219,252	20,796,192	43,034	20,839,226
%	92.1	6.6	1.1	99.8	0.2	100
Total number of enterprises in the non-financial business economy by NACE section						
C. Mining and quarrying	15,667	4,794	941	21,402	275	21,677
D. Manufacturing	1,760,912	311,564	77,335	2,149,811	17,226	2,167,037
E. Electricity, gas and water supply	34,753	3,815	2,213	40,781	993	41,774
F. Construction	2,789,236	208,857	22,385	3,020,478	2,373	3,022,851
G. Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	5,968,300	361,222	42,324	6,371,846	6,948	6,378,794
H. Hotels and restaurants	1,552,574	151,018	12,066	1,715,658	1,527	1,717,185
I. Transport, storage and communication	1,109,424	93,533	16,956	1,219,913	4,046	1,223,959
K. Real estate, renting and business activities	5,967,673	243,598	45,032	6,256,303	9,646	6,265,949

Table A7 Employment in enterprises from EU-27, by size class and NACE section, 2010 now-casts

	Micro	Small	Medium	SMEs	Large	Total
Employment						
Number	38,905,519	26,605,166	21,950,107	87,460,792	43,257,098	130,717,890
%	29.8	20.4	16.8	66.9	33.1	100
Total number of employed persons in the non-financial business economy by NACE section						
C. Mining and quarrying	42,595	94,597	95,196	232,388	459,384	691,772
D. Manufacturing	4,323,705	6,357,299	8,030,585	18,711,589	12,937,364	31,648,953
E. Electricity, gas and water supply	44,777	88,231	236,013	369,021	1,259,762	1,628,783
F. Construction	5,978,606	3,996,940	2,071,830	12,047,376	1,642,761	13,690,137
G. Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	12,258,162	6,818,968	4,068,666	23,145,796	9,014,408	32,160,204
H. Hotels and restaurants	4,209,959	2,630,652	1,096,011	7,936,622	1,730,394	9,667,016
I. Transport, storage and communication	2,334,009	1,886,827	1,697,430	5,918,266	6,308,685	12,226,951
K. Real estate, renting and business activities	9,713,707	4,721,634	4,654,381	19,089,722	9,904,340	28,994,062

Table A8 Gross value added in enterprises from EU-27, by size class and NACE section, 2010 now-casts

	Micro	Small	Medium	SMEs	Large	Total
Gross value added						
EUR Millions	1,293,391	1,132,202	1,067,387	3,492,979	2,485,457	5,978,436
%	21.6	18.9	17.9	58.4	41.6	100
Total gross value added in EUR Millions in the non-financial business economy by NACE section						
C. Mining and quarrying	5,760	7,484	12,266	25,510	46,835	72,345
D. Manufacturing	125,846	250,127	366,409	742,382	889,398	1,631,780
E. Electricity, gas and water supply	13,440	14,362	32,000	59,802	198,714	258,516
F. Construction	184,637	164,940	95,330	444,907	95,206	540,112
G. Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	300,624	284,674	200,969	786,267	332,564	1,118,831
H. Hotels and restaurants	69,441	54,018	28,352	151,811	48,850	200,661
I. Transport, storage and communication	82,432	88,903	90,901	262,236	475,725	737,961
K. Real estate, renting and business activities	511,210	267,694	241,162	1,020,066	398,166	1,418,232

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