Which countries are best for SMEs?

- Small- and medium-sized enterprises (SMEs) are crucial as they account for 90% of businesses and over 50% of total employment worldwide
- Our new "*SME Business Climate Index*" (SMEB) assesses the business environment for SMEs in 13 selected economies. It is based on six components that SMEs have identified as having a crucial impact on their businesses: red tape, tax policy, labor market flexibility, financing, export opportunities and competition
- The following countries are ranked from best to worst: Canada #1, Hong Kong #2, U.S. #3, the Netherlands #4, Singapore #5, Belgium #6, UK #7, Germany #8, Poland #9, Ireland #10, France #11, Slovakia #12 and Czechia #13.

Paris, 14th November 2019 – Euler Hermes releases today the first edition of its proprietary "*SME Business Climate Index*" (SMEB). It assesses the business environment for SMEs in 13 selected economies: the U.S., Canada, Germany, France, UK, Ireland, Netherlands, Belgium, Poland, Czechia, Slovakia, Hong Kong, Singapore. In a context of slowing global economic growth ahead, it also provides policymakers with a roadmap to improve the business climate for smaller companies.

Why are SME's so crucial?

Worldwide, Small and Medium Enterprises (SMEs) account for about 90% of businesses and more than 50% of total employment. In Europe, they represent more than 99% of all non-financial corporates; besides generating close to 60% of total Gross Value Added, they also employ over 90 million people.

But several recent surveys, such as the *Global Business Monitor* jointly produced by Euler Hermes and Bibby Financial Services, have revealed that SMEs face disadvantages in accessing finance, failures in competition and excessive regulatory burdens relative to big companies. Given this context, we designed our index to evaluate which economies are the most attractive for SMEs.

How was our *SME Business Climate Index* built?

We created six key components for the SMEB, namely red tape, tax policy, labor market flexibility, financing, export opportunities and competition. Each component is made up of one or several indicators extracted either from external sources or from our *Global Business Monitor* and scored individually. For instance, for tax policy we look into the corporate tax rate applied to SMEs and how it compares to the base tax rate for all companies. Labor market flexibility is assessed through "Hiring and Firing Practices" from the World Economic Forum 2019 and the ""Human Development Index" published by the United Nations in 2018. As a result, for each economy covered in the survey, the SMEB provides a score that is built out of the six components and 15 indicators.

Where do SMEs enjoy the best business climate? And the worst?

"*SMEs enjoy a very favorable business climate in Canada and a favorable one in Hong Kong, the U.S., the Netherlands and Singapore. These five economies have in common a flexible labor market in terms of hiring and firing procedures, a low level of red tape and, with the exception of Hong Kong, relatively good financing conditions. The top three also enjoy favorable tax policies",* said **Ana Boata, Senior Economist for Europe and co-author of the study**.

In the UK, Germany and France, SMEs experience a less favorable business climate. While in the first two economies, the tax policy is the main constraint, in France, the lack of labor market flexibility and financial information on SMEs, as well as red tape, are the main drags.

"*SMEs in the UK, Ireland, Poland, Slovakia and Czech Republic experience significantly higher constraints compared to an average company elsewhere. Financing is one of the major constraints in most of these countries*" added **Kai Gerdes, Director of credit risk at Euler Hermes Rating**.

The full report is available here

This study was jointly produced by Euler Hermes Economic Research and Euler Hermes Rating. Established in 2001 and based in Hamburg and Paris, Euler Hermes Rating was the first credit rating agency to be registered under the EU regulation on credit rating agencies. It is specialized in delivering independent credit opinions on SMEs and MidCaps. Moody's has a 4.99% stake in Euler Hermes Rating GmbH. In June 2017, Euler Hermes Rating launched **TRIB**Rating, a robust assessment of creditworthiness for SME's developed through the Euler Hermes collaboration with Moody's Investors Service (see below).

What is **TRIB**Rating?

TRIBRating is a valuable new service that can benefit all players in the SME and MidCap funding space. Using a detailed, tailored and transparent methodology and SME-specific modelling, **TRIB**Rating offers a robust assessment of creditworthiness. The independent, globally comparable credit ratings may enable small- to medium-sized businesses to attract a wider range of funding sources. The **TRIB**Rating methodologies, available in Germany, France, Italy, Spain, Switzerland, Belgium and the Netherlands were developed in collaboration with Moody's Investors Service, a leading global rating agency with extensive experience of developing rating methodologies across a range of sectors. Coupled with Euler Hermes's extensive credit risk and sector knowledge, **TRIB**Rating identifies, analyzes and monitors the specific credit characteristics of SMEs and MidCaps.

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We predict trade and credit risk today, so companies can have confidence in tomorrow.