



UpGradeSME

**Interregional Analysis of COVID-19 impact  
on SME internationalization**

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## 1 | FOREWORD

A once-in-a-century health crisis struck in early 2020 inflicting severe global human suffering and prompting widespread lockdown measures by governments. The World Health Organization's 11 March 2020 declaration that Covid-19 was officially a pandemic spurred governments around the world to restrict people's movements and interactions to slow the spread of the virus and reduce strains on their healthcare systems.

The containment measures caused a deep contraction in economic activity in 2020, impacting some sectors and individuals more than others. Tourism and other industries reliant on social interactions were hard hit, as were sectors sensitive to supply chain disruptions like manufacturing. The burden on small and medium-sized enterprises (SMEs), important contributors to job creation and global economic development in most countries, was particularly acute. Small firms are typically in a more precarious financial position than larger businesses, and Organisation for Economic Co-operation and Development (OECD) analysis shows their above average representation in sectors acutely affected by the pandemic (OECD, 2021a). While no one was immune to the virus, its economic impact struck vulnerable groups with weaker safety nets hardest, including workers with informal and low paying jobs who tend to work in contact-intensive sectors.

This study was carried out in the period December 2021- February 2022. The findings and recommendations of the study are based on: statistics for key socio-economic indicators (e.g. GDP, employment statistics, sector-specific statistics); a literature review (e.g. OECD reports on COVID-19 effects); 133 interviews (125 interviews with SMEs and 8 with different Management Authority or Intermediary Body organisations).

The future dynamics of the COVID-19 pandemic remain uncertain due to its evolving nature (new/ongoing waves of infection, new restrictions, new variants, vaccination efficacy and rollouts). The full extent of the impact of the crisis in the European regions and related policy and support measures is still not fully known.

**Europe now days face an even deeper hit as Russia's invasion of Ukraine rapidly raises energy and fuel prices and threatens to undermine a fragile post-pandemic economic recovery.**

## 2 | POSITIONING THE FINDINGS – INVOLVED REGION

UpGradeSME is an international cooperation of 8 actors representing 7 European regions of 6 countries like Hungary, Romania, the Netherlands, Germany, Portugal and Spain, for enhancing SMEs internationalization firstly on policy level.

All 8 partners cooperated in the in-depth analysis of the impact of Covid - 19 on the internationalization of SMEs through interviews with SMEs from all regions involved but also through direct interaction with different policy levels of the instrument - the Managing Authority or the Intermediate Body.

Partner	Country
1. Pannon Business Network Association	HU
2. South Muntenia Regional Development Agency	RO
3. BUSINESS DEVELOPMENT FRIESLAND FOUNDATION	NL
4. MUNICIPALITY OF LEEUWARDEN	NL
5. Steinbeis Innovation gGmbH	DE
6. CIM do AVE	PT
7. San Sebastian Socio-Economic Development Agency Ltd.	ES
8. Ministry for National Economy	HU



**Central Hungary** is in the heart of the country and includes the capital city Budapest. Economically it is *one of the most developed* parts of the country giving home national and multinational companies and industrial facilities active in various sectors. This region is very strong in education and cultural and touristic services.

**Western Transdanubia** in Hungary, with app. 1 million people living there, it is *one of the fastest growing* regions of the entire European Union, reaching nearly 80% of the EU average with respect to GDP per capita (from app. 55% a decade ago).

**South Muntenia** region is the *third largest* region of Romania as surface and the *second most inhabited* region in Romania, having a population of over 3 million inhabitants, that represents 15% of the national population - with the highest number of inhabitants in the rural environment (57% of residents). In South Muntenia the main economic traditional sectors are related to: automotive industry (Dacia Renault), petrochemical industry, metallurgy, electrical and electro technical industry, agriculture.

Over the past two decades, the **province of Fryslân** and the municipality of Leeuwarden have developed in terms of agricultural cultivation, industries and services and *people are considered the "happiest"* of the Netherlands in terms of wellbeing. With 28% of the total national export of dairy products such as condensed milk (FrieslandCampina, Hochwald), it is the main export product of Fryslân.

**Baden-Württemberg** is a federal state located in the Southwest of Germany and shares borders with France and Switzerland. The region is the third largest German federal state (both in terms of population and in terms of m<sup>2</sup>) and *among the leading economies* in Germany as well as in Europe, accounting for 15 % of the national GDP (2020). The region is strongly export-oriented and *takes the lead* among the German federal states. Furthermore, the region is known for its high innovation capacity.

**Vale do Ave** is a region in Portugal with a *long industrial tradition*, having hosted, over the years, some of *the largest companies* in the country. The Ave Intermunicipal Community (CIM Ave) comprises eight municipalities (236 parishes), with an area of 1453 km<sup>2</sup> and a population of over 418 thousand inhabitants. Furthermore, the number of companies that make up the business landscape of CIM AVE represents 9.76% of the country's Northern businesses, 95% of which are micro-enterprises.

**Donostia - San Sebastián (DSS)** is an average European city, with over 188.000 inhabitants, in a metropolitan area of some 330.000 inhabitants. DSS is a *city of services*, with intense tourist and commercial activity, capital of a well-developed tertiary and industrial territory. The dense business and associative environment has a great potential to generate and a solid structure of innovation, science and technology, connecting the city and the ecosystem. The city is *home to strong innovator companies*, 5,000 researchers and 29 research centres associated to the Basque Science and Technology Network, and cutting-edge technology, talent attraction infrastructures, 4 universities, an innovation week, etc.

## 3 | SME survey results

### 3.1 Short profile of the involved SMEs

In general, most of the SMEs involved in the survey operate in manufacture, automotive industry (or vehicle-related activities), engineering, construction and ICT sector. Other relevant answers in this regard include packaging, wood and furniture, wholesale and retail trade, consulting services, agriculture sciences, tourism, various types of industry (health, plastics and glass, footwear, beverage, high technology). An interesting fact is that, according to Dutch partners, SMEs are focused on the green and digital transition which is flowing from the signed UN treaties and European legislation into local governance. Moreover, the partners from Netherland found out SMEs are aware of their social impact on society and want to make the swing into a more inclusive style of doing business.

In terms of trade relations with foreign countries, the most widely circulated answer refer to Germany as the most preferred destination for exports. Also, the interviewed SMEs stated that they have trade relations with countries such as Austria, Australia, France, Belgium, Bulgaria, Canada, China, Czech Republic, Croatia, Greece, Hong Kong, Hungary, India, Italy, Japan, Mexico, Moldova, Netherlands, Russia, Poland, Portugal, Serbia, Slovakia, Slovenia, Singapore, Spain, Switzerland, Turkey, UK, Ukraine, USA and even Taiwan, Vietnam. As can be seen, SMEs' trade relations target both the European markets and non-EU markets, the main criterion for choosing countries for export being the field of activity of SMEs.

### 3.2 COVID-19 effects on SME export activity

Most of the SMEs surveyed indicate COVID-19 has severely affected their export activity. The main problems mentioned refer to supply chain (raw materials price increase and scarcity; expand deadlines on sourcing and delivery; temporary activity suspension from suppliers and customers), internal operations (reduced lack of reliable staff; orders cancelation and/ or restructuring; higher stock levels with logistic demands) and market entry strategy, caused in particular by absence of travel and face-to-face meetings with customers and partners. Therefore, SMEs highlight that they have had to reconsider their marketing approach and support to their client, and in particular to intensify their online commercial actions and participation in digital meetings and events. In order to do this, some of them have implemented a kind of process of internationalization of the strategy – e.g. respondents from Spain affirm this process turn around 3 main markets: the European Union (in particular Germany), USA and Latin America.

Depending on in which sector the company works and in which level the company is present in the online space, there are positive targeted answers as well. Among these, the most relevant ones are related to increased orders due to some SMEs' strategic geographical positioning and more online sales for SMEs operating in such sectors.

### 3.3 New measures developed due to COVID-19 crisis

The survey results have shown that the involved SMEs have taken some new measures aiming to avoid the spread of COVID-19. The most common answers are related to online work and health protection measures. Hence, the online work has been introduced on more levels to keep intensive contact and it consisted of measures like introducing home office for employees and creating a flexible work schedule, online internal and external meetings, increasing the rate of webstore sales and, generally, the SMEs' visibility on social media. Moreover, attention was also directed to health protection measures, in particular use of masks, regular testing, disinfection points at the workplace, restricted access in some areas, maintaining social distance.

Economically, there were many measures developed due to COVID-19 Crisis. Some of those reported are: Acquisition of raw materials in larger quantities, Extension of delivery deadlines, Restructuration of delivery maps, Reduction on waste and increased efficiency, Increase on subcontracting for the production process. Regarding the prices charged, there are two paradigms: either increasing the prices given the high prices of suppliers, or, on the contrary, dumping concept – meaning the practice of selling a product in a foreign market at an unfairly low price, lower than the cost in the home market, or which is lower than the cost of production.

Other interesting measures taken by SMEs surveyed in order to mitigate the impact of the pandemic were also mentioned, such as the need for some SMEs to change their focus on economic activity to be able to survive during COVID-19 or the decision by which the company has reviewed its investment and development plans in order to bring forward machine upgrades and maintenance, actively taking advantage of any downtime. Due to pandemic situation, the issue of skills and digital literacy was raised - by quickly switching to online (remote) work, some employees who were not used to this method may feel overwhelmed and, because of this, SMEs had to consider a decrease in productivity.

### 3.4 Effect of COVID-19 on the product portfolio

In terms of portfolio changes, most of the participating SMEs stated that they did not remove certain products, nor did they add new products, which means a relative stability from this point of view. Only in a few cases portfolio reductions have been declared, by removing certain products or services motivated by the lack of raw materials and stocks.

However, there were some SMEs that have extended their portfolio. These new products and services are mainly related to COVID-19 crisis – either SMEs have introduced new products/services or adapted their existing ones to suit the needs of customers linked to Corona (e.g. provision of a formerly physical service in digital form). Some respondents refer to specific new services and technologies: one of them belonging to the Health sector, has developed new services in the taking of samples and determination of the Covid-19, as well as in the preparation of reports and certificates and, another one, belonging to the Biotech sector, has developed technology aimed at detecting COVID-19.

### 3.5 New measures in the everyday work processes

Most of the SMEs interviewed stated that they had to make various changes in the everyday work processes. In line with the answers provided in the previous questions, such new measures are mostly related to remote work and an improvement of and more systematized use of digital tools such as Teams, Meet, Zoom or Slack, considered as innovative in the past, but now part of the day-to-day work and norm. Hence, meetings, both with clients and with business partners (e.g. suppliers) were held via video or replaced by telephone calls. Moreover, most companies also participated in virtual events, e.g. business fairs, yet it was commonly stated that these were not nearly as successful as physical formats had been, both in terms of acquiring new clients and in terms of networking with (potential) business partners

Along with the different types of sanitary measures adopted, important changes were also those related to the modification of the work schedule - either in terms of work flexibility or shifts to avoid personal to contact with each other. Some SMEs state that work processes became highly structured as deadlines and agreements were more precise or formal and, in addition, new, task-specific tools for cooperation have been introduced.

The pandemic also had an economic effect: price increase, including for electricity, and sourcing challenges played an important role in the SMEs' decision to adopt new measures in the everyday work processes. As a result, various ingenious adaptation solutions have been found in order to save electricity and to produce with less complex raw materials. Regarding Administrative processes, companies refer that cash collection was made only through online ways, and ATM/bank transfers were extremely appreciated.

### 3.6 Structural funds or financial support received in the pandemic

Following the analysis, it shows that the responding SMEs from different countries have requested financial or structural support to various degrees. Some of them did not apply for funding, mostly because they did not fit the conditions under which it was granted. The kind and origin of the financial supports obtained by the participating companies had different origins and targets, though a majority would be from provincial or regional programmes. For instance, the SMEs surveyed from Hungary mentioned receiving non-reimbursable support from the Hungarian Investment Promotion Agency or support non-reimbursable support from EDIOP, *Hungarian policy instrument in UpGradeSME* and those in the Netherlands report all grants that were given due to COVID-19, were organized by the national government.

Accordingly, most respondents mentioned: innovation and technological development support, digitalization support, Working Capital grant, support for Start-ups, cooperation programs with other SMEs, sustainability support, tax deduction or taxes split payment, Financing Rural Investments, Technical support. Also, other answers were related to: financial instruments - guarantees for loans and venture capital, grants and subsidies, direct loans; job retention schemes (short-term employment schemes, wage subsidy, simplified layoff).



### 3.7 Further remarks

The further remarks provided by the participating companies are diverse and vary depending on their situation and sector, but as a general/common one, there is a consensus that there is a need to keep support from institutions – e.g. financing for technology, digitalization of public services, increase tax facilities, more innovation and technological development support, finding solutions for job stability, promoting the production and use of renewable energy, protection in relation to raw materials, basic materials and energy prices, flexibility in providing EU support – to keep jobs and facilitate activities, in particular when it turns to R&D, in order to boost the economy and entrepreneurship. Regarding government support, companies refer that the applying process and incentives payment are still not agile, severely impacting their short run financial pipeline and delaying new investments.

The main negative consequence of COVID-19 mentioned was that internal communication and teamwork suffered from a lack of (informal) exchange. Employees often felt isolated and suffered from mental health problems which also caused personnel bottlenecks. In terms of easiness to make business, some companies refer that the cancelation of orders have played a major impact not only on treasury, but also on storage. Regarding slumps in sale, start-ups were mostly less affected as their financing often stemmed from research projects and funding, both of which was continued.

### 3.8 Conclusion.

From the company feedbacks gathered, it can be concluded that the degree to which companies' export activities and more generally business activities were affected by Covid-19 was highly dependent upon 1) *the company's development stage* and 2) *the economic sector* the company is active in. For all companies, the lack of face-to-face contact e.g. during business fairs or meetings with clients posed challenges in terms of winning over new clients, establishing a business network or developing a product.

SMEs surveyed identified problems such as contract suspensions; decreases in sales, as well as in imports/exports; restriction or interruption of economic activity; increase in raw material prices; different types of delays; employee issues such as layoffs, reorganizations, uncertainties; hindering foreign relations by suspending international trade fairs and exhibitions. Measures developed by enterprises to reduce the impact of the pandemic on their activity focused mainly on moving to the online environment by implementing remote working system and adaptation of products/services to a digital format, increased storage capacities and adjusted time plans as a reaction to the time uncertainty of supplies, or a focus on more R&D projects.

However, among the answers provided by SMEs there are some related to positive aspects of COVID-19. For example, the municipality of Leeuwarden and Business Development Friesland (Netherlands) can conclude that, although the COVID-19 pandemic, business has thrived. Although COVID-19 played a major role in society, it did not influence existing exports too much. Furthermore, some SMEs, mostly from the digital/software or biosciences sectors have even benefited from the situation and were able to increase either their sales and/or their R&D activities.

## 4 | POLICY INSTRUMENT survey results

### 4.1 Short profile of the policy instrument

All 8 policy instruments were analysed, each partner contacting the relevant managing authority to complete a specific questionnaire dedicated to managing authorities or intermediary bodies. Most policy instruments were operational at the time of the pandemic (March 2020), except for Donostia UP! in Spain and EDIOP 1.3.2 in Hungary.

The initial measures in support of the pre-COVID-19 policy instrument were largely related to activities specific to the internationalization process.

### 4.2 COVID-19 effects on the policy instrument

With regard to regional programs, no new specific measures have been defined for this policy instrument and no special calls have been launched in the COVID-19 area for most regions - except Spain where a new policy instrument (PREK) has been developed to replace the old one (Donostia UP!) and to respond to new situations and needs. Similarly, in Hungary, the EDIOP 1.3.7 policy instrument has received new concrete measures to respond effectively to the impact of COVID-19.

For the vast majority of regions and policy instruments there have been no changes in the type of eligible applicants, SMEs supported, types of activities supported except Spain where we are talking about a completely new tool developed specifically on the impact of COVID-19 both applicants and the activities being much better targeted.

In terms of absorption capacity, we can see that it has either remained constant in the Netherlands, Germany or has increased as in Hungary, Portugal and Spain, but has also decreased in Romania. The financial framework has not change and no resources have been reallocated for Romania, the Netherlands, Germany and increased in Portugal, Spain and Hungary

### 4.3 Managing authority about beneficiary challenges.

*Which were the most typical challenges for your beneficiaries?*

The impact of the pandemic on public health affected the behaviour of economic agents, interrupting the normal functioning of companies and leading, in some cases, to temporary closures and to the need to give up or reduce their investments and also facing decision such the need of downsizing the number of people employed or the cancelation of contracts with suppliers.

In Managing Authority's opinion, the main challenges for their beneficiaries are: interruption of SMEs' activity during the application of measures to control the spread of COVID-19 (state of emergency/alert); adapting the company's activities to remote work; digitalization of processes, adapting to the new and much safer type of meetings – this had to be changed to digital/online meetings.

Other typical challenges faced by companies, mentioned by the Managing Authorities, included: identifying additional funding opportunities, initiating business internationalization, reduced demands and orders, supply bottlenecks of materials and goods, dependency of business models/processes on services unavailable due to the pandemic situation, changes in consumption patterns, such as commerce and the HoReCa industry.

#### 4.4 Institutional challenges

Due to COVID-19 pandemic, there were also some institutional challenges, such as adapting MAs/IBs activities, services and logistical conditions to teleworking regime, shift work, process digitalization, communication and conducting information and promotion events through online platforms etc.

A series of online services have been launched to accompany companies, entrepreneurs and unemployed people.

Intense information and assistance work to businesses, workshops and trainings had to be organized virtually. Furthermore, the service could not be presented to interested stakeholders during physical events, hence the promotion had to rely on digital outreach. Despite these challenges, the service was successfully promoted to companies.

#### 4.5 Good practices from other policy instruments, regions to tackle the challenges caused by COVID

The challenges due to COVID-19 were tackled in a wide spectrum of ways in the regions. Relevant examples of good practice identified by Managing Authorities can be found in the regional reports.

#### 4.6 Further remarks

There was a good response capacity with positive effects, constituting, even, a decisive moment for the adoption of digitalization measures.

#### 4.7 Conclusion.

For some regions like Friesland, COVID-19 did not affect the adsorption of export stimulating instruments, both instruments were able to cope with the changes. Survey amongst exporting SMEs in the region demonstrate no significant effect of COVID on the economical performances. Turn-over and profit margins were not or barely effected. Also, Hungary's export volume increased by 3.3% in 2020, despite of COVID-19 pandemic.

The need to adopt a digital format to replace physical meetings with beneficiaries has also been evident in MAs services which were implemented within a digital concept, including web seminars, promotion, and company consultation.

In order to face the challenges arisen from the Covid-19 pandemic and its consequences on the local economy some MAs took specific actions like:

- a new regional funding instrument was introduced by the Ministry of Economic Affairs, Labour and Tourism in Germany, it was promoted to regional companies in addition to EU funding instruments.
- three progressive and specific Economic Reactivation Plans (PREKs), Fomento de San Sebastián has created and implemented throughout 2020 and 2021, that substituted the original Policy Instrument.
- or new specific calls aimed to respond to immediate needs of companies were designed, launch and implemented in Portugal.

## 5 | Regional analyses

### 5.1 Hungary (Central Hungary and Western Transdanubia regions)

# UpGradeSME

## Regional report on COVID-19 IMPACT on SME internationalization

*Hungarian regional report*

*PBN and Ministry of Finance*

*February 2022*

### 1| FOREWORD

The UpGradeSME regional report aims at providing a structured short summary of the regional survey conducted among SMEs and with the involvement of policy instrument representatives to contribute to the UpGradeSME project level joint report focusing on the impact of COVID-19 on SME internationalisation.

In the current report the results of the Hungarian survey are presented.

### 2 | POSITIONING THE FINDINGS – INVOLVED REGION

#### ***Western Transdanubia and Central Hungary***

UpGradeSME project involves two statistical regions of Hungary, namely the West-Transdanubian region and Central Hungary.

Central Hungary is in the heart of the country and includes the capital city Budapest. Economically it is one of the most developed parts of the country giving home national and multinational companies and industrial facilities active in various sectors. This region is very strong in education and cultural and touristic services.

Western Transdanubia in Hungary is bordering Austria, Slovakia, Slovenia and Croatia, with app. 1 million people living in the 3 counties of the region: Vas, Győr-Moson-Sopron and Zala.

It is one of the fastest growing regions of the entire European Union, reaching nearly 80% of the EU average with respect to GDP per capita (from app. 55% a decade ago).

In the county capitals Szombathely and Győr the role of automotive multinationals and manufacturers for electronic components is decisive. In Szombathely and Zalaegerszeg the wood and furniture

industry is significant and is based on locally available natural resources. Further notable sector is metal industry and machinery with local and multinational companies in all 3 county capitals.

Focusing on Szombathely the five largest industrial employers represent 30% of the total employment, 95% of the city industrial tax income. In Szombathely the local companies are mostly in the service sector – retailers, horeca owners, training and human-resources connected service providers and further players of the tertiary sector. The proximity of Austria plays a decisive role in the economy. Large number of employees cross the border daily. The attractive economic ecosystem resulted in an inflow of new inhabitants into the city, from other parts of Hungary. This flourishing business environment was seriously damaged by the corona virus resulted economic downturn.

### 3 | SME survey results

The project partners Pannon Business Network and the Ministry of Finance involved small and medium sized enterprises into the quantitative survey of companies on country level thus the policy instruments (Subprograms of EDIOP<sup>1</sup>) support SME export on national level. Regional level programs did not start with the direct purpose of export support.

#### 3.9 SHORT PROFILE OF THE INVOLVED SMEs (anonymously)

22 SMEs took part in the survey and answered the online questionnaire during January and February 2022.

Statistical region   Hungary	Number of respondent SMEs
<b>Western Transdanubia</b>	14 SMEs
<b>Northern Hungary</b>	3 SMEs
<b>Southern Great Plane</b>	1 SME
<b>Central Transdanubia</b>	2 SMEs
<b>Northern Great Plane</b>	1 SME
<b>Southern Transdanubia</b>	1 SME
<b>In total</b>	22 SMEs

The respondent companies represent the following industries and are engaged in the following activities:

#### *Packaging*

- Manufacturer of packaging materials – paper and or plastic

<sup>1</sup> Economic Development and Innovation Operational Programme of Hungary  
[https://ec.europa.eu/regional\\_policy/EN/atlas/programmes/2014-2020/hungary/2014hu16m0op001](https://ec.europa.eu/regional_policy/EN/atlas/programmes/2014-2020/hungary/2014hu16m0op001)

- Manufacture of plastic packing goods

*Machine and metal manufacturing*

- custom machine manufacturing
- Manufacture and distribution of stainless-steel control and switch cabinets
- Metal processing
- production of die-cast aluminium die-casting tools and punches according to individual plans.
- Manufacture of fine mechanical products
- locksmith products, CNC machining, powder coating
- manufacture of gears, heat treatment, CNC machining
- Tool making

*Wood and furniture*

- Manufacture of doors and windows, wooden houses and furniture
- mattress manufacturing
- custom furniture manufacturing
- custom upholstered furniture production
- Bathroom furniture
- furniture trade

*Other:*

- brandy cooking
- Automotive industry
- Building industry

However, our survey is not representative we can state that Germany is one of the main export destinations of these Hungarian small and medium sized enterprises.

Our respondent companies working in **packaging manufacturing** mainly focus their export activity on Austria and Germany, and in the **machine and metal manufacturing industry** the main export destinations are Germany as well but also other EU countries and the USA, India, China, Singapore.

Companies coming from **wood and furniture sector** concentrate their export mainly on Scandinavia, Germany, Austria, Singapore, Japan, Switzerland, Italy.

Export destinations	Number or SMEs
Austria	9
Germany	12
Japan	1
Singapore	1
Switzerland	3
China	1
India	1
Turkey	1
Egypt	1
EU countries	1
Serbia	1
Poland	1
Italy	1
Romania	1
Scandinavian Countries	1
Slovakia	1
USA	2

Figure 1: The companies named their external markets

### 3.10 COVID-19 effects on SME export activity

Depending on in which sector the company works and in which level the company is present in the online space the answers are two-fold: there are lot of negative outcomes but for other SMEs no real effects caused by the pandemic.

The main challenges were:

- the unpredictable delivery time – complicated logistics
- the lack of raw material
- the lock-down of catering and accommodation facilities
- no new opportunities
- the uncertain presence of workers due to illness
- more precise planning needed
- no international fairs

Positive outcome of the pandemic:

- some companies received more orders as they are positioned geographically closer to the customer as the previous supplier
- online sales increased

The detailed answers of the respondents:

- One company responded that they currently do not have any export activity.
- 3 companies do not comment on this topic or it was not relevant for them.
- One respondent says they **do not notice any changes** – Covid-19 did not affect their export in any way. The demand did not change and could export without any barriers.
- 1 company outlined that they **received more orders** due to Covid as the suppliers from the Far-East could not perform delivery. Another company explained that their foreign sales increased as the company is close to their Austrian customers and was able to respond flexibly.
- Two companies complained about the **unpredictability of the raw material procurement**, which caused cost increase and production slowdown
- One company mentioned the following: **shrinking market opportunities**, narrowing of the customer range and **logistics activity** is becoming more **complicated**
- Due to COVID-19 most of the **negotiations took place online**, with fewer deliveries overall, and **no new opportunities** opened
- **Online sales increased** significantly, and the company was negatively affected by **the closure or restriction of restaurants**
- 'It has significantly affected ability to sell as several of our major customers have shut down. Another problem was the sourcing of raw materials and the hard-to-calculate **presence of workers**'
- There was no significant change in market size, it recovered after a minor ups and downs. Stocks **had to be planned more thoroughly**, so we went with higher stock levels for efficient customer relations.
- The share of previously **strong online sales continued to grow**. Unpredictability has increased in the supplier network. International trade fairs, which used to play an important role in exports, were left behind.



- As the proportion of hotels and restaurants among customers is significant, the uncertainty in the first period was very unfavourable. The timing and cost of sourcing raw materials was unpredictable, further increasing uncertainty.
- Declining order stock, declining revenue, declining profit.

### 3.11 NEW MEASURES DEVELOPED DUE TO COVID-19 Crisis

Among the interviewed companies there were 4 SMEs who did not introduce any new measures to overcome the COVID-19 situation.

The **online work** has been introduced on more levels to keep intensive contact:

- Online internal and external meetings
- The rate of webstore sales increased
- New developments have been introduced in the online sales system
- SME created online catalogues, the paper-based international forms were completely out of use
- Home office introduces for employees and creating a flexible work schedule
- intensifying contacts with foreign customers, increased monitoring of new market opportunities
- In exports, the company has been in constant contact with its largest customers so that he can react immediately to any change

Due to the cancellation of international fairs, business meetings and trips companies took part on online shows and online negotiations, by using new tools, and with the involvement of salesmen.

Other company started a LinkedIn profile with weekly posts and the development of the English website or promoted the web shop more intensively.

Most of the respondents did not experience online work as a negative situation as online communication was part of their everyday life but in many cases, they missed online fairs.

#### Health measures

- More protection
- Use of masks
- Regular testing
- Disinfection points at the workplace
- Only the company's employees were allowed to stay in the buildings. Goods were received only outdoors.

In the **production/ business**:

- raising raw material levels

- Company invested significantly in assets - in excess of HUF 1 billion
- Company works with a significantly increased inventory/ stock
- In exports, negotiations have been held to reschedule possible investments in several cases

**Other:**

- It had a significant impact on dual education as there was no attendance training that affected the workshop
- The company has reviewed its investment and development plans in order to bring forward machine upgrades and maintenance, actively taking advantage of any downtime.
- “We were in a state of emergency due to the closures, so we could not actively increase our international presence.”
- Focus change: “Our main activity was focused on the medical and aerospace industries instead of automotive supply. We offset our declining exports with domestic deliveries.”

### **3.12 EFFECT OF COVID-19 on the product portfolio**

8 of 22 companies replied to the question of they had to delete new products and / or services. The majority did not need to act this way. In case of 1 company, it was a necessary step to significantly reduce product variations where there were Far Eastern ingredients.

Only 7 of 22 companies answered the question if they introduce new products and / or services: one SME launched maintenance service domestically, the other company did not provide detail. The other 5 companies did not change its portfolio.

### **3.13 New measures in the everyday work processes**

10 respondent companies had to restructure everyday work processes:

- All processes had to be redefined
- Home office had to be introduced
- Reducing working hours have been introduced and holiday planning changed
- Reorganization in the shift order to ensure the customer supply
- Company worked with increased inventory to ensure continuous production
- Online sales negotiations instead of personal visitations
- One company won a tender and purchased a new machine

11 companies did not change anything in the work processes.

### **3.14 Structural funds or financial support received in the pandemic**

8 of 22 respondent SME received support during the COVID era:

- 3 companies received non-reimbursable support from the Hungarian Investment Promotion Agency in the ‘Competitiveness Enhancement Support Program’ program

- Other investment support
- 4 companies - support non-reimbursable support form EDIOP (EDIOP - Economic Development and Innovation Operational Programme, **Hungarian policy instrument in UpGradeSME**)
- Support to introduce reduced working hours
- Bank loan

### 3.7. Further remarks

No further remarks.

### 3.8 Conclusion

Generally speaking, the Hungarian SMEs – mainly representing the manufacturing sector - could react relatively good to the negative effects of COVID-19 with switching to online work, restructuring and replanning work phases or change production focus. The most significant challenge was purchasing raw material or parts coming from the Far East, because of unpredictable delivery time. In this case local or European alternative had to be searched. More companies outlined that they had declining revenue, declining profit. Companies delivering to the service sector had to face big difficulties due to the closedowns of service facilities.

In case of export SMEs kept their foreign markets but it was difficult to expand export activity.

#### 4 | POLICY INSTRUMENT survey results

The following two policy instruments presented in the current survey are managed by the Ministry of Finance, managing authority of EDIOP and project partner in UpGradeSME project.

NAME of the policy instrument (PI) <b>EDIOP 1.3.2</b>	
<b>Country and region</b>	Hungary (except Central-Hungary region)
<b>Managing Authority</b>	<b>Ministry of Finance</b> Managing Authority of Economic Development and Innovation Operational Programme (in 21-27 EDIOP Plus)
<b>Duration (Is the PI it still active?)</b>	The call for proposal was available from 17 February 2016 to 15 February 2018, therefore the COVID has reached the projects in their implementation period which should be a maximum of 24 months according to the call.
CONTENT RELATED QUESTIONS	
<b>Original measures of the instrument in pre-COVID era</b>	<p><b>Support for cluster management services related to international market access:</b></p> <ul style="list-style-type: none"> <li>- appearance at foreign exhibition or professional event on behalf of the cluster together with the member enterprises,</li> <li>- organization of international conference in Hungary,</li> <li>- international market research,</li> <li>- obtaining the title of international cluster management,</li> <li>- joint marketing activities necessary for entering the international market</li> <li>- development of a common image</li> </ul> <p>In order to promote and strengthen the international presence of the clusters, the supported international activities must reach a minimum of 40% of the project's total cost.</p>
<b>New measures developed to correspond COVID impact</b>	Supporting online, hybrid events and image film production instead of originally planned in-person events as a result of the pandemic.
<b>Has the type of applicants, supported SMEs changed?</b>	Call 1.3.2 was no longer open to new applicants during the pandemic, therefore there was no change in the type of beneficiaries.
<b>Has the focus and type of applied / supported activities changed?</b>	<p>The purpose of the call, inter alia, is to facilitate access to the international market.</p> <p>To this end, the Managing Authority was flexible to modify the supported project elements under changed circumstances as well, in order to facilitate the implementation of activities with an international focus. Due to the prolonged pandemic the <b>focus has shifted to online, hybrid events.</b></p>
<b>How has absorption capacity changed?</b>	Call 1.3.2 was no longer open to new applicants during the pandemic, so it did not change.

	<p>The unavailability of many international events and the use of online solutions has led to a reduction in the committed amount of subsidy due to the more cost-effective nature of online events. This was not the intention of the Managing Authority, but rather a consequence of the changes that occurred during the pandemic</p>
<p><b>Has the financial frame changed?</b></p>	<p>Call 1.3.2 was no longer open to new applicants during the pandemic, so it did not change. However, due to the above-mentioned consequence the amount reported in the final financial reports were in general lower than the contracted amount.</p>
<p><b>In your opinion which were the most typical challenges for your beneficiaries.</b></p>	<ul style="list-style-type: none"> <li>- Rapid adaptation to new, changed circumstances.</li> <li>- Continuous redesign of opportunities (in case of in-person exhibitions, depending on the entry rules the clusters had to have A/B/C plans constantly, if they wanted to carry out these activities in-person.</li> <li>- Placing personal meetings to online platforms.</li> <li>- Digital and technical challenges in case of online conferences.</li> <li>- Organizing effective event online, maintaining attention.</li> </ul>
<p><b>Can you mention any further positive measures applied by the instrument to support beneficiaries?</b></p>	<p><b>Open and flexible approach for modifying certain activities</b> in order to make the projects feasible and to meet the purpose of the call; to promote and increase the international presence of clusters.</p> <p>Allowing extensions regarding the deadline for implementing the projects, entrusting the realization of in-person events.</p> <p>Fair assessment of the preliminary requirements of the project activities, if could be identified that the call's purpose was fulfilled despite of the cancelled activities.</p>
<p><b>Which were your institutional challenges caused by COVID.</b></p>	<ul style="list-style-type: none"> <li>- Ensuring safe but efficient work.</li> <li>- Rapid and flexible handling of the increased number of requests and contract amendments from the beneficiaries.</li> <li>- The number of contract amendments increased significantly, however, the higher workload did not adversely affect the short duration of the assessment period.</li> </ul>
<p><b>Have you learned good practices from other policy instruments, regions to tackle the challenges caused by COVID?</b> <i>If yes, please name at least one example.</i></p>	
<p><b>Name any further relevant information about how the instrument deals with the challenges caused by COVID 19.</b></p>	<ul style="list-style-type: none"> <li>- Pre-recorded conference-video;</li> <li>- Organizing webinars for members;</li> <li>Online events, online showrooms.</li> </ul>

NAME of the policy instrument (PI) <b>EDIOP 1.3.7</b>	
<b>Country and region</b>	Hungary (except Central-Hungary region)
<b>Managing Authority</b>	Ministry of Finance – Managing Authority of Economic Development and Innovation Operational Programme (in 21-27 EDIOP Plus) – beneficiary of the priority project: Ministry of Foreign Affairs and Trade & HEPA Hungarian Export Promotion Agency
<b>Duration (Is the PI it still active?)</b>	The project has a maximum of 32 months to complete, however it must be completed by 31 December 2022 at the latest.  The project was launched on 4 May 2020.
CONTENT RELATED QUESTIONS	
<b>Original measures of the instrument in pre-COVID era</b>	<ul style="list-style-type: none"> <li>- Providing support to exporters or potential exporters to participate in international exhibitions or fairs.</li> <li>- Providing support for participation and organization of international company presentations and partners meetings.</li> <li>- Sharing of foreign good practices related to the project.</li> </ul>
<b>New measures developed to correspond COVID impact</b>	<ul style="list-style-type: none"> <li>- Providing access to training and teaching materials online.</li> <li>- Providing support for the use online services as well.</li> <li>- Supporting the organizations of online meeting and roadshows as well.</li> <li>- Covering the costs of providing appearance in an online exhibition space.</li> <li>- Covering the costs of online platform rental.</li> <li>- Providing financial support for the organization of special trainings and workshops online.</li> <li>-</li> </ul>
<b>Has the type of applicants, supported SMEs changed?</b>	No change due to COVID.
<b>Has the focus and type of applied / supported activities changed?</b>	No change due to COVID.
<b>How has absorption capacity changed?</b>	The absorption capacity has changed from HUF 1 billion to 1,5 billion.
<b>Has the financial frame changed?</b>	The financial frame of the call has changed from HUF 1 billion to 1.5 billion.
<b>In your opinion which were the most typical challenges for your beneficiaries.</b>	For the beneficiaries, especially for potential exporters without experience in the foreign market was a challenge to present their business activity effectively and to build new relationships online. In this challenge it was a

	<p>great help that the beneficiaries of the priority project offer a wide range of services that helped them to deal with these new online solutions. For the main beneficiaries of the priority project (HEPA and MFA) the redesign of actions, changing the whole scope of the project in a short period of time were the greatest challenges as the project implementation has started at the same time when the pandemic stroke. The uncertainty of the timeframe of the lock down and of the circumstances were the most challenging part. In that time no one knew which the best solution is; rescheduling the time plan or redesigning the supported activities.</p>
<p><b>Can you mention any further positive measures applied by the instrument to support beneficiaries?</b></p>	<p><b><i>These are rather call-specific benefits than COVID benefits:</i></b></p> <p>Further positive measures to support the beneficiaries were as follows:</p> <ul style="list-style-type: none"> <li>- Compared to previous, similar support schemes, in the framework of this project, the foreign market entry was preceded by targeted consultancy, training and preparation in order to for the SMEs to have a customized and clear strategy for starting their export activity.</li> <li>- Introduction of an export maturity measurement system.</li> <li>- Developing online learning materials for SMEs to prepare them for entering foreign market.</li> </ul>
<p><b>Which were your institutional challenges caused by COVID.</b></p>	<p>As soon as the pandemic arrived to Hungary there was an intensive communication between HEPA, MFA and MoF as MA regarding the project scope change. The planned activities were no longer relevant and enough so according to the aim of the call new supported activities were needed to be involved to the project. These major changes required extra efforts from the Managing Authority and from the beneficiary and in line with these modifications the administrative burden increased a lot.</p> <p>The project is implemented by a consortia cooperation between HEPA Hungarian Export Promotion Agency and the Ministry of Foreign Affairs. Both institutions have adopted contingency measures to maintain the functioning and sustainability of their system and to be able to continue their activities unchanged.</p>
<p><b>Have you learned good practices from other policy instruments, regions to tackle the challenges caused by COVID?</b> <i>If yes, please name at least one example.</i></p>	
<p><b>Name any further relevant information about how the instrument deals with the challenges caused by COVID 19.</b></p>	<p>We would like to highlight that despite of COVID-19 pandemic, Hungary's export volume increased by 3.3% in 2020.</p>

## 5.2 Romania (South Muntenia region)

# UpGradeSME

## Regional report on COVID-19 IMPACT on SME internationalization

Romanian' summary

### 1 | FOREWORD

The UpGradeSME regional reports aim at providing a structured short summary of the regional survey conducted among SMEs and with the involvement of policy instrument representatives to contribute to the UpGradeSME project level joint report. In the report the partners are invited to provide the results of the surveys and add the own implications about the impact of COVID-19 on SME internationalisation.

### 2 | POSITIONING THE FINDINGS – INVOLVED REGION

South Muntenia region is the third largest region of Romania as surface and the second most inhabited region in Romania, having a population of over 3 million inhabitants, that represents 15% of the national population. From the point of view of the demographic evolution, the trend is descending, the population decreasing with 13,000 people per year in average. South Muntenia is the region in Romania with the highest number of inhabitants in the rural environment (57% of residents). It includes 7 counties, 16 municipalities, 32 cities, and 519 communes composed of 2019 villages. The South-Muntenia Region covers an area of 34,453 km<sup>2</sup>, of which Argeş, County has 6826 km<sup>2</sup>, being the 10th county in the country. The seven counties that compose the region are Argeş, Călăraşi, Dâmboviţa, Giurgiu, Ialomiţa, Prahova and Teleorman.

South Muntenia region generates 13% of national GDP, which means a GDP per inhabitant of 6,400 euros (placed 6th among regions). Regarding the structure of regional economy, the main economic activities consist of: Agriculture – 8.01% (vs. 5.70% national average); Industry – 35.49% (vs. 28.37% national average); Constructions - 8.13% (vs. 9.12% national average); Other services – 48.37% (vs. 56.81% national average). Therefore, in South Muntenia the main economic traditional sectors are related to: Automotive industry (Dacia Renault), Petrochemical industry, Metallurgy, Electrical and Electro technical industry, Agriculture. There are 55,620 enterprises in this region, of which 88.22% are SMEs. Of this total amount, 353 are innovative companies.

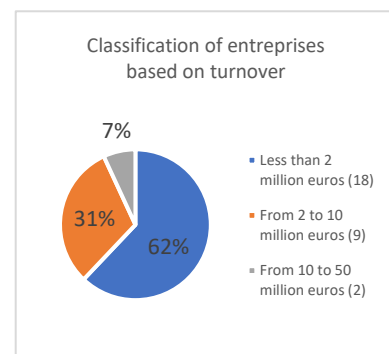
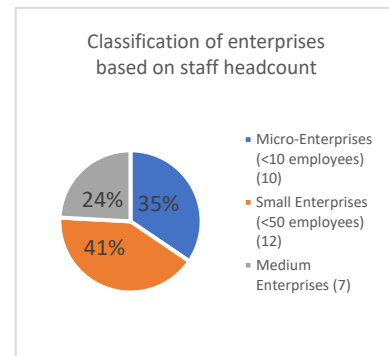


### 3 | SME survey results

#### 4.1 SHORT PROFILE OF THE INVOLVED SMEs (*anonymously*)

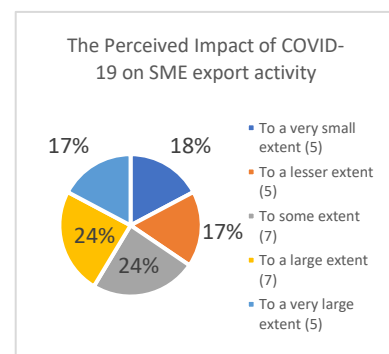
SMEs involved in the survey are both micro-enterprises (less than 10 employees) and small (between 10 and 49 employees) and medium-sized enterprises (from 50 to 249 employees). Of these SMEs involved, more than half (18 of 29) have a turnover of less than 2,000,000 euros, some (9 of 29) a turnover between 2,000,000 and 10,000,000 euros and only two record a turnover between 10,000,000 and 50,000,000 euros. These SMEs have been chosen from different fields of activity: manufacturing; water supply, sewerage, waste management and remediation activities; construction; wholesale and retail trade; repair of motor vehicles and motorcycles; information and communication; professional, scientific and technical activities (consulting services).

In terms of trade relations with foreign countries, the most widely circulated answers refer to Germany, Italy and France, being already regular partners for Romanian SMEs. Also, several respondents mentioned having partners from China, Turkey, Bulgaria, Belgium, Ukraine, Slovenia and Austria. Other answers were as follows: Czech Republic, Croatia, Greece, Hong Kong, Mexico, Moldova, Netherlands, Poland, Slovakia, Serbia, UK and even Taiwan, Vietnam. As can be seen, Romanian SMEs have collaborative relations with both European and non-EU countries. However, there are a number of negative responses regarding relationships with external partners and one particular answer claiming still immaterialized partnerships with Germany, UK and Canada.



#### 4.2 COVID-19 effects on SME export activity

Regarding the perceived impact of COVID-19 on SME export activity among respondents, the results are quite varied. However, most Romanian SME report they were affected by the pandemic in terms of exports to some extent (7 of 29) and to a large extent (7 of 29). Also, a significant number of respondents reveal they were affected by COVID-19 from this point of view to a lesser extent (5 of 29), on the one hand, and to a very large extent (5 of 29), on the other hand. Only a part of the respondents (5 of 29) rates the impact of COVID-19 on exports as minimal. Among the examples reported in this regard, there are: contract suspensions; decreases in sales, as well as in imports/exports; restriction or interruption of economic activity; increase in raw material



prices; different types of delays; employee issues such as layoffs, reorganizations, uncertainties; hindering foreign relations by suspending international trade fairs and exhibitions.

#### 4.3 NEW MEASURES DEVELOPED DUE TO COVID-19 Crisis

Measures developed by enterprises to reduce the impact of the pandemic on their activity focused mainly on moving to the online environment by implementing remote working system in all cases that allowed it. If this approach could not be done, the sanitary protection measures were radically increased (e.g. wearing mask, maintaining social distance, using disinfectant, weekly testing, temperature control). Economically, companies have taken a number of measures as well. For example, one solution was to renegotiate the contractual terms, especially regarding the price, payment deadline and delivery details. Also, some IMM have chosen to increase stocks and to diversify their product and service range. Regarding the prices charged during the pandemic, there are two paradigms: either increasing the prices given the high prices of suppliers, or, on the contrary, dumping concept – meaning the practice of selling a product in a foreign market at an unfairly low price, lower than the cost in the home market, or which is lower than the cost of production.

The cancellation of international fairs and events has created problems for some SMEs, leading to difficult situations especially for those that carry out their activity mainly by promoting it through international events. Therefore, most Romanian SMEs have participated in online international fairs and exhibitions and have kept in touch with their contacts via email, telephone or video conference. Some respondents declared that due to the COVID-19 Crisis, participation in external events has greatly decreased or even completely disappeared. In order to be able to cope the situation, they mostly turned to internal partners.

#### 4.4 EFFECT OF COVID-19 on the product portfolio

Following the answers received, there is a relative stability in terms of product portfolio. Most of the Romanian SMEs stated that they did not remove certain products, nor did they add new products. However, there are some situations where 1 or 2 products have been removed or, in lucky cases, added to the portfolio. Only a very limited number of respondents mentioned larger changes in the product portfolio (3-4 items removed or added).

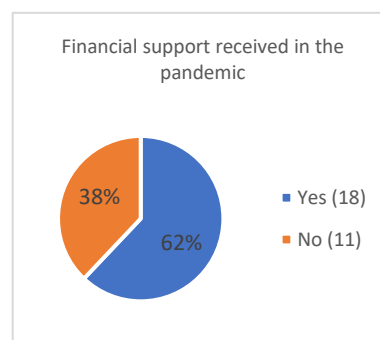
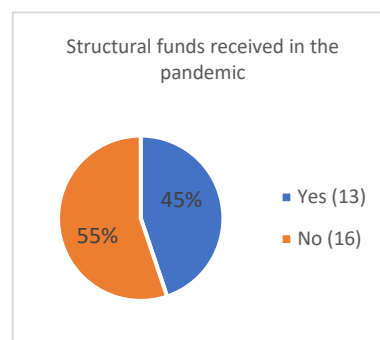
#### 4.5 New measures in the everyday work processes

Most of the SMEs interviewed stated that they had to make various changes in the everyday work processes. Firstly, due to the COVID-19 restrictions the main changes were about teleworking, as well as reducing agglomeration by expanding workspaces. Along with the different types of sanitary measures adopted, important changes were also those related to the modification of the work schedule. On the other hand, price increase, including for electricity, played an important role in the SMEs' decision to adopt new measures in the everyday work processes. As a result, various ingenious adaptation solutions have been found in order to save electricity.

The situation is more balanced regarding the use of new services and/or tools: about half of the responding SMEs denied this fact, while the others admitted it. The main new instruments and services refer to machines/equipment purchased in order to reduce the impact of staff shortage, collaboration and communication platforms and software, as well as disinfectant and hygiene solutions, COVID-19 tests and thermometers.

#### 4.6 Structural funds or financial support received in the pandemic

Following the analysis, it shows that the responding SMEs requested more financial support than structural support (18 positive answers in the first case versus 13 in the second) Regarding the structural funds received during the pandemic, most respondents mentioned: innovation and technological development support, digitalization support, Working Capital grant, support for Start-ups, cooperation programs with other SMEs, sustainability support, microgrants, tax deduction, Financing Rural Investments, Technical support. In terms of financial funds, SMEs have chosen to apply for several types of support, namely: payment arrangement for tax debt; financial instruments - guarantees for loans and venture capital, grants and subsidies, direct loans; job retention schemes (short-term employment schemes, wage subsidy).



#### 4.7 Further remarks

Given the experience gained during the pandemic and the various problems SMEs faced, they have formulated some solutions that they would consider appropriate to reduce the economic impact of COVID-19. These solutions are the following:

- Financing for technology in order to increase competitiveness among SMEs;
- Digitalization of public services;
- Increase tax facilities;
- More innovation and technological development support;
- European funds with extended exigibility accompanied by rigorous verification;
- Finding solutions for job stability;
- Protection offered by Romanian and EU companies in relation to raw materials, basic materials and energy prices;
- Flexibility in providing EU support;
- Promoting the production and use of renewable energy.

#### 4.8 Conclusion. *Please summarise briefly the key findings and their significance.*

Most respondents stated they were affected by COVID-19 in terms of export activity. Thus, they identified problems such as contract suspensions; decreases in sales, as well as in imports/exports; restriction or interruption of economic activity; increase in raw material prices; different types of delays; employee issues such as layoffs, reorganizations, uncertainties; hindering foreign relations by suspending international trade fairs and exhibitions. Measures developed by enterprises to reduce the impact of the pandemic on their activity focused mainly on moving to the online environment by implementing remote working system in all cases that allowed it. Also, the sanitary protection measures were radically increased as well as economic measures (e.g. renegotiate the contractual terms).

Following the answers received, there is a relative stability in terms of product portfolio. Most of the Romanian SMEs stated that they did not remove certain products, nor did they add new products. The main changes in the everyday work processes due to the COVID-19 restrictions were about teleworking, reducing agglomeration by expanding workspaces, increasing the methods of sanitary protection, modification of the work schedule.

Analysis shows that the responding SMEs requested more financial support than structural support. Given the experience gained during the pandemic and the various problems SMEs faced, they have formulated some solutions that they would consider appropriate to reduce the economic impact of COVID-19. The most relevant refers to flexibility in providing EU support, financing for technology in order to increase competitiveness among SMEs, digitalization of public services, increase tax facilities, finding solutions for job stability, promoting the production and use of renewable energy and protection offered by Romanian and EU companies in relation to raw materials, basic materials and energy prices.

## 4 | POLICY INSTRUMENT survey results

### 4.1 SHORT PROFILE OF THE policy instrument

- Name
- Country and region:
- Managing authority: Intermediate Body – ROP 2014-2020
- Duration: 2014-2020
- Original measures:
  - creation/modernization/extension of business accelerators, including the development of related services;
  - specific activities to the internationalization process (participation in international fairs and exhibitions, investments in adapting technological production processes to certification and standardization systems specific to export markets etc.);
  - product and service promotion;

- creating websites for the presentation of the activity and the promoted products or services, including online sales tools;
- trade facilitation and specific innovations;
- required activities to go through and implement the certification process of products, services or various specific processes.

#### 4.2 COVID-19 effects on the policy instrument

- New measures developed to correspond COVID impact

No measures developed to meet the impact of COVID have been developed in the last 2 years.

- Has the type of applicants, supported SMEs changed?

The list of areas of activity has been completed and the derogation from the eligibility criterion regarding the uninterrupted / suspended activity of the applicant for a period corresponding to at least one full fiscal year has been temporarily accepted.

- Has the focus and type of applied / supported activities changed?

No changes have been reported in relation to eligible activities or expenses to prevent the impact of COVID-19.

- How has absorption capacity changed?

Absorption capacity has decreased due to the suspension of the operation of SMEs during the application of measures to prevent the spread of COVID-19 (state of emergency / alert).

- Has the financial frame changed?

The financial framework has not changed and no resources have been reallocated.

#### 4.3 Managing authority about beneficiary challenges. *Which were the most typical challenges for your beneficiaries?*

In managing authority's opinion, the main challenges for their beneficiaries are: interruption of SMEs' activity, during the application of measures to control the spread of COVID-19 (state of emergency/alert); adapting the company's activities to remote work; digitalization of processes.

#### 4.4 Institutional challenges if relevant

Due to COVID-19 pandemic, there were also some institutional challenges, such as adapting Intermediate Body/SMRDA activities to teleworking, shift work, process digitalization, communication and conducting information and promotion events through online platforms etc.

#### 4.5 Good practices from other policy instruments, regions to tackle the challenges caused by COVID

Managing authority did not significantly report the adoption of good practices from other Policy Instruments or other regions to face the challenges posed by COVID-19.

#### 4.6 Further remarks

n/a

#### 4.7 Conclusion. *Please summarise briefly the key findings and their significance*

Managing authority declares the main challenges for their beneficiaries are: interruption of SMEs' activity, during the application of measures to control the spread of COVID-19 (state of emergency/alert); adapting the company's activities to remote work; digitalization of processes. Regarding the institutional challenges due to COVID-19, some examples are: adapting Intermediate Body/SMRDA activities to teleworking, shift work, process digitalization, communication and conducting information and promotion events through online platforms etc.

No measures and changes have been reported in relation to eligible activities or expenses developed to meet the impact of COVID have been developed in the last 2 years. Also, managing authority did not significantly report the adoption of good practices from other Policy Instruments or other regions to face the challenges posed by COVID-19.

### 5.3 Netherlands (province of Fryslân and the municipality of Leeuwarden)

## UpGradeSME Regional report on COVID-19 IMPACT on SME internationalization

Netherlands' summary

### 1 | FOREWORD

The UpGradeSME regional reports aim at providing a structured short summary of the regional survey conducted among SMEs and with the involvement of policy instrument representatives to contribute to the UpGradeSME project level joint report. In the report the partners are invited to provide the results of the surveys and add the own implications about the impact of COVID-19 on SME internationalisation.

### 2 | POSITIONING THE FINDINGS – INVOLVED REGION

Short information about the region and economy (*half to one page per region*)

Leeuwarden is situated in the northwest of The Netherlands, and it's the capital of the Frisian province. While the province of Fryslân is densely populated due to its rural aspects, the capital Leeuwarden inhabits approximately 125,000 citizens. Other bigger cities are Heerenveen and Drachten, with an average of 50,000 inhabitants.

Probably more than elsewhere in the Netherlands, Fryslân has its own culture, which is still very much alive. The common tongues in Fryslân are Dutch and Frisian (100% respectively 75% of the total population). One could state that Frisian is more widely spoken in the rural parts, while Dutch is more common in the bigger cities, such as Leeuwarden.

Fryslân derives its GDP namely out of agriculture, tourism and business-services such as insurances and banking. The region is well-connected to the economic heart of the Netherlands, the Randstad by the Afsluitdijk and railway infrastructure. Plans have been made to logistically enhance the accessibility of Fryslân by building a new railway, which transfers you from Amsterdam to Leeuwarden in approximately 1.5 hours.

Over the past two decades, Fryslân and Leeuwarden have developed in terms of agricultural cultivation, industries and services and people are considered the "happiest" of the Netherlands in terms of wellbeing. With 28% of the total national export of dairy products such as condensed milk (FrieslandCampina, Hochwald), it is the main export product of Fryslân. Although these positive developments, the economies' structure could be seen as unstable and employment opportunities remain insufficient. This is considered as a side-effect of the development of services and industries, which are situated in and around cities. Because of these developments, the countryside is becoming more depopulated, which makes the disappearance of basic necessities in smaller rural areas, such as schools and shops, more likely.

From a governmental perspective, Fryslân wants to become the most circular are of the EU. This said, the province of Fryslân and the municipality of Leeuwarden have developed policy instruments that aim to prosper the sustainable and digital transition the European Union is going through. Leeuwarden has highly professionalised campuses in fields such as of water technology, where world leading experts work on complex cases and is developing a new Media and Information campus. Highly aware that civilians should be part of the governmental process, Leeuwarden and Fryslân have campuses that work in the form of a quadruple-helix, where inhabitants are stimulated to participate in the process, together with businesses, universities and local governments.

### 3 | SME survey results

#### 4.9 SHORT PROFILE OF THE INVOLVED SMEs (*anonymously*)

The small and medium sized enterprises that are involved, have a wide range of fields. The SMEs that are developing an innovative product or process on fields such as circular economy, watertechnology, renewable energy and agri-food may apply to this policy instrument. Other companies benefiting from the instrument can be found in various sectors, but manufacturing products of any kind. The point that makes them correlate is that these SMEs are focused on the green and digital transition which is flowing from the signed UN treaties and European legislation into local governance. What has been highlighted is that these companies are aware of their social impact on society and feel the urge to make the swing into a more inclusive style of doing business.

#### 4.10 COVID-19 effects on SME export activity

The municipality of Leeuwarden and Business Development Friesland have found minimal effects on SME export activities due to COVID-19. The exporting business remained at the same, or higher, level as before the pandemic. What we did find, was that export is lacking due to other circumstances, such as but not limited to the scarcity of electronic printed plates (chips), the impact of the Ever Given (Evergreen) ship that stranded in the Suez Channel and the lack of trustful and qualified personnel. One effect that has had effect due to the COVID-19 pandemic, lies in the capability of acquainting revenue from newly formed businesses. What we have experienced is that before doing export business, a trustful relationship has to be built in advance. Due to the pandemic, one was not capable to travel and meet the business partners physically, which normally has a positive effect on partnerships.

#### 4.11 NEW MEASURES DEVELOPED DUE TO COVID-19 Crisis

The survey results have shown that the involved SMEs have adapted in a quick pace during the pandemic. Adapting to the new COVID-19 situation could not have been made possible without the flexibility of its personnel. The moment that the national government announced the first lockdown, companies and their personnel did everything at their disposal to continue business. Companies arranged remote working facilities for their staff to work from home and sometimes paid an extra fee to cover expenses such as coffee, gas and electricity. Personnel working remotely from home have seen their working day change and companies took the responsibility for this. As an example: Families had to arrange education for their children, next to their obligation to nurture them. This of course, affects the flexibility of doing business.



Whenever working from home was not feasible, precautions were met by companies such as the possibility of social distancing, disinfectants and enhanced cleaning.

#### 4.12 EFFECT OF COVID-19 on the product portfolio

The municipality of Leeuwarden and Business Development Friesland discovered that due to COVID-19, digitalisation in the region has enhanced rapidly. People had to adapt rapidly on this new situation where online meetings and working in mutual documents became the new normal way of working. One could say that the COVID-19 pandemic works as a catalyst for innovative ways in respect to digitalisation. To conclude, one could state that the product portfolio has aimed at their original markets, but also brought new markets within the SME's range.

#### 4.13 New measures in the everyday work processes

Everyday workprocesses have been influenced by digital working. Digital team meetings and more digital trademissions dictate the work structure in many exports related companies. The production has not been transformed, since the people operating machines still have to come to the factory. Other measures, sanitizing the work floor, etc. have been implemented without disturbance. People seem to become more flexible in the work attitude.

#### 4.14 Structural funds or financial support received in the pandemic

No structural funds or financial support from the Municipality, nor from Business Development Friesland were given during the pandemic. All grants that were given due to COVID-19, were organized by the national government of the Netherlands. However, the municipality conceived the impact of the pandemic, and therefore loosened the strings when it comes down to the conditions under the Innovation Fund and postponed certain terms and requirements such as realising new workplaces or the integration of a product in business.

#### 4.15 Further remarks

We have co-operated with people from Ynbusiness (BSO-Friesland), World Trade Center Leeuwarden, Exportclub Noord and International Trades Support (ITS). These organizations have daily contact with SMEs with export activities. They support our findings in the executed surveys.

#### 4.16 Conclusion. *Please summarise briefly the key findings and their significance.*

The municipality of Leeuwarden and Business Development Friesland can conclude that, although the COVID-19 pandemic, business has thrived. Building up new exporting business partnerships during COVID-19 has been challenging. This, mainly because travelling during the pandemic was not safe or possible and the fact that seeing partners physically gains more trust than seeing each other in an online environment.

What did have a significant impact on exports, were the lack of electronics, the logistics of the Ever Given in Suez Channel and good qualified staff.

To sum it all up, COVID-19 played a major role in society, however it did not influence existing exports too much.

#### 4 | POLICY INSTRUMENT survey results

##### 4.1 Short profile of the policy instrument(s)

- Name *Innovation Fund*
- Country and region *The Netherlands, Friesland, Leeuwarden*
- Managing authority *Municipality of Leeuwarden*
- Duration *To this day*
- Original measures *Enhancing innovative projects and business in fields of circularity, watertechnology, sustainable energy, agri-food or general innovations*
  
- Name *International Trade Services*
- Country and region *The Netherlands, Friesland, Leeuwarden*
- Managing authority *Province of Fryslân, the beneficiary is NHL Stenden University of Applied Sciences*
- Duration *Until december 31<sup>st</sup> 2021*
- Original measures *Establishing first line contacts with SMEs in Friesland, organizing export carrousel: students assist SMEs with export survey's, organizing export conferences, assist SMEs without export experience.*

##### 4.8 COVID-19 effects on the policy instrument

- *New measures developed to correspond COVID impact*  
 The municipality of Leeuwarden was aware of the effect COVID-19 has on business within and outside the region. If companies that were involved in the Innovation Fund process could not meet the requirements. For example: Within the 'normal' agreements, an Innovation Fund application and its project should be finished within one year. Now during COVID-19, sometimes processes take a little more time. Such as that a partner that is physically affected by COVID-19 or not having the possibility to meet a project partner in real life, when it is actually necessary to meet in person.  
 ITS organized more online conferences, started export podcasts with stories of experiences people in export to share this with export starters. More digital services and support offered to export candidates.
- *Has the type of applicants, supported SMEs, changed?*  
 The supported SMEs did not change due to COVID-19. Not for Innovation Fund nor for ITS.
- *Has the focus and type of applied / supported activities changed?*  
 The type of activities did not change, however there's more interest in digitalisation processes, sometimes innovated out of the COVID-19 situation.  
 For ITS, the digital events (online conferences/workshops and podcasts) were a direct consequence of COVID. The first online meetings were well visited. Along the time the effect of online meetings became less. Nowadays, it seems very difficult to find a big audience for a digital event.

- *How has absorption capacity changed?*  
It could be true that companies have used the funds to arrange other projects instead of the ones that they've done an application for. Also despite the fact that the accounting looks justified, it might creatively be solved. But that could also be true in the absence of COVID-19.  
For ITS the adsorption capacity did not change.
- *Has the financial frame changed?*  
The financial frame did not change overtime. Not for Innovation Fund nor for ITS.

#### 4.9 Managing authority about beneficiary challenges. *Which were the most typical challenges for your beneficiaries?*

The most typical challenge for the beneficiaries were to meet face to face before an application was done. This had to be changed to digital meetings. This has not had a direct impact on applications.

Institutional challenges if relevant

There were no real institutional challenges, except the fact that some applications needed an extension of one year to finalise their project subsidised by the Innovation Fund. The execution time of ITS has been extended with one year. The foreseen end date of 31-12-2020 has been extended to 31-12-2021. Mainly due to the fact that many off line events were not possible and had to be changed to online.

#### 4.10 Good practices from other policy instruments, regions to tackle the challenges caused by COVID

The challenges due to COVID-19 were tackled in a wide spectrum of ways in this region. Overall, one could state that the municipalities and province of Fryslân first of all took an empathic stance towards their people and businesses. After the Dutch government set up plans such as the NOW, TONK, where companies could receive support in terms of salaries or reduced revenues. The municipalities and governments also had to subject plans in which they described what their strategy was to tackle economic stress in the region. Local governments were given budgets from the national government according to the strategy plan.

#### 4.11 Further remarks

#### 4.12 Conclusion. *Please summarise briefly the key findings and their significance*

Conclusion is that COVID-19 did not affect the adsorption of export stimulating instruments in the region of Friesland. Both Innovatie Fonds and ITS were able to cope with the changes. Survey amongst exporting SMEs in the region demonstrate no significant effect of COVID on the economical performances. Turn-over and profit margins were not or barely effected. There has been an effect on companies in the early phase of exporting or without export experience. They were unable to enter the export market. Due to the lack of offline support and especially because of the travel limitations, which lead to online trade missions. These trade missions are often the first contact for companies. This first online/digital impression is not as strong as the physical one.

## 5.4 Germany (Baden-Württemberg federal state)

# UpGradeSME

## Regional report on COVID-19 IMPACT on SME internationalization

PP5 – Steinbeis Europa Zentrum

### 1 | FOREWORD

The UpGradeSME regional reports aim at providing a structured short summary of the regional survey conducted among SMEs and with the involvement of policy instrument representatives to contribute to the UpGradeSME project level joint report. In the report the partners are invited to provide the results of the surveys and add the own implications about the impact of COVID-19 on SME internationalisation.

### 2 | POSITIONING THE FINDINGS – INVOLVED REGION

#### Baden-Württemberg

Baden-Württemberg is a federal state located in the Southwest of Germany and shares borders with France and Switzerland. The region is the third largest German federal state (both in terms of population and in terms of m<sup>2</sup>) and among the leading economies in Germany as well as in Europe, accounting for 15 % of the national GDP (2020).

The region hosts many global companies including Daimler, IBM or Bosch, but is likewise characterized by a high number of small and medium-sized enterprises (SMEs). Both large and small companies are well connected with research and development institutes. Baden-Württemberg' economy is particularly strong in the manufacturing sector, with a focus on the production of automobiles as well as mechanical and electrical engineering. Further strong industries are the chemical and optical industries as well as the pharmaceutical industries.

The region is strongly export-oriented and takes the lead among the German federal states. As of 2020, the main exported goods are motor vehicles and parts as well as machinery. However, while the export of these goods has been declining over the past years, the export of pharmaceutical products has increased significantly. The same positive trend can be observed – albeit to a lesser degree – for data processing devices, electronic and optical products, electrical equipment, and chemical products.

The federal state's main export destination (2020) was the EU with 46.1 % of all exports, with a focus on France (7.6 %) and the Netherlands (7.0 %), followed by the USA (12.3%), China (9 %) and Switzerland (7.7%). Regarding imports, the main trading partner (2020) was the EU, especially the Netherlands and Italy. Outside the EU, Baden-Württemberg's main import partners were Switzerland and China.

Furthermore, the region is known for its high innovation capacity. Regional policies have condensed the regions' innovation potential within four strategic areas of potential growth, namely 1. sustainable mobility, environmental technologies, renewable energies and resource efficiency, 2. Health care, 3. information and communication technology (ICT), and 4. Green IT and intelligent products.

The Covid-19 pandemic also took a toll on Baden-Württemberg's economy: Exports in 2020 decreased by 7.3 %, and GDP decreased by 5.5 % compared to the previous year which marked the highest economic downturn since the financial crisis in 2008/9. Despite these difficulties, the region can still account for an average economic growth of 1.2 % over the last decade.

### 3 | SME survey results

#### 4.17 SHORT PROFILE OF THE INVOLVED SMEs (*anonymously*)

Company Nr.	Products / Business field	Employees / Turnover	External Markets
1	Biotechnology	N/A	EU
2	AI Software for disease detection / Biotechnology	N/A	Germany, Austria, Switzerland
3	Agricultural Science / Plant Breeding Device	9 / 1.3 Mill EUR	N/A
4	Production, Development and Sales of construction and cleaning machines / Mechanical Engineering	55 / 10 Mill EUR	Europa, Russland, Australien, Canada, Lateinamerika
5	Hearing Device / electro-medical appliances	35 / None (start-up)	UK, China
6	Construction parts, pharma and chemical products, steel tubes / mech. engineering	245 / 45 Mill.	mainly EU, China, Canada, Russia
7	Software / ICT	7 / > 500.000	Hungary, Japan, France, Poland, USA, mainly DE
8	HR Recruiting Platform / Software	5 / none (start-up)	DE
9	Interior Design / Construction	3 / 800.000-1 Mill. EUR	France, Portugal, Austria

The SMEs involved in the survey come from various economic sectors, three of them are active in the Health / Medtech sector, two companies work in mechanical engineering. Other sectors covered are Software / ICT with various specializations, Construction, and Agricultural Sciences.

The size of the companies likewise varies from established SMEs with a number of employees >50 and a turnover of 10-45 Mill. EUR and start-ups as well as smaller SMEs with an employee number <10 and a turnover of around ≤1 Mill. EUR.

Regarding external markets, most companies operate in EU markets, some of them only within Germany. However, Russia, Canada, and China are markets outside the EU which have been named by companies at least twice.

#### 4.18 COVID-19 effects on SME export activity

While the companies involved in the survey work in various different economic sectors, one commonly mentioned consequence of the pandemic were delays or even cancellations of business activities linked to face-to-face contact and travelling.

Among these activities were – depending on the product or service – the execution of clinical studies as patients could not travel, meetings with investors which were postponed and hence caused lack of investment, or trainings by suppliers on upcoming product trends. Above all, the cancellation of networking formats such as business fairs made it difficult for companies to establish contact with potential customers but also with new investors or partners within the start-up ecosystem.

These delays slowed down project implementation, product development and hence overall business development, especially for young companies which still had to establish their reputation.

Delays were also commonly pointed out regarding supply chains. On the one hand, SMEs suffered from supply chain bottlenecks e.g. in raw materials or machinery parts, on the other hand, own deliveries were delayed or did not arrive at all. In addition, the sudden increase in mail-order business as well as the overall increased demand after the lockdowns often resulted in companies being overstrained.

However, for a few companies, the pandemic had none to mild effects on their business activities or even opened up new business opportunities.

#### **4.19 NEW MEASURES DEVELOPED DUE TO COVID-19 Crisis**

Around half of the SMEs have introduced new measures, the other half either did not take any measures or, more often, deepened existing activities as a response to the pandemic situation. New measures regarding supply and demand included an increase in storage capacity and adjusted time plans considering longer time gaps in order to accommodate fluctuations in supply. In one case, export personnel were hired which resulted in a reactivation and increase of customer demand.

Other measures taken included a shift of focus towards more R&D projects and the flexibilization of price evaluation.

Many companies also pointed out that existing measures were deepened such as Social Media Communication, and cooperation with already established clients or business partners.

#### **4.20 EFFECT OF COVID-19 on the product portfolio**

Most companies have not deleted products or services, however, around half of the companies have introduced new products/services or adapted their products/services to fit client needs linked to Corona (e.g. provision of a formerly physical service in digital form).

#### **4.21 New measures in the everyday work processes**

New measures in everyday work processes were either related to work flexibility, internal communication and cooperation, or events / meetings. Regarding work flexibility, the introduction of Home Office was a common, as was the higher flexibility in working hours.

The change in work environment consequently led to new, digital forms of communication and cooperation with colleagues. While digital tools had existed in most companies even before Covid, they were now used intensively, e.g. MS Teams. Depending on the work tasks, some companies introduced new, task-specific tools for cooperation which proved very effective and have therefore remained until now. Another phenomenon was that work processes became highly structured as deadlines and agreements were more precise and formal.

Unsurprisingly, meetings, both with clients and with business partners (e.g. suppliers) were held via video or replaced by telephone calls. One company described a positive change towards more flexibility as clients' willingness towards virtual meeting formats increased and partially allowed for closer client relationships.

Most companies also participated in virtual events, e.g. business fairs, yet it was commonly stated that these were not nearly as successful as physical formats had been, both in terms of acquiring new clients and in terms of networking with (potential) business partners. Some companies' strategy was to focus on increased participation in physical events in the near future as online events did not promise to have a comparable impact on business development.

#### **4.22 Structural funds or financial support received in the pandemic**

Many companies did not apply for funding, mostly because they did not fit the conditions under which it was granted, yet a lot of SMEs mentioned that they had applied for short-time work. Some interviewees mentioned national funding or start-up funding unrelated to Covid-19.

#### **4.23 Further remarks**

The involved SMEs often emphasized the long-lasting effects of the pandemic on internal cooperation/communication and the use of digital tools. The increased use or introduction of new digital tools of cooperation and communication triggered and sped up overall digitalization processes (e.g. digital archiving). In addition, Home Office was established as permanent alternative. In turn, office work and atmosphere were more appreciated, while the more structured approach in teamwork remained.

The main negative consequence of Covid-19 mentioned was that internal communication and teamwork suffered from a lack of (informal) exchange. Employees often felt isolated and suffered from mental health problems which also caused personnel bottlenecks.

Regarding slumps in sale, start-ups were mostly less affected as their financing often stemmed from research projects and funding, both of which was continued. Nevertheless, delayed investment and the difficulties in building up contacts and networks were particularly challenging for start-ups.

#### **4.24 Conclusion. Please summarise briefly the key findings and their significance.**

From the company feedbacks gathered, it can be concluded that the degree to which companies' export activities and more generally business activities were affected by Covid-19 was highly dependent upon 1/ *the company's development stage* and 2/ *the economic sector* the company is active in. Younger companies often depend on start-up grants or research projects in terms of their financial resources both of which continued during the pandemic. In contrast, established companies faced supply bottleneck, difficulties in the delivery of their own products and eventually an overstrain after the sudden increase in demand following relaxed Covid restrictions.

Secondly, companies whose product is a software were naturally less affected or not affected at all by export difficulties. The more company products and/or services were dependent on raw materials, the more severe the consequences they faced in supply and demand. This was mainly the case for economic sectors such as machinery, engineering and electronics.

For all companies, the lack of face-to-face contact e.g. during business fairs or meetings with clients posed challenges in terms of winning over new clients, establishing a business network or developing a product. However, since younger companies are under higher pressure to prove themselves on the market and networking is essential, the consequences for their respective business were more existential.

Companies mostly reacted to Covid-19 challenges with the adaptation of products/services to a digital format, increased storage capacities and adjusted time plans as a reaction to the time uncertainty of supplies, or a focus on more R&D projects. To balance out the lack of face-to-face contact with investors, clients, and networking partners, companies often mentioned that already established contacts and Social Media Communication were deepened. Only very few companies actually deleted products or services.

When it comes to internal processes, communication, both internal and external (with clients and business partners), as well as cooperation between colleagues took on a digital form either with tools that already existed or with tools which have been introduced as a result of the need to cooperate long-distance. In some companies, this form of communication triggered the actual use of these tools and an overall process of digitalization. The “side-effects” of long-distance work were a feeling of isolation and lack of needed, more spontaneous exchange among employees, but also more structured work processes and precise agreements as well as a more flexible client exchange due to online meetings which would have previously required more time-consuming physical meetings.

Surprisingly, only few of the involved companies received financial support related to Covid-19 apart from applying for short-time work.

#### 4 | POLICY INSTRUMENT survey results

##### 4.1 SHORT PROFILE OF THE policy instrument

- Name: Internationalization of SMEs – contact point for Research and Innovation Programmes (Commissioner for Europe of the Minister for Economic Affairs, Labor and Tourism of the State of Baden-Württemberg)
- Country and region: Germany, Stuttgart / Baden-Württemberg
- Managing authority: Ministry of Economic Affairs, Labour and Tourism of the State of Baden-Württemberg
- Duration: still active
- Original measures:
  - regular exchange with relevant European stakeholders (e.g. Vanguard initiative, Districts of Creativity Network, Economic Partnership Initiative UK-BW)
  - regular meetings and exchange with relevant regional stakeholders such as:
    - monthly Jour Fixe with WM
    - meetings with other BW ministries
    - meetings with regional agencies and chambers (IHK etc.)
  - support SMEs in identifying cooperation partners / matchmaking (delegation trips, trade fair participation, EEN Network activities)
  - Activities to promote EIC accelerator / advisory services regarding EU funding opportunities – innocheck-bw launched by SEZ, funded by WM



- SME services within innocheck-bw comprise:
  - cost-free tailored consultation regarding suitable EU funding resources through questionnaire and follow-up
  - webseminars on EU funding instruments
  - Informational videos: EU funding instruments under EIC (Kurzvideos); 2 videos

#### **4.13 COVID-19 effects on the policy instrument**

- New measures developed to correspond COVID impact  
The innocheck-bw services, launched in December 2019, were implemented within a fully digital concept following the need to replace physical meetings with non-physical formats due to the pandemic situation. As part of the consulting services, a new regional funding instrument introduced by the Ministry of Economic Affairs, Labour and Tourism of the State of Baden-Württemberg, was promoted to companies.
- Has the type of applicants, supported SMEs changed?  
No.
- Has the focus and type of applied / supported activities changed?  
In the frame of innocheck-bw activities, the regional funding program InvestBW, launched in January 2021, was promoted to regional companies alongside EU funding instruments such as the Commission's EIC Accelerator.
- How has absorption capacity changed?  
Regarding the exchange with EU stakeholders, meetings took place mostly virtually, which allowed to reduce travel time and costs and enable meetings with stakeholders which might not have been possible physically due to time and geographical constraints.
- Has the financial frame changed?  
No.

#### **4.14 Managing authority about beneficiary challenges. Which were the most typical challenges for your beneficiaries?**

Typical challenges faced by companies included:

- identifying additional funding opportunities
- initiating business internationalization
- reduced demands and orders
- Insufficient financial resources to pay employees' wages
- Insufficient financial resources to maintain company
- Supply bottlenecks of materials and goods
- dependency of business models/processes on services unavailable due to the pandemic situation

#### **4.15 Institutional challenges if relevant**

Regarding the exchange with regional and EU stakeholders, many project meetings could not take place in person and if, only virtually. In addition, the lockdown situation throughout Europe resulted in less informal exchange and information flows between EU stakeholders, which in turn affected the external information flow towards regional actors and stakeholders and made upcoming events or challenges more difficult to anticipate and resulted in less time to prepare for.

As for innocheck-bw, workshops and trainings had to be organized virtually. Furthermore, the service could not be presented to interested stakeholders during physical events, hence the promotion had to rely on digital outreach. Despite these challenges, the service was successfully promoted to companies.

#### **4.16 Good practices from other policy instruments, regions to tackle the challenges caused by COVID**

In the frame of the Vanguard initiative, interregional policy learning was triggered during exchanges between stakeholders from various European regions on different policy approaches to support SMEs in the light of the Covid pandemic.

During a meetup of the Districts of Creativity Network, member regions, among them Baden-Württemberg, shared inspirations on creative business models and initiatives answering to the COVID-19 challenges. Good Practices from Denmark, Russia, Belgium, and the UK were further spread during regional events in Baden-Württemberg.

#### **4.17 Further remarks**

The Economic Partnership Initiative UK-BW between the Ministry of Economic Affairs, Labour and Tourism Baden-Württemberg and the British Department for International Trade is not only a platform for fruitful exchange but also created a network which was, among others, used to create consortia for EU funding calls addressing resilient and sustainable creative industries in a Covid-19 context.

#### **4.18 Conclusion. *Please summarise briefly the key findings and their significance***

The need to adopt a digital format to replace physical meetings with beneficiaries has also been evident in innocheck-bw services which were implemented within a digital concept, including webseminars, promotion, and company consultation. As a new regional funding instrument was introduced by the Ministry of Economic Affairs, Labour and Tourism, it was promoted to regional companies in addition to EU funding instruments. While neither applicants nor financial frame of the policy instrument changed, there was a higher capacity to exchange with EU stakeholders as virtual formats allowed to save travel time and costs and enable meetings of significant geographical distance.

Regarding institutional challenges, physical meetings could not take place and/ or were implemented virtually. With the lockdowns throughout Europe, there was less informal information exchanged between EU stakeholders, resulting in an external information flow on the part of regional stakeholders. This meant that events and challenges were more difficult to anticipate and prepare for.

Companies were found to struggle with supply and demand fluctuations and uncertainties, the dependency of their business model/processes on services or goods unavailable, the need for financial resources to maintain the company and employees including new funding opportunities, and how to initiate business internationalization.

However, interregional policy learning, notably on the impact of the pandemic on regional companies, continued in the frame of different partnership initiatives such as the Vanguard initiative, the Districts of Creativity Network, and the the Economic Partnership Initiative UK-BW between the Ministry of Economic Affairs, Labour and Tourism Baden-Württemberg and the British Department for International Trade.

## 5.5 Portugal (Vale do Ave region)

### UpGradeSME

# Regional report on COVID-19 IMPACT on SME internationalization

Partners' summary

## 1| FOREWORD

The UpGradeSME regional reports aim at providing a structured short summary of the regional survey conducted among SMEs and with the involvement of policy instrument representatives to contribute to the UpGradeSME project level joint report. In the report the partners are invited to provide the results of the surveys and add the own implications about the impact of COVID-19 on SME internationalisation.

## 2 | POSITIONING THE FINDINGS – INVOLVED REGION

*Short information about the region and economy (half to one page per region)*

The Ave Intermunicipal Community (CIM Ave) is a public law association of municipalities with multiple purposes created in 2009, to promote the management of intermunicipal projects in NUT III AVE.

In total, CIM Ave comprises eight municipalities (236 parishes), with an area of 1453 km<sup>2</sup> and a population of over 418 thousand inhabitants. Since 2011, the inhabitants in the region have decreased by 4% average in each municipality.

The constituent municipalities of CIM Ave are Cabeceiras de Basto, Fafe, Guimarães, Mondim de Basto, Póvoa de Lanhoso, Vieira do Minho, Vila Nova de Famalicão and Vizela.

The degree of education in the region has been improving. According to the results of the 2021 preliminary Census, the population without any level of education has decreased by 45% since 2011, now totalling about 55 thousand individuals. In contrast, individuals with higher education, post-higher education and university degree appreciated by 39% over the period, to almost 133 thousand - around 32% of the population.

Regarding the distribution of companies by economic activity sectors, there is a high concentration of companies in the secondary and tertiary sector. The number of companies that make up the business landscape of CIM AVE represents 9.76% of the country's Northern businesses, 95% of which are micro-enterprises.

Furthermore, Vale do Ave is a region with a long industrial tradition, having hosted, over the years, some of the largest companies in the country. Recent years have been marked by the attraction of private investment, economic growth and diversification of the county's business fabric, with emphasis on:

- Maintenance of the relevance of the Textile cluster, with a significant requalification based on the affirmation of new competitive factors (technological modernisation, investment in design and fashion and in more focused and more flexible business models);
- A growing prominence of various activities in the metal-mechanics and equipment sector, in which various business investments of high technological intensity are currently taking place;
- Economic valorisation of important cultural and creative assets, articulated with the development of Tourism;
- Export dynamics and a decrease in the unemployment rate

### 3 | SME survey results

#### *3.1 SHORT PROFILE OF THE INVOLVED SMEs (anonymously)*

The sample is made up of companies in many business sectors, including Industry, Tourism and Retail. Thus, the segments with the greatest prominence are Metalworking and Textiles (50% of respondents), followed by the Hotel Industry. Other segments considered are Furniture, Construction, Footwear, Beverages, Plastics and Glass.

Vila Nova de Famalicão is the municipality with the largest representation among the surveyed, followed by Guimarães and Fafe. No exporting SMEs in the municipalities of Vizela and Cabeceiras de Basto have replied to our invitation to collaborate with this survey.

The average sales volume of the companies considered climbed to 13 million Euros, and on average they have 22 full-time employees.

The main export markets are France, Spain, United Kingdom, Germany and the Netherlands, in a total of 17 identified foreign destinations.

#### *3.2 COVID-19 effects on SME export activity*

As expected, 81% of the surveyed companies affirm they have had an impact on the exporting activity due to the pandemic, with the compelling impacts being in:

- Supply Chain
  - o Raw materials price increase and scarcity
  - o Expand deadlines on sourcing and delivery
  - o Increased bureaucracy and transport costs
  - o Temporary activity suspension from suppliers and customers
- Internal Operations
  - o Reduced Staff
  - o Planning and forecasting obstacles
  - o Orders cancelation and/ or restructuring
  - o Higher stock levels with logistic demands

- Go To Market
  - o Absence of travelling and client facing meetings
  - o Increased challenges on client's expectations management

### *3.3 NEW MEASURES DEVELOPED DUE TO COVID-19 Crisis*

Apart from applying new basic preventive measures to avoid Covid-19 spread, around 81% of the surveyed have developed new measures inside the company to respond to COVID impacts. As such:

- New policies and Business Model restructuring (Industry and Retail)
  - o Acquisition of raw materials in larger quantities
  - o Adoption of teleworking measures
  - o Preventing external staff from entering the premises
  - o Extension of delivery deadlines
  - o Use of online platforms for meetings either with colleagues, clients and suppliers
  - o Short deadlines on proposals
  - o Reinforcement in credit insurance and early payments
  - o Restructuration of delivery maps
  - o Reduction on waste and increased efficiency
  - o Increase on subcontracting for the production process
- New policies and Business Model restructuring (Tourism)
  - o Implementation of Tourism's Clean&Safe guidelines
  - o Change the way services are provided (cleaning and restaurant mainly)
  - o Creation of new tourist entertainment packages as so customers stay longer

### *3.4 EFFECT OF COVID-19 on the product portfolio*

Only 19% of the respondents have deleted products and/ or services from their portfolios, expounded by the lack of raw materials and stocks. Regarding the Tourism surveyed firms, services as SPA and/ or Buffet were also temporarily eliminated.

In the other hand, 57% of the companies admitted they have introduced new products and/ or services due to Covid-19. Even though some of the additions refer to diversification, some of the surveyed companies have also added new products not exactly related to their previous portfolio.

Hence, 24% of Industrial sector respondents have managed to quickly answer to the Covid-19 buoyant market. As such, some companies in the Metalworks have developed automatic machines for masks production, and 33% of Textile surveyed firms have produced certified masks on that regard.

### *3.5 New measures in the everyday work processes*

Around half of the peer group (48%) have carried out changes in the way of everyday work processes:

- The use of online video conference platforms was widely used by companies to meet with third parties and internally
- Operationally, companies have introduced shifts to avoid personal to contact with each other
- Sourcing challenges, forced companies to try and produce with less complex raw materials
- Regarding Administrative processes, companies refer that cash collection was made only through online ways, and ATM/ bank transfers were extremely appreciated
- Companies on tourism sector have implemented severe improvements on cleaning tasks, clothes handling and restaurant operations - for instance, online menus through digital platforms were implemented

### *3.6 Structural funds or financial support received in the pandemic*

Half of the respondents (48%) have applied for structural or financial support during the COVID pandemic. The used frameworks were the following:

- Covid-19 Economy Support Line (Industry and Tourism Exporting Companies) – 10%
- Covid 19 Financing Lines – 20%
- Simplified Layoff – 10%
- Cash Flow, Working Capital reinforcement (Commercial Banks) – 14%
- Taxes Split Payment – 5%

Some companies have applied for more than one support line.

### *3.7 Further remarks*

Companies have made clear that reinvention is increasingly critical to drive their businesses forward. As so, internal human resources have played a remarkable role on surpassing constraints brought by the pandemic – identifying new sourcing, new clients and covering isolation periods.

In terms of easiness to make business, some companies refer that the cancelation of orders have played a major impact not only on treasury, but also on storage. Regarding government support, companies refer that the applying process and incentives payment are still not agile, severely impacting their short run financial pipeline and delaying new investments.

Nowadays, energy crisis, lack of raw materials and a new omicron variant are the main challenges companies are facing.

3.8 Conclusion. *Please summarise briefly the key findings and their significance.*

The vast majority of companies surveyed experienced impacts on their business on the back of the covid-19 pandemic.

Essentially, the most noted impacts were related to disruptions in the value chain (price, capacity, availability and timing of supply), changes in internal processes (reduction of staff, difficulty in forecasting deliveries and orders and storage management) and new challenges in exploiting new markets.

As such, the surveyed have implemented a set of rules and measures to mitigate the previously mentioned impacts: restructuring of internal processes in several areas, use of digital platforms to explore new markets, adaptation of the product mix to the context and certification of their activity in terms of safety and cleanliness (tourism).

As a result, a proportion of the companies were able to create new products/services in response to the pandemic context, which demonstrates the resilience and entrepreneurial nature of the region.

Around half of the companies used financial lines of funding, whether public or private, which on the one hand reveals the importance of this type of provision, and on the other reveals that the impact on the business of around half of the respondents was not so severe as to justify resorting to those lines.

## 5.6 Spain (Donostia - San Sebastián region)

# UpGradeSME

## Regional report on COVID-19 IMPACT on SME internationalization

Partners' summary : Fomento de San Sebastián

### 1 | FOREWORD

The UpGradeSME regional reports aim at providing a structured short summary of the regional survey conducted among SMEs and with the involvement of policy instrument representatives to contribute to the UpGradeSME project level joint report. In the present report the Spanish partner Fomento de San Sebastián provides the results of the surveys and add the own implications about the impact of COVID-19 on SME internationalisation.

### 2 | POSITIONING THE FINDINGS – INVOLVED REGION

Donostia-San Sebastián (DSS), is located in the North of Spain in the Basque Country, less than 25 km from France. DSS is an average European city, with over 188.000 inhabitants, in a metropolitan area of some 330.000 inhabitants.

DSS is a city of services, with intense tourist and commercial activity, capital of a well-developed tertiary and industrial territory. DSS economy is mainly focused on advanced services, gastronomy, tourism and the retail industry, as well as knowledge-based industries, like science, technology and innovation. Over the past few years, the city has leaned on innovation and knowledge, arts and culture. As an example, the city has been European Capital of Culture 2016. It is a human scale city, that has sustainable public transport and a network of 65 km of cycling paths.

Besides, DSS is a world-famous food destination, being located in one of the areas with the most Michelin stars per square meter in the world and it was the home of the rebirth of Basque cuisine.

The dense business and associative environment has a great potential to generate and a solid structure of innovation, science and technology, connecting the city and the ecosystem. The promotion of participative innovation accelerated the spread and socialization of innovation by setting up a dynamic innovation ecosystem. The city is home to strong innovator companies, 5,000 researchers and 29 research centres associated to the Basque Science and Technology Network, and cutting-edge technology, talent attraction infrastructures, 4 universities, an innovation week, etc.

According to the sectoral distribution of Gross Value Added, the economic activity is based on the services sector (88,7%), followed by the building industry (6,2%), while the industrial activity



contributes around 3,3% only of GVA in 2015. The primary sector is merely testimonial (0.1%) (Source: EUROSTAT, 2021)

In that sense, the economy of DSS is based on a highly diversified business environment, mainly made up of small and medium-sized companies and intense economic activity, with some 18.500 active establishments in 2020 (Source: Barómetro Observatorio Urbano).

The volume of micro-SMEs (companies with one to nine workers) stands out, representing over 86,7% of the total. Almost half of such micro-SMEs (44,6%) are value added advanced services, that are the main employers in the city, as they generate 56,6% of the jobs in Donostia-San Sebastián.

### 3 | SME survey results

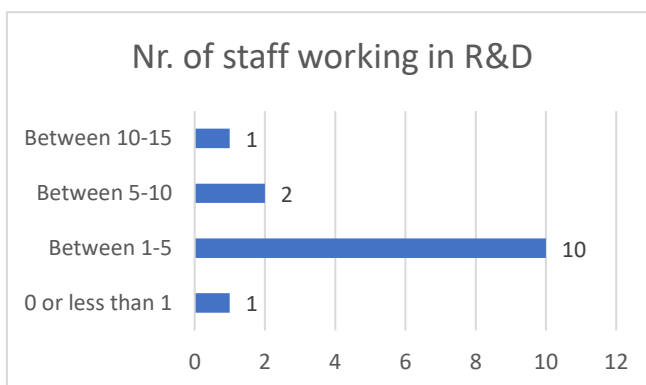
#### 4.25 SHORT PROFILE OF THE INVOLVED SMEs (*anonymously*)

The SMEs involved in the survey represents 70% of the beneficiaries of the revised Policy Instrument (see point 4 below), namely, 14 SMEs out of 20 beneficiaries.

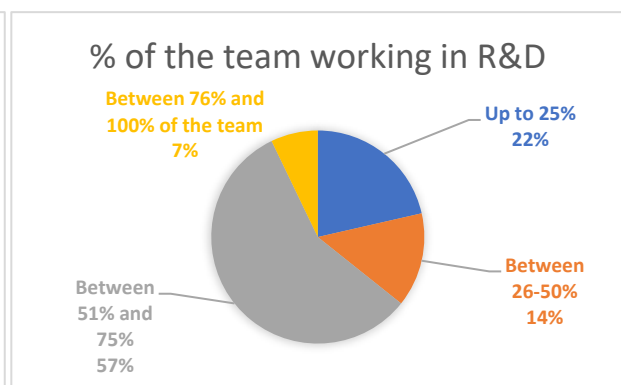
As far as their profile is concerned, apart from 2 companies with over 20 employees and created between 2012 and 2014, most of them are very new micro-companies (85% of the involved SMEs are start-ups created between 2015 and 2020, and would have a team formed by 4,3 people in average).

All participating companies are members of the local innovation ecosystem. 42% (6 out of 14) belong to the digital/ICT sector (software development, virtual reality, etc.), the rest would belong to different kind of high technologies sectors and engineering (electronic, telecom, energy, biotech, biosciences, data analysis, etc. among others).

In that sense, and despite their small size, all companies do count among their team with staff dedicated to R&D activities (an average of 4,04 staff if we take into account data from the 2 largest SMEs, 2,45 staff if we take data only from the smaller companies. In both cases, an average of around 55% of the teams is dedicated to R&D).



Graph 2: Size of companies (Staff)

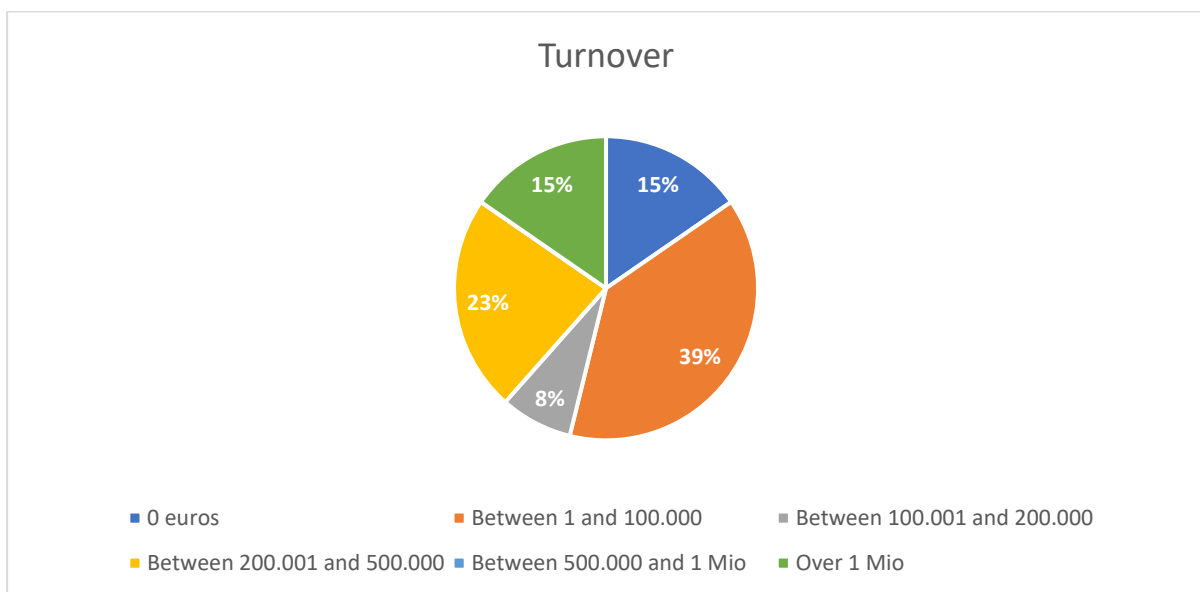


Graph 2: % of the team working in R&D

Not all participants have provided further detail on the profile of their staff in terms of background or gender, but those giving data clearly show that an equal presence of men and women among their R&D teams (most of them with higher education studies, some with PhDs).

The SMEs participating in the survey have thus a strong innovative profile, that has been recognized by a wide range of different awards (57% of them have been rewarded or selected for their excellence in different fields, such as sustainability, entrepreneurship or innovation in general).

As far as their incomes are concerned, apart from the 2 largest SMEs that do have a turnover of over 1 million euros, all start-ups have revenues below 500.000 euros (their average turnover would be of some 136.000 euros, 371.000 if we keep the 2 largest SMEs).



Graph 3: Size of participating companies (Turnover)

Finally, it has to be highlighted that most of the participating companies (71%, 10 out of 14) have participated in some business accelerator programmes.

#### 4.26 COVID-19 effects on SME export activity

*How has COVID-19 affected your export activity in the last year and a half? Please mention at least 3 examples.*

Around 71% of the SMEs answering the survey (10 out of 14) are implemented some kind of internationalisation process of strategy. In general, apart from some isolated international business relations in Asia or the Middle East, most of the internationalisation processes (exports, B2B, joint-ventures, etc.) turn around 3 main markets: the European Union (in particular Germany), USA and LATAM.

Among such companies, a large majority (+- 70%) declare that their export activity has been affected by/during the pandemic period.

As far as the main negative impacts are concerned, through no general trend is observed, we could highlight:

- a) Impacts on activities: Cancellation or postponement/delays of projects due to uncertainty, therefore impacting international collaboration and contracts. The industry stopping or slowing down decision processes.
- b) Impacts on international relations: Needs to adapt the companies' commercial actions to a scenario with very little physical contact, with additional difficulties to introduce new products and technologies.
- c) Staff absences

Among the participating companies, only the biggest one, from the Software development sector, affirmed that the impact was positive, in the sense that they managed to experiment an exponential growth in its services.

*How has your company coped with the cancellation of international fairs, business meetings and international trips?*

Most of the companies couldn't participate to any fair, trade missions or face-to-face transnational business meetings throughout the last one and half year, or had to cancel their participation to such kind of events.

In general, all companies would highlight that they have had to redesign their marketing and support to their client, and in particular to intensify their online commercial actions and participation in digital meetings and events, due to the impossibility of travelling and the teleworking situation.

One small start-up mentioned however that they have been able to join 3 fairs as exhibitor, within the country (in Madrid and Barcelona), but have also had to cancel their participation in other 2 fairs, which has been costly and not very productive. In fact, towards 2022, they initially do not plan to attend any, and will in any case carefully assess whether the effort will be worth it.

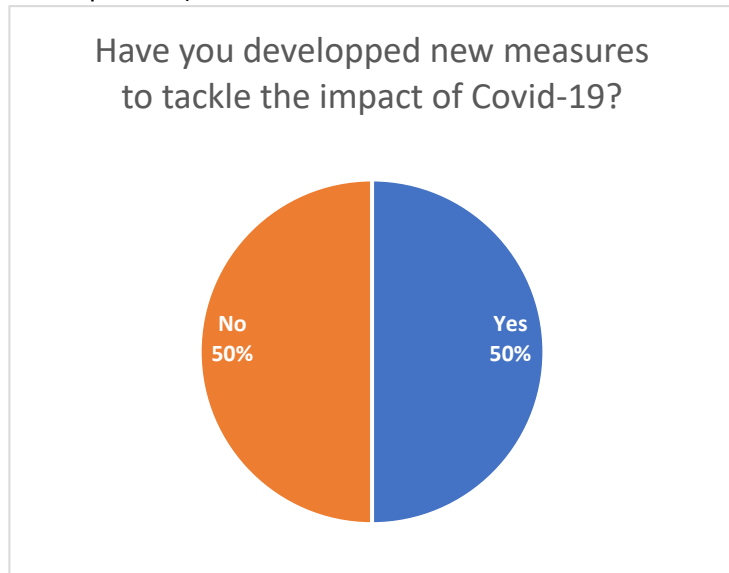
#### 4.27 NEW MEASURES DEVELOPED DUE TO COVID-19 CRISIS

The Covid-19 crisis has caught companies suddenly and somewhat off guard, and the unknowns about its duration did not facilitate the development of many new measures (and even less of new products or services, as it can be observed in the next question).

Although half of the respondents say they have developed new measures during the pandemic, in reality, these were mainly resilience and adaptation measures linked to the inability to travel and/or meet physically.

In this sense, the measures taken have mainly revolved around remote working and the intensification of online actions.

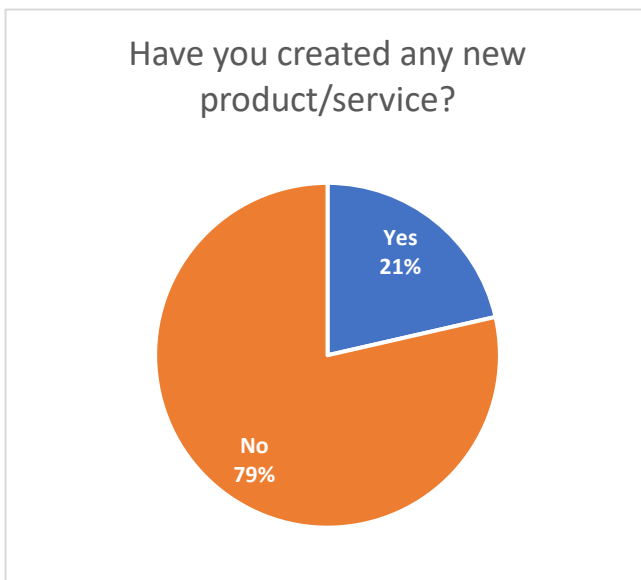
Some companies have also taken the opportunities – or need – to carry out a more intensive search for Public and Private Institutions to finance their activities.



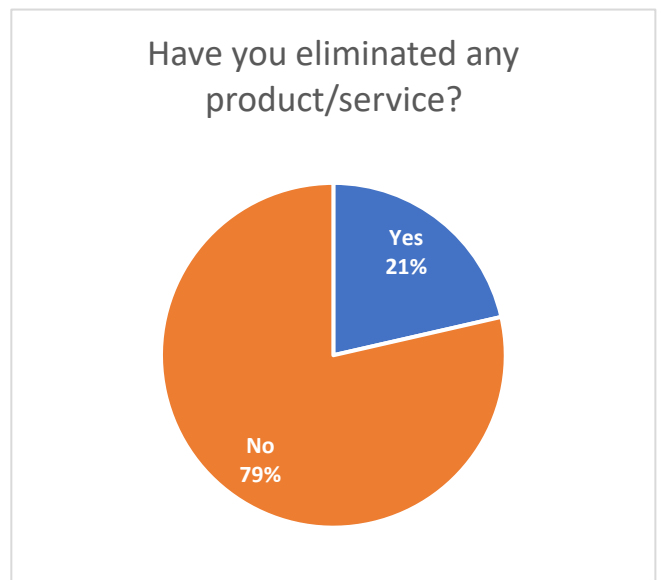
Graph 4: % of companies having implemented new measures to tackle the impact of Covid-19?

#### 4.28 EFFECT OF COVID-19 on the product portfolio

For a large majority of the participating SMEs (around 80%) the Covid-19 has not contributed to either create or eliminate any product or service.



Graph 5: % of companies having created new product/service



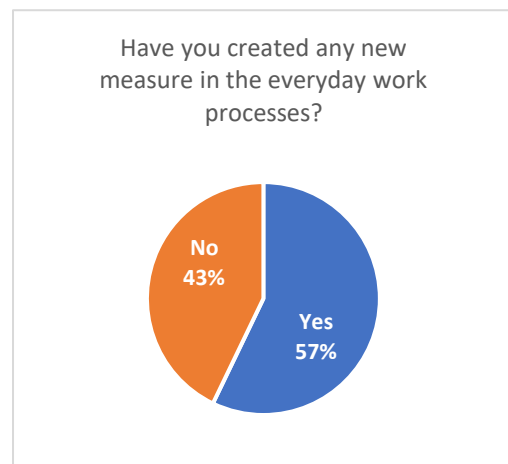
Graph 5: % of companies having eliminated any product/service

While companies did not specify what kind of product/service have been eliminated, two of them did refer to new services and technologies:

- The first one, belonging to the Health sector, has develop new services in the taking of samples and determination of the Covid-19, as well as in the preparation of reports and certificates.
- The second one, belonging to the Biotech sector, has developed technology aimed at detecting COVID-19.

#### 4.29 NEW MEASURES IN THE EVERYDAY WORK PROCESSES

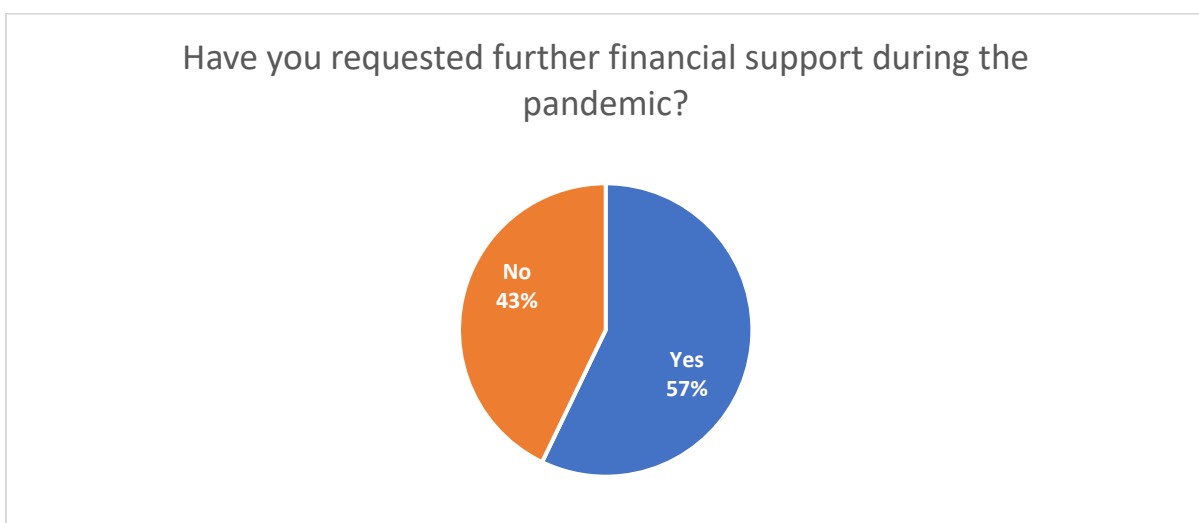
When asking SMEs, 57% of the participants (8 out of 14) declare that they have implemented new measures. In line with the answers provided in the previous questions, such new measures are mostly related to remote work and an improvement of and more systematized use of digital tools such as Teams, Meet, Zoom or Slack, considered as innovative in 2019, but now part of the day-to-day work and norm. Among the companies providing a negative answer, half of them were already implemented remote work solutions, and thus do not consider it as new measures.



Graph 6: % of SMEs implementing new measure in their everyday work processes

#### 4.30 STRUCTURAL FUNDS OR FINANCIAL SUPPORT RECEIVED IN THE PANDEMIC

As start-ups with a strong technological profile, a majority of the participating SMEs are well aware of the financial opportunities available to support their activities. In that sense, 57% have requested (and most of them obtained) further financial supports and grants during the pandemic period.



Graph 7: % of SMEs having requested further financial support during the pandemic

The kind and origin of the financial supports obtained by the participating companies had different origins and targets, though a majority would be from provincial or regional programmes such as “Hazitek” (grants to business R&D activities managed by the Regional Development Agency), an ad hoc support of the Basque Regional Government of the promotion of cooperatives in the fight against Covid, support from BICs to new innovative business projects, etc. Only one company had received funds managed by the national agency for Research and Development (CDTI)

#### **4.31 FURTHER REMARKS**

The further remarks provided by the participating companies are diverse and vary depending on their situation and sector, but as a general/common one, there is a consensus that there is a need to keep support from institutions to keep jobs and facilitate activities, in particular when it turns to R&D, in order to boost the economy and entrepreneurship.

Among some general common remarks received, some companies also refer that, despite all negative effects of the pandemic, it has also given them some time to intensify their R&D and innovation actions.

#### **4.32 CONCLUSIONS**

It is important to interpret the results of the survey carried out by Fomento de San Sebastián taking into account the profile of the participating companies, as most of them are small-size start-ups recently created and belonging to the local innovation ecosystem.

Due to such profile, the necessary adaptation to remote working obligations went very smoothly and didn't represent a major difficulty.

In a large majority, the Covid-19 didn't provoke a change in their portfolio (just a few companies took the opportunity to either create or eliminate products or services), but yes it did affect their internationalisation processes and capacity to export, due to the lack of direct B2B meetings and encounters, and all uncertainties during this period.

Some SMEs, mostly from the digital/software or biosciences sectors have however benefited from the situation and were able to increase either their sales and/or their R&D activities.

For a small majority of participants (57%), the access to financial support from different public sources during the pandemic has been of key importance to maintain their team, activities and competitiveness.

## 4 | POLICY INSTRUMENT SURVEY RESULTS

### 4.1 SHORT PROFILE OF THE POLICY INSTRUMENT

Table 1: Short profile of the P.I.

Name of the Policy Instrument	
Country	ES – País Vasco
Managing Authority	Fomento de San Sebastián
Duration	2012 - 2019
Original measures	<p><u>Action line 1</u>: Improvement of the innovation / internationalization connection. Supporting technology-based start-ups to improve their business model and grow international (through the participation in the SME instrument)</p> <ol style="list-style-type: none"> <li>1. Seed Selection and Germination</li> <li>2. Fertilisation and Training</li> <li>3. Programme: Participation in SME instrument</li> <li>4. Growth and expansion. FSS will, in parallel, strengthen the instruments to boost the growth of highly innovative knowledge-based companies going through the support programmes, also considering International Networks to facilitate market access for companies</li> </ol> <p><u>Action line 2</u>: Capitalisation and regional up-scaling of the pilot project (framed and financed under the Donosti Up umbrella)</p> <ol style="list-style-type: none"> <li>1. Evaluation and impact analysis</li> <li>2. Up-scaling</li> </ol>

#### 4.19 COVID-19 EFFECTS ON THE POLICY INSTRUMENT

##### *New measures developed to correspond COVID impact*

The City Council of Donostia-San Sebastián, through its local development agency *Fomento de San Sebastián* (FSS), has activated during the COVID years new and adapted Economic Reactivation Plans for the city (PREKs I & II in 2020, and PREK III in 2021). The PREKs substitute the former Donostia UP! Policy Instrument, and is thus an evolution that takes into account the new situation and needs.

In that framework, FSS has proposed to support people and companies with all available resources, in order to respond to two aspects that were considered as key ones: on the one hand, trying to maintain the economic activity of the companies and sectors most affected by this first onslaught of the crisis; and secondly, to support workers and companies in a process of adaptation, training and transformation to enable them to overcome this crisis and strengthen themselves in terms of skills, business and work models, adaptation to new consumer habits, new market opportunities, etc.

As for the original Donostia UPI, the PREKs included a battery of measures and tools aimed at the following key areas of intervention for the maintenance and reactivation of the city's economic activity in this context of socio-economic crisis marked by the pandemic, namely:

- Support for companies and their projects to maintain their business activity;
- Support for the maintenance and generation of employment;
- Specific support to the Commerce and Hotel and Catering sectors;
- Support for the development of new business creation opportunities (entrepreneurship);
- Supporting innovation and fostering collaborative platforms to respond to the city's challenges.

They also placed special emphasis on groups such as women, young people and people over 45. It was an ambitious Plan for a time of transition in which FSS is committed to innovation and talent as strategic pillars of the economic future of the city.

#### *Has the type of applicants, supported SMEs changed?*

The global crisis generated by the incidence of the Covid-19 virus has provoked the challenge of adapting FSS response to a context of rapidly increasing unemployment and economic impact with large doses of uncertainty as to the timeframe for duration and recovery, and a structural cut-off effect in some sectors in particular. The health emergency brought with it a tremendous social impact, with severe measures of confinement and social distancing that were accompanied by restrictions that drastically affect business activity, especially those services most exposed to restrictions on mobility, new health measures or changes in consumption patterns, such as commerce and the hotel and catering industry.

There has been an evolution and adaptation in relation to previous Plans due to the pandemic itself. Therefore, as indicated above, the plan focused on more traditional sectors (commerce and the hotel and catering industry) with more immediate aid due to their specific urgent needs.

However, as far as the activities linked to the original Action line 1 of the former Donostia Up! Plan (Improvement of innovation / internationalisation connection) are concerned, the new PREKs remain supporting technology-based start-ups, in particular through FSS incubation services or the EKIN+ action for the creation, growth, development and consolidation of innovative entrepreneurship projects in the city, with a particular participation of companies from the digital and biosciences sectors. In fact, in addition to the dynamization of the already existing sectoral clusters (audiovisual, Smart, surf and agri-food), the new PREKs had a particular interest in investing and supporting some previously identified “sectors of the future”, such as bio-health, artificial intelligence or industry 4.0, as new strategic targets.

In addition and as stated, the new PREKs also particularly encouraged special emphasis on specific societal target groups, in particular women and young people (see following question).



*Has the focus and type of applied / supported activities changed?*

The year 2020 leaved us with almost 1,200 people in services and entrepreneurship programmes of FSS, with a good number of projects supported and almost 150 new companies created, less than in previous years, but which demonstrate the entrepreneurial pulse and the certification that San Sebastián continues to be an entrepreneurial city.

Within the framework of the PREKs, FSS proposes to support this drive, adapting to new sectors, profiles, contexts and tools. The general customer service was maintained through the new telematic channels and the aid for setting up new companies has also been maintained, in this case with a simplification of procedures and payments.

In 2021, within the “Entrepreneurship” actions (715.000 euros budget available), the type of implemented measures were:

- General support service for entrepreneurs (counselling and training)
- Aid for the creation of new companies, with a bonus for women, young people, neighbourhoods and an innovative component.
- Aid for the consolidation of new companies, with a bonus for women and neighbourhoods.
- Programme for the promotion and acceleration of innovative business projects.
- Support programme for projects in the field of ageing.
- Pilot programme to facilitate access to commercial premises for entrepreneurial projects in commerce and hospitality.

The new Plan is thus better targeted and includes some new activities, though the original key activities of the original Policy Instrument original (Seed selection and Germination, Fertilisation and Training, Growth and Expansion) remain valid, through different new supporting programmes (Explorerlab, Open Innovation programme, Incubator, Accelerator, Technological Vouchers, etc.)

*How has absorption capacity changed? / Has the financial frame changed?*

The new PREK was launched in two different phases in 2020, with a first launching phase with € 2,6 million orientated to economic contingency (to support the continuity of the companies and maintain jobs), followed by a second phase of € 5 million (initially thought for the economic recuperation, to tackle challenges arisen from the pandemic). From a global perspective, the total budget available for that first year of pandemic was lower than in the precedent years (80% less than 2019 Donostia Up!), but considered as reasonable taking into account all fears and the technical/physical difficulties to implement certain activities.

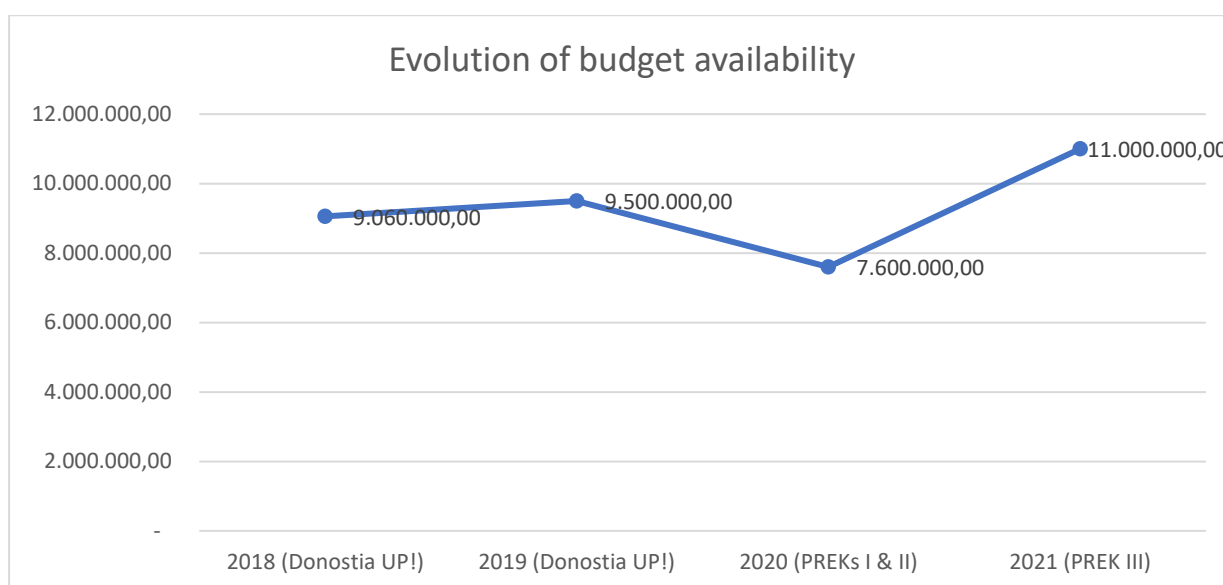
However, the capacity absorption of the beneficiaries and demand didn't reduce, and the budgets lines have thus been adapted to the demand, when and where possible.

In that sense, and as a couple of examples to illustrate the demand and adaptation, the nr. of innovative start-ups beneficiating from the Incubator programme increased 43% between 2019 and 2020, and its corresponding budget increased 69%. The same occurs with the innovative companies participating to the “Tech&Market” activities, where the budget available increased 59% between 2019 and 2020.

To showcase the increased number of demands, the grants given through the budget line “InnPlanta” (to support the competitiveness of innovative entrepreneurship projects in San Sebastián) were reduced in 2020 to 4.000 euros/company, compared to the 8.000 euros of 2019. With less total envelop, this allowed to support 156 companies in 2020, instead of the 87 beneficiaries of 2019.

Table 2: Yearly evolution of budget available for the Plans

2018	2019	2020	2021
<b>Donostia UP!</b>	<b>Donostia UP!</b>	<b>PREK I &amp; II</b>	<b>PREK III</b>
€ 9,06 Mio	€ 9,5 Mio	€ 7,6 Mio (2,6 +5)	€ 11 Mio



Graph 8. Evolution of budgetary availability of the Plans

However, in 2021, FSS managed to launch its most ambitious Plan ever from a budgetary perspective, with some 11 Mio euros available to finance the different actions.

As far as new kind of financial supports were concerned, after a first phase of analysis, comparison with sectors and agents, companies and other institutions, and after an initial diagnosis that incorporates the first impact on the key indicators of economic activity and employment, some new specific measures have been launched that were particularly focused on the most affected sectors, such as:

- ✓ Support for the **maintenance of the activity via leasing costs** for all companies housed in business spaces of FSS.
- ✓ Launch of a specific **Covid-19 aid to support trade, hospitality and personal services.**
- ✓ Start-up and resolution with the same criteria for streamlining the **Grants for the consolidation of new companies set up (entrepreneurship)** in 2019.
- ✓ **Grants for social impact projects** have also been launched.

#### **4.20 MANAGING AUTHORITY ABOUT BENEFICIARY CHALLENGES. *Which were the most typical challenges for your beneficiaries?***

The restrictions brought about by COVID-19 have had an impact on purchasing habits, leaving an as yet unknown consumption "footprint" in terms of household spending and purchasing patterns. Consumers have been forced to consume differently; spending flows are being reconfigured and we still do not know what the "post-COVID consumer" will be like.

In this global context of change and transition to new models influenced by digitalisation, new business models and social transformation, there is an enormous challenge caused by the global pandemic caused by the COVID-19 virus, which poses an urgent need to accelerate change, promoting the adaptation of our models and business activity itself and the model of employment generation, due to: **the loss of confidence and the fall in investment, the containment of spending, the effects on trade and international activity, health regulations, restrictions on mobility or new social patterns and habits of consumption and coexistence, etc.**, which may remain over time and affect the development and creation of economic activity in a key way.

In that sense, the global crisis generated by the incidence of the Covid-19 has challenged FSS to adapt its response to a context of rapidly increasing unemployment and economic impact with large doses of uncertainty as to the timeframe for duration and recovery, and a structural cut-off effect in some sectors in particular. The health emergency brings with it a tremendous social impact, with severe measures of confinement and social distancing that are accompanied by restrictions that drastically affect business activity, especially those services most exposed to restrictions on mobility, new health measures or changes in consumption patterns, such as commerce and the hotel and catering industry.

As far as the internationalisation of SMEs is concerned, while digitalisation has been addressed as an opportunity, the uncertainties and mobility restrictions have particularly affected the companies, unable to travel and participate to fairs. In addition, during the pandemic, the key preoccupation of the companies turned around keeping their business open or closing it, which relegated to the background other efforts and activities such as internationalisation or commitments in R&D.

#### **4.21 INSTITUTIONAL CHALLENGES**

To understand the institutional challenges for Fomento de San Sebastián, first of all, it is worth highlighting the greater impact of the situation in the city on some tertiary sectors, given the singularity of Donostia-San Sebastián with respect to the rest of the territory of Gipuzkoa in terms of its economic structure, with a great weight precisely of sectors that suffered a greater impact from the pandemic. The impact on employment, the fall in Social Security registrations and the general destruction of the economic fabric presented with a dramatic panorama that required responses from all administrative levels, also from the cities, as key territorial units where people live to a greater extent and the challenge of confinement and the suspension of business activity materialises in its maximum crudeness.

Since 2020, the global crisis generated by the incidence of the Covid-19 has forced FSS to tackle the challenge of adapting its response to a context of rapidly increasing unemployment and economic impact with large doses of uncertainty as to the timeframe for duration and recovery, and a particularly negative effect on some sectors such as Trade and Hospitality, and especially on Commerce.

From this local level, through PREK, FSS had to support people and companies with all available resources in order to respond to two aspects that are considered key: on the one hand, trying to **maintain the economic activity** of the companies and sectors most affected in this first onslaught of the crisis; and secondly, to support workers and companies in a process of adaptation, training and transformation that allows them to overcome this crisis and strengthen themselves in terms of skills, business and work models, adaptation to new consumer habits, new market opportunities, etc

It was clear to FSS that this commitment must be sustained over time, and structured in differentiated levels that in order to address the situations of greatest need in the first instance, to be able to focus on aspects of improvement and transformation in the second instance.

From an internal and organisational perspective, the key challenge was thus to design first and implement afterwards the PREKs, with their new financial supports and programmes (such as the aforementioned support for the maintenance of the businesses activities via leasing costs, launch of specific Covid-19 aid for certain sectors, grants for social impact projects, etc.), and new services and campaigns, such as:

- ✓ Intense **information and assistance** work for citizens and businesses, incorporating new tools and online support that had not been available to this extent to date.
- ✓ A campaign to **promote consumption** by means of vouchers and home delivery has been activated, intended as a tool to impose new business and distribution models.
- ✓ Likewise, a series **of online services** have been launched **to accompany companies, entrepreneurs and unemployed people**, using the webinar format and subsequent individualised advice accompaniment, addressing differentiated groups and sectors, with specific themes: professional development, commerce/hospitality, clusters, companies, innovation and entrepreneurship.

Within that framework, it was important – and challenging - to reach a sufficient critical mass and get the right measures in place at any given time, taking into account the constant uncertainty. This also and collaterally included a constant uncertainty in terms of the management and timing of the PREK and its calls. This is why several PREKs were launched, in order to readapt them each time to make sure that they answer some specific needs according to the situation.

Towards the internationalisation of companies, FSS also had to adapt and cancel certain usual actions of promotion (trips, missions, attendances to fairs, etc.).

Finally, it has to be underlined that, as for the companies, FSS also had to adapt its structure and teams to remote work, online meetings, management of human resources during lockdowns or quarantines, etc.

#### 4.22 GOOD PRACTICES FROM OTHER POLICY INSTRUMENTS, REGIONS TO TACKLE THE CHALLENGES CAUSED BY COVID

Through the networks that FSS is part of, and other European Interreg projects, FSS was able to identify a series of measures that other cities and regions were developing to respond to the needs of businesses and the local economic fabric, and to produce a benchmark to identify good practices and trends. Here are the main conclusions:

Cities are taking short- and medium-term measures to contribute to the consequences of COVID-19. In the short term, most have rushed to set up emergency funds to ensure liquidity for SMEs and income support for vulnerable people, tax exemptions, loan guarantees, support for local production through consumer platforms or vouchers, delayed tax and rent payments, etc.

##### Approximation models cities

Initially, there were arguably two models of approach:

- In general, we have observed that Northern countries are taking initial steps to support greater digitisation of services for both individual entrepreneurs and education. E.g. Finland has expanded its connections or openness to digital content through platforms for cities, business, education, access to information for other groups and support for online cultural initiatives.
- However, in countries such as France, Italy or Belgium, where shops and hospitality businesses have been closed across the board, more urgent relief measures are seen for these groups, with e.g. new delays in tax payments or complementary aid for the duration of their closure.

As we move into the recovery phase, many cities are implementing more long-term measures based on their pre-COVID-19 strategies to mitigate the social and economic impacts on people, jobs, businesses, the local economy and social inclusion in cities.

Progressively, in a second phase, cities are adopting packages of initiatives that are intended to have a more medium/longer term impact with a focus on integrating the new measures into the city's own strategies, such as:

- Create new online trading platforms for the city (Lyon, Nantes, Ghent, Nice).
- Launching of specific financial aid/programmes for self-employed and SMEs in the city (from 1000 euro with more immediate aid up to 10.000 euro approx. for more innovative projects).
- Employment facilities to address recruitment/employment needs between companies and individuals (match-making place: e.g. Amsterdam)
- Promotion of digital innovation in the city:
  - Hackathon/innovation challenges (Tallinn, Helsinki, Espoo, Antwerp, Barcelona, Torino, Madrid, etc.)
  - Provide access to online skills development programmes to facilitate training.
  - Digitalisation of public services, education services or companies (Helsinki, Espoo, Tampere)
  - Shared information spaces / databases companies: supply/demand (Koln, Turin, Finland)
- New urban planning more neighbourhood-based (Paris, Glasgow..) / Shared Urban Participation (Reims, Milan)

- Establish multidisciplinary expert teams for new digital strategy (Edinburgh, Glasgow, Vienna) and Coordination and Monitoring Centre (Barcelona).
- Among others

According to a webinar organised in May 2021 by Eurocities ([www.eurocities.eu](http://www.eurocities.eu)), with 125 participants from European cities, these would be the common elements shared by European cities' strategies for long-term recovery plans:

1. Using data on local impacts to assess political decisions
2. Coordination through city services (Barcelona, Utrecht, Glasgow, Bologna).
3. Involve everyone in the city in recovery to ensure shared ownership (e.g. Vienna, Barcelona).
4. Integrate post-COVID recovery as part of the city's broader strategic frameworks for long-term development (e.g. Utrecht agenda 2024 Healthy Urban Living, Glasgow 2020-2024, Amsterdam Donought strategy, Barcelona 2025, Paris 2024 etc.). ,
5. Long-term resilience and greening of cities.

Such examples have been either sources of inspiration to draft the different PREKs and/or the confirmation that FSS was aligned with other cities' strategies, in particular for activities such as the specific financial aids or promotion of digital innovation in San Sebastián.

#### **4.23 FURTHER REMARKS**

N/A

#### **4.24 CONCLUSIONS**

In order to face the challenges arisen from the Covid-19 pandemic and its consequences on the local economy, Fomento de San Sebastián has created and implemented three progressive and specific Economic Reactivation Plans (PREKs) throughout 2020 and 2021, that substituted the original Policy Instrument.

The decision to create different PREKs has been wise, as it allowed to adapt them progressively to the needs of the companies and evolution of the pandemic, taking into account the constant uncertainties suffered, and to increase considerably the resources available in 2021, towards the recuperation period.

Within the adaptation of the PREKs compared to the previous plans, it has to be underlined that they have focused more on traditional sectors of great importance in the local economy (commerce and the hotel and catering industry), with more urgent needs.

But towards the economic recovery, the PREKs have also particularly supported some key strategic sectors previously identified as of great potential (such as bio-health, AI or industry 4.0.), which is also aligned with the EU Recovery and Resilience Facility.

Towards the support of SMEs, within its PREKs, FSS has managed to offer a wide range of services adapted to the need of entrepreneurs, that range from the traditional counselling and training, to financial aids, incubation and acceleration programmes, including new online services. In that process, FSS has benchmarked and taken into account similar plans and activities being prepared and/or implemented in other European cities.

*Donostia-San Sebastián, February 2022*