

“An SME Strategy for a sustainable and digital Europe”

- Draft 3.1 -

1. Introduction: the need for action

Europe’s 25 million SMEs are central to the EU’s transition to a sustainable and digital economy, including its goal of being the first climate neutral continent by 2050¹. They employ around 100 million people², account for more than half of Europe’s GDP and are part of every value chain in its economy. They represent a wide array of sectors, models and approaches, and contribute to the EU’s economy and society in many different ways. Innovative SMEs bring solutions to global challenges, like climate change, resource efficiency and social cohesion. Others help spread this innovation throughout ecosystems and value chains, and play a key role in regional development. Without SMEs, Europe cannot achieve economic and technological sovereignty nor stay resilient to external shocks³.

But Europe’s SMEs are still far from achieving their potential.

With fewer financial and human resources than larger companies, many of them struggle to make the **twin transition to sustainability and digitalisation**; i.e. to adjust to new regulatory and legal requirements and to make the necessary investments in resource efficiency or new technologies which may take considerable time to pay off. For example, while 54% of large companies are highly digitalised, only 17% of SMEs have successfully integrated digital technologies into their businesses.

Compared to larger companies, SMEs also suffer disproportionately from **administrative and regulatory burdens and market barriers**. In particular, the absence of a full Single Market for services makes it harder for SMEs to export and grow within the EU. One of the obstacles is the paperwork related to the posting of workers in another Member State. Furthermore, limited knowledge on Free Trade Agreements slows down SMEs’ expansion to third country markets.

Raising the necessary financing for investments in the transition, for start-ups or for expanding businesses is another major challenge. These investments are perceived as riskier than comparable ones by large companies, and the risk appetite of the European financial sector and by investors is relatively low. Compared to American SMEs, European SMEs are still largely reliant on the banking sector for debt finance. EU risk capital funds tend to have (on average) only half the size of American funds. Late payments by buyers is also an issue, accounting for one in four bankruptcies in the EU⁴.

Over the last decade, the EU has worked hard to address these challenges, notably through the 2008 Small Business Act, its flagship programme Competitiveness for Small and Medium Enterprises (COSME), some

¹ “A Union that strives for more: My agenda for Europe” Political Guidelines for the next European Commission 2019 – 2024 https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf

² SMEs represent 99.8% of all companies in the non-financial business sector, 54.5% of Europe’s GDP, and two-thirds of jobs, 2019 SME Performance Review

³ Political Guidelines as above.

⁴ See European Parliament resolution on the Late Payment Directive from January 2019: http://www.europarl.europa.eu/doceo/document/TA-8-2019-0042_EN.html?redirect

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financial instruments under the Horizon 2020 framework programme, the specific priorities under the European Social Fund (ESF)⁵ and the European Regional Development Fund (ERDF), and the 2016 Start-up and Scale-up Initiative⁶.

But more can and needs to be done.

Building on the achievements to date, this new SME Strategy therefore sets out an ambitious and comprehensive approach with a range of new measures designed to open up opportunities for all types of SMEs⁷ to innovate, provide and create jobs, benefit from digitalisation, become global leaders in sustainable practices, and operate freely in the Single Market⁸ and beyond. It sets out a combination of targeted measures for specific types of SMEs, such as start-ups or those with the ambition to scale, as well as horizontal measures designed to benefit all types of SMEs. Many of these measures can be delivered quickly, with others put in place in the next few years under the next long-term EU budget.

The Strategy aims to encourage both the technologically-advanced potential global leaders and the wider “fleet” of more locally oriented SMEs that are crucial for social cohesion across European regions.

It takes a coherent and holistic approach based on three pillars to address the problems identified above:

- **Supporting SMEs to make the twin transition to sustainability and digitalisation**, including by promoting innovation, improving access to skills and protecting Intellectual Property;
- **Reducing administrative burden and improving market access in the Single Market and beyond;**
- **Improving the financing of SMEs;**

And it outlines key actions which will be further developed by the new EU SME Envoy in an action plan in consultation with SME representatives and Member States. The new Strategy is a core part of the EU’s approach to sustainability and competitiveness and will be instrumental to implementing the European Green Deal, the new EU industrial strategy, the Circular Economy Action Plan and the European Social Pillar⁹ among others.

2. Supporting SMEs to make the transition to sustainability and digitalisation

The transition to a sustainable¹⁰ Europe is an opportunity for Europe’s SMEs to grow, enter markets or create new ones by offering new sustainable products and services. SMEs and start-ups are in many ways well placed to do so - many are flexible and innovative, and many already deliver a lot of social impact in the communities where they are based. The management of innovative SMEs and start-ups is often young,

⁵ between 2014 and 2018 this has reached out to over 500.000 SMEs in Europe

⁶ Europe's next leaders: the Start-up and Scale-up Initiative COM/2016/0733

⁷ i.e. start-ups, scale-ups, social economy enterprises, traditional SMEs with moderate growth ambitions etc.

⁸ The Single Market includes the EU’s outermost regions

⁹ European Pillar of Social Rights, November 2017.

¹⁰ Sustainable as in the UN Sustainable Development Goals: development that meets the needs of present generations without compromising the ability of future generations to meet their needs. This encompasses many aspects from social and gender equality to environmental sustainability and addressing climate change.

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digitally minded and entrepreneurial and thus committed to the values behind sustainability such as concern for climate change, social cohesion and diversity.

There are already many examples of highly innovative SMEs combining sustainability and digital technologies, either integrating them in their production lines, or offering them on domestic and international markets in sectors such as repair, reuse and recycling. According to Eurobarometer, 24% of SMEs in Europe offer green products or services¹¹.

But for many SMEs, especially the more traditional ones, these opportunities come with major challenges and even threaten their existence. They are either not aware of or are bewildered by the sheer scope of the UN Sustainable Development Goals and ill-prepared for the transition towards more sustainable business models. A recent survey of Enterprise Europe Network members showed that nearly two-thirds had received questions from SMEs on sustainable aspects of doing business.

Yet this transition is essential for SMEs' continued survival and growth¹². Access to some of the most promising, fastest-growing markets will increasingly depend on the environmental footprint and social impact of products and services.

Digitalisation and new technologies, notably disruptive digital technologies such as blockchain and Artificial Intelligence (AI), Cloud and High Performance Computing (HPC) as well as solutions promoting cybersecurity can provide great opportunities for SMEs to compete in a sustainable way: they can improve the efficiency of production processes and ability to innovate, in terms of both, products and business models. Moreover, digital technologies can enable SMEs to inform customers about the environmental footprint of their products and in fulfilling sustainability requirements along the whole value chain.

However, many SMEs are slow in their uptake of digital technologies¹³ especially compared to larger companies. While they are active on social media¹⁴ and, to a limited extent, try to exploit e-commerce opportunities by selling through online marketplaces (6.5 % of SMEs versus 8.3 % of large enterprises), there are many technological opportunities that they do not yet take up. Examples include cross-border e-commerce, cloud services and customer relationship management. They also lag behind in the adoption of 3D printing (4% vs 13%), big data (12% vs 33%) and robots (6% vs 25%). Only 9% of SMEs in the EU have adopted AI compared to 29% of large companies.

Traditional SMEs are often uncertain in their choice of digital business strategy, have problems tapping large repositories of data available to larger companies and shy away from moving to advanced AI-based software tools and applications.

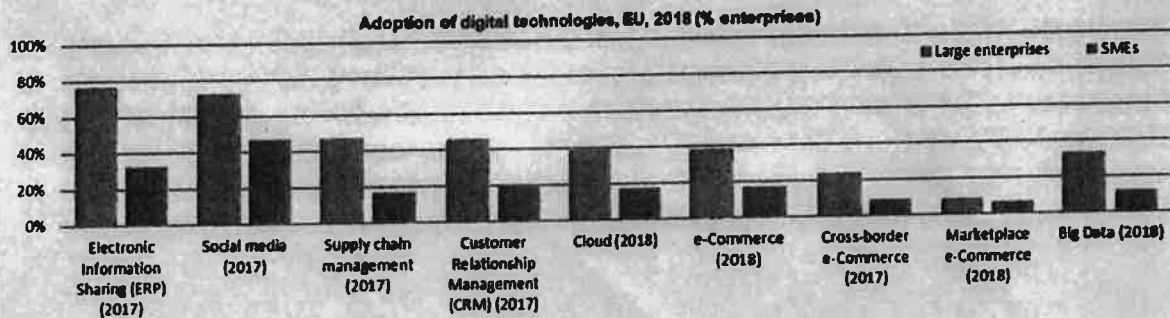
¹¹ The most common resource efficiency actions being undertaken by SMEs are minimising waste (65%), saving energy (63%), saving materials (57%), saving water (47%), and recycling by reusing material or waste within their company (42%); for 41% of SMEs, resource efficiency actions reduced production costs.

¹² Low engagement into sustainable business practices in the coming years will come with increased risks, connected for instance to linear take-make-dispose business models, especially when they rely on raw materials, notably critical ones sourced in third countries

¹³ including provisions for cybersecurity

¹⁴ In 2017, 47% used any type of social media

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Source: Eurostat/DESI 2019

More widely, Europe has many innovative SMEs with the knowledge to carry out path breaking and disruptive innovations, especially on sustainability and digitalisation. However, too many are held back by the risk of losing all their investments if the innovation does not pay off and lead to marketable assets. Even beyond this valley of death, smaller innovative companies find it hard to compete for the game-changing opportunities afforded by public procurement contracts.

Switching to more sustainable business and production models can also involve heavy investments in the short-term. To achieve its objective of climate neutrality by 2050, for example, the EU has to fill an investment gap of over 180 billion EUR per year¹⁵. Start-ups, micro-enterprises and SMEs more widely tend to experience more difficulties in obtaining financing than larger companies due to perceived risk, especially for innovative investments. It is a similar story for digitalisation: SMEs are more likely to face problems in accessing finance compared to their more digitalised larger competitors.¹⁶

In both the digital and sustainability transitions, SMEs are held back by a lack of skilled employees. Skills availability is the most frequently cited obstacle to investment across the EU (expressed by 72% of firms). The 2019 edition of the SAFE¹⁷ survey reveals that availability of skilled staff or experienced managers remains the most important problem for 25% of EU-28 SMEs, especially those with more than 10 employees. The skills shortage is particularly acute for digitalisation and new technologies - where 35% have low or no digital skills. A recent OECD study on adult skills found that one in four adults in Europe lacked the skills needed to use ICT effectively.¹⁸ Also, according to Cedefop (2016), while ICT professionals are among the most in-demand workers, almost all Member States face shortages for both software and developer analysts and database and network professionals. There are currently over 1 million vacancies for ICT professionals in the EU. Yet over half of small enterprises do not have a vocational training plan in place compared to 10.8% of large companies.¹⁹

¹⁵ Gap amounts to an estimated EUR 180 billion a year with to achieve a 40% reduction in greenhouse gas emissions by 2030. Under the Green Deal adopted in December 2019, this objective has become even more ambitious.

¹⁶ R. Veugelers, D. Rückert, C. Weiss, Bridging the divide: new evidence about firms and digitalisation. Bruegel, December 2019

¹⁷ https://ec.europa.eu/growth/access-to-finance/data-surveys_en

¹⁸ OECD Skills Outlook 2013: First Results from the Survey of Adult Skills, pp. 227-8; cf. Employment and Social Developments in Europe 2018, pp. 92-3.

¹⁹ CVTS 2015, Eurostat

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Finally, SMEs find it hard to develop **intellectual property** ('IP') portfolio strategies to protect their R&D investments, even though these are crucial in the twin transition. If properly protected, this type of investment could make SMEs more attractive to investors and raise growth capital²⁰. SMEs and start-ups insufficiently protect their own intellectual property, with only 9% of SMEs acting to do so. Many SMEs are unaware of EU and national IP digital initiatives or have a negative perception of its usefulness, fearing the complexity and expense of acquiring and enforcing them.

Under the current SME policy framework, the Commission has put in place mechanisms to support SMEs to make the twin transition, notably in terms of advice and innovation and partnership support through the Enterprise Europe Network (EEN). On sustainability, the European Resource Efficiency Knowledge Centre (EREK) has helped transfer knowledge. With its cohesion funding, the EU has supported SMEs with investments of over EUR 7.3 billion in energy efficiency, in environmentally-friendly production processes, and in the provision of services contributing to the low carbon economy and to resilience to climate change²¹. And on digitalisation, together with Member States, the Commission has also invested in a network of around 200 geographically spread Digital Innovation Hubs providing access to technical expertise and experimentation.

Nevertheless, the EU needs to step up its efforts.

Key Actions

Immediate

Strengthen and interlink local and regional **entrepreneurial ecosystems** so that they support SMEs transition to sustainability, i.e by supporting 'Local/Regional Green Deals'

Create simplified mechanisms of European support for SMEs by delivering support actions through local **EEN and European Digital Innovation Hubs**

Improve access to skills of SMEs via an industry-led **European Skills4SMEs Partnership**

Longer term

Create large scale **SME Alliances for AI** in Strategic Value Chains

Ensure that at least 70% of funding under the full phase of the **European Innovation Council (EIC)** to be launched in 2021 goes to SMEs.

Launch a **Space Entrepreneurship Initiative** to increase the number of start-ups using EU space technologies

Launch an **Innovation Brokers public procurement initiative** to accelerate market uptake of innovative solutions, including for the **space and defence** industry.

²¹ See https://ec.europa.eu/regional_policy/en/policy/themes/low-carbon-economy/ and https://ec.europa.eu/regional_policy/en/policy/themes/environment/circular_economy/

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The Commission will therefore:

On the twin transition:

- Link local and **regional entrepreneurial ecosystems** so that they support SMEs' transition to sustainability, using:
 - **digital solutions** to accelerate the necessary changes;
 - **'ecosystem approaches'** where all actors involved in 'Local Green Deals' cooperate, including social enterprises, and building on European Entrepreneurial Region and industrial transition regions initiatives;
 - **venture-building** between start-ups and established companies to improve the flow of intellectual property to the market by eliminating bottlenecks, leading to more technology start-ups;
 - **tech due diligence, tech rating, talent search, first traction and venture financing** to ensure a stable stream of European deep tech start-ups to compete in later stage investments;
 - **a targeted 'value chain' approach** tailor-made to local realities across Europe including rural, remote and outermost regions. For value chains with a large number of SMEs and the most urgent transition to sustainability, the EU will bring SMEs and public authorities together to identify harmful practices in production and commercialisation as well as possible solutions including on Better Regulation and/or implementation.

On sustainability:

- Provide a **comprehensive approach to advise and support SMEs in the sustainability transition**, based on an assessment of needs and opportunities²², including on skills. The support will include dedicated Sustainability Advisors and other tools under the EEN²³, as well as work by EREK and the European Cluster Collaboration Platform (ECCP).
- To promote social cohesion, develop a **European Action Plan for Social Economy** to enhance social innovation and assess the development of new legal forms supporting of the emergence of purpose driven enterprises at national level.
- Ensure that adequate financing for transition investments is available for SMEs, notably by proposing an SME dimension in the **Sustainable Europe Investment Plan** and examining the reduction of bank capital requirements to spur green investment in Europe (introducing a "Green Supporting Factor"). In addition, the **Just Transition Fund** will support SMEs including start-ups, to create opportunities for economic diversification and reconversion in regions that face serious socio-economic challenges from the sustainability transition.

On digitalisation:

- Facilitate capacity building of SMEs in digitalisation through (a) improved access to digital support service structures such as the **European Digital Innovation Hubs and the European Cloud Federation**, including through increased cooperation with the EEN; (b) further development of dedicated SME digitalisation services under the 'Enhanced Innovation Management Capacity' advice service of the

²² including assistance in developing circular economy solutions that are economically viable

²³ (to be developed under the next MFF)

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EEN; and (c) facilitated access to finance by expanding the pilot SME digitalisation project currently funded under the COSME Loan Guarantee Facility and the new Digital Europe programme.

- Create opportunities for innovate deep tech start-ups to contribute to digital capacity building and deployment of technologies such as AI, Cybersecurity, High Performance Computing, Internet of Things, Blockchain in Digital Europe Programme using tools such as the **Innovation Radar** to detect high-potential innovations and pan-European start-up networks such as **Startup Europe**.
- Strengthen the SME dimension in the **next generation of Smart Specialisation Strategies**, paying special attention to technology upgrading to Industry 4.0 and strengthening participation in European value chains, in particular through the new interregional innovation investment instrument.
- Shape a business environment that encourages SMEs to make more use of new technologies and digital business models, for example, via a **Responsible Collaborative Economy Package**: a set of initiatives promoting sustainable practices (i.e. working conditions) for services provided through platforms, in particular local ride-hailing services and short-term accommodation.
- Create favourable conditions for SMEs in the digital economy, notably by providing predictability and legal clarity in the upcoming **Digital Services Act** based on needs and concerns.
- Create large scale **SME “Alliances for AI”** in strategic value chains to join forces in addressing obstacles to the uptake of AI by SMEs as identified in an ongoing pilot project in collaboration with the Digital Innovation Hubs.
- Launch in 2020 the **EuroHPC Joint Undertaking** to support the network of national high performance computing (HPC) Competence Centres in 30 Participating States. These have the mandate to give SMEs access to HPC infrastructure which opens opportunities to enhance their innovation potential.
- Promote the opportunity of **distributed-ledger technologies (“blockchain”)** to SMEs and raise awareness of how they can act as drivers of digitalisation to integrate value and supply chains and provide access to finance in collaboration with the Digital Innovation Hubs.

On innovation:

- Launch at the beginning of 2021 the **full phase of the European Innovation Council (EIC)** as a “one-stop shop” for SMEs, start-ups and researchers developing high-risk, high potential, disruptive, breakthrough technologies with a scale-up potential. The EIC will cover the full innovation cycle from early stage technological development and start-up phase, to the commercialisation and scale up phase. 70% of EIC funds are reserved for SMEs.
- Support SMEs supplying innovative and sustainable solutions in public procurement through dedicated actions promoting market engagement by public buyers, such as the **Innovation Brokers initiative**. Building on an EU funded pilot project, this initiative will facilitate commercial links between public buyers, suppliers of innovation, investors, and researchers to accelerate market uptake of innovative solutions, notably for the sustainability and digital transition. The initiative will also cover the **space and defence industry**.

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- Launch in 2021-27 a **Space Entrepreneurship Initiative ('CASSINI', Competitive Space Start-ups for INnovation)** to increase the number of start-ups using EU space technologies, their success rate and their capacity to scale up and grow. CASSINI is a new comprehensive initiative building on past actions scattered under different programmes such as Galileo and Copernicus, and supporting the generation of ideas, market testing as well as access to growth finance.

On skills:

- Improve access to skills needed for the twin transition through the new **Pact for Skills**, and an industry-led **European Skills4SMEs Partnership** dedicated to building a strong alliance between the public and the private sector in developing skills. This Partnership will provide a knowledge-sharing platform on how to develop tailored training to SMEs. In addition, spread best practices of SMEs in adjusting skills of their employees via integrating a dedicated category in the European Enterprise Promotion awards and promote a more entrepreneurial culture in Europe via implementation of the EntreComp framework²⁴.
- Support the building of competences under the **European Social Fund Plus (ESF+)**, and ensure that education and training are relevant for the labour market and needs of SMEs, notably concerning green and digital skills. The ESF+ will also invest in the reskilling and upskilling of workers to support their adaptation to the digital and green transformations.
- Attract talents from abroad, for example through a **simplified EU-wide visa scheme regime** attracting entrepreneurially and high profiled tech workers in third countries, and enabling their mobility within the single market. Such an EU-wide visa scheme can greatly increase the pool of talent that choose Europe and not other competing ecosystems (Asia, Silicon Valley). Another example is the introduction of an **attractive EU tax regime on stock options**, notably of start-ups, by ensuring that they are taxed the moment revenues are generated (and not before).

On IPR:

- Based on the upcoming intellectual property strategy, **strengthen SMEs' capacity to benefit from their IP** by:
 - Improving access to information on IP through Your Europe Business and the IPR Helpdesks;
 - improving access to strategic IP advice, including the existing "pre-diagnostic service", through integrating such advice in the EEN, the European Digital Innovation Hubs, Horizon Europe and regional programmes;
 - supporting SMEs to use intangible assets as collateral for financing by training and capacity building of both SMEs and financial institutions, in particular on IP valuation;
 - introducing measures to reduce the costs and complexity for obtaining, managing and enforcing IP protection, including when expanding internationally;
 - propose a directive requiring public authorities to leave IP rights to the suppliers in public procurement contracts whenever there is no public interest in keeping the IP at authority level²⁵.

²⁴ EntreComp is a framework developed by the Commission to raise awareness of entrepreneurship across all educational level

²⁵ See Guidance on Innovation Procurement

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3. Reducing the administrative burden and improving market access

SMEs want a favourable business environment and a stable and predictable legal framework. The burden of complying with regulations and administrative formalities has a cost, affecting SMEs most of all. For example in the sector of business services, costs incurred by SMEs when complying with administrative formalities can reach EUR 10,000²⁶. Clear and simple regulation will be particularly important in context of the Social Pillar initiatives and the Green Deal as this is likely to bring about new or important modifications to existing legislation. When assessing the impact of any legislative changes affecting SMEs, the EU and Member States need to consider them in context of all existing legislation and assess the cumulative impact.

Despite progress since the adoption of the Small Business Act in the framework of setting rules, regulation²⁷ is still the third most-pressing problem for SMEs in the EU-28, and the single most acute problem for 12% of them.

The Single Market is the go-to market for European SMEs: it accounts for 70% of the value of SME exports of goods, and 80% of all exporting SMEs sell to other Member States²⁸. Nevertheless, the SME Envoy Network²⁹ has warned that increasing regulatory complexity, the lack of a user perspective and digitalisation in the design of legislation, and its non-adaptation to market changes, are challenging European SMEs in taking advantage.

The Eurochambres 2019 Business Survey identified the biggest obstacles for firms, and in particular SMEs, when operating in the Single Market as: complex administrative procedures (mentioned by 80%); different national service rules (72%); lack of access to information on rules and requirements (69%); different national product rules (67%); different contractual/legal practices (66%); concerns about resolving commercial or administrative disputes³⁰, (61%) and differing VAT procedures (60%). For an average cross-border business, administrative costs are more than 50% higher than for an average domestic business. In practice, a business often experiences several of these obstacles at the same time when doing business in another country and frequently this multiplies by the number of Member States where the business would like to expand. These constraints deter many SMEs – and in particular microenterprises - from doing business across the Single Market³¹.

The “Barriers to the Single Market” Communication lists the barriers most reported by businesses and identifies their root causes. Many of these obstacles could be overcome or at least considerably reduced by harmonising practices and procedures across Member States in line with existing Single Market legislation. Others require better enforcement and implementation of EU legislation, which is the objective sought by the Enforcement and Implementation Action Plan³². The 2018 EU Single Digital Gateway Regulation will play an important role in bringing down some of these obstacles, by requiring Member States to create full online access to the most important and most often used procedures.

²⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0213&qid=1579254038425>

²⁷ European and national laws and industrial regulations (2019 Survey on Access to Finance SAFE)

²⁸ Annual Report on European SMEs – SMEs growing beyond borders

²⁹ 2018 SME Envoy Network report “Barriers for SMEs on the Single Market”

³⁰ including because of deficits in legal protection before national or European authorities and courts

³¹ European and non-European

³² Insert reference as soon as available

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Another problem is the low participation of SMEs in public procurement, especially cross-border where they account for only 25% of the value in cross-border procurement (compared to 33% at home)³³. Furthermore, small businesses do not yet have a right of fair access to data that concern them. And SMEs are often deterred from cross-border e-commerce by high delivery costs for cross-border parcels.

Third countries represent an important source of growth for SMEs which needs to be better exploited. So far, only 600,000 SMEs employing roughly 6 million people directly export goods outside the EU. Limited knowledge on market regulation, FTAs and investment agreements, as well as limited capacities to find international partners and access finance for activities abroad are obstacles. Furthermore, European SMEs do not always face the same conditions in third markets as local companies.

Under the Small Business Act, the Commission has already helped to reduce the administrative burden and improve market access for SMEs, notably through the "Think Small Principle", the Better Regulation agenda³⁴ - with its REFIT programme and the SME Test -, the EEN and ECCP. Beyond EU borders, the Commission has been negotiating SME chapters in all FTAs since 2015, and aiming to inform SMEs on the benefits of FTAs through dedicated SME centres, helpdesks and online information portals.

Building on this work, the Commission will continue to reduce the administrative burden for SMEs and improve market access.

Key Actions

Immediate

Pilot a bottom-up regulatory sandbox for SMEs in selected cross-border regions

Propose measures to ensure that SMEs can seize the opportunities of data-driven innovation and AI based on fair data governance

Longer term

Increase the use of adequate SME Tests for new legislative proposals from 30% to 80%

Roll out the Erasmus for Young Entrepreneur (EYE) Global Programme to further third countries

- Develop an SME filter³⁵ as a tool to support the systematic application of the "Think Small First Principle" and SME Test – notably on legislation introduced under the Green Deal and Social Pillar.
- Increase the systematic and proportionate application of SME test for new legislative proposals from 30% to 80%. External analyses³⁶ have found that only one-third of the analysed impact assessment reports included an SME test of a good quality. **Every impact assessment report should include an adequate SME Test.** A dedicated SME member in the Regulatory Scrutiny Board would strengthen the

³³ Analysis of the SME's participation in public procurement and the measures to support it, forthcoming study commissioned by DG GROW

³⁴ COM(2015) 215 final Better regulation for better results – An EU agenda:
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2015:0215:FIN>.

³⁵ Cf VP Maroš Šefčovič hearing at EP October 2010

³⁶ E.g. by business association Eurochambers

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Board's attention to the application of the SME Test and step up attention to SME-relevant aspects in impact assessment reports.

- Strengthen cooperation with Member States in implementing the "Think Small First" Principle by establishing a **regular structured dialogue between the REFIT platform and the SME Envoy Network**.
- Facilitate Single Market enforcement, and cross-border operations of SMEs by making the use of **digital compliance tools and the "Once Only" principle** a compulsory element of the SME Test.
- Propose the creation of **"Europe Inc."** (or a "29th company regime") building on the concept of the *Societas Europaea* to facilitate the expansion of start-ups across borders within the Single Market.
- Pilot a **bottom-up regulatory sandbox** for SMEs in selected cross-border regions and sectors to test implementation of these initiatives and other simplifications such as allowing a direct dialogue between SMEs and regulators.
- Promote greater participation of SMEs in public procurement by fostering the application of the **"Once Only" principle**, and the digital transformation of public procurement.
- Examine how the **Business Register Interconnection (BRIS)**, connecting Member States business registers and ensuring EU-wide access for everyone to information and documents stored in Member States' business registers via the European e-justice portal could be further developed and expanded (e.g. extending its scope and functionalities and application of the "Once Only" principle to SMEs).
- Increase the **use of standardization by SMEs** through partnerships with national bodies and networks by involving SMEs – including start-ups - more effectively in the production of standards. This will include an SME test for standards, a scrutiny mechanism for standards that can harm key SME interests as well as educational and awareness raising measures;
- In line with the forthcoming EU strategy on data, propose regulatory measures and incentives to ensure that SMEs can seize the opportunities of data-driven innovation and AI based on a **fair data governance**, notably in a business to business context. In addition, remove obstacles related to data portability and unfair contractual clauses in cloud computing contracts.
- Ensure that SMEs are properly informed and guided on how to take **full benefit of trade³⁷ and investment agreements** through dedicated coordinators within the EEN. International industry clusters, the new information portal "Access2Markets"³⁸ and support structures such as new SME Centres and additional European Business Organisations can assist SMEs further in their expansion into third markets. FTAs and support structures are also key elements in ensuring a level playing field for European SMEs and enforcing IP protection.
- Enable SMEs to mobilise loan and equity financing for their activities outside the EU through the **Neighbourhood, Development and International Cooperation Instrument**, notably the External Action Guarantee.

³⁷ i.e. both, new trade agreements with specific SME chapters and old trade agreements without such chapters

³⁸ A single access point to trade information and market access conditions under each trade agreement

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- Roll out the **Erasmus for Young Entrepreneur (EYE) Global Programme** to further third countries to provide new EU entrepreneurs the opportunity to gain experience globally.

4. Improving the financing of SMEs

SMEs experience a major finance gap in Europe, hindering their growth potential and the creation of new companies. Despite substantial public support programmes at EU and national level, Europe faces a debt finance gap amounting to 20-35 billion EUR.³⁹ In 2019, 18% of SMEs in the EU did not obtain the full bank loan they had planned for.⁴⁰ Especially innovative, fast-growing companies are confronted with difficulties in accessing finance in Europe and therefore often leave for third markets.

European SMEs are heavily reliant on bank-based finance, which in 2018 accounted for roughly 90% of their financing needs. Only 2% of SMEs in Europe use equity financing, compared to the US where over a quarter of all financing was provided through capital markets and Venture Capital (VC) investments amounted to 0.40% of GDP in 2017 (roughly 8 times larger than the EU)⁴¹.

Whilst the Late Payment Directive has led to a reduction of payment delays, according to a recent study⁴², only 40% of businesses in the EU are paid according to the terms agreed in the contract. In certain sectors, whose value chain is composed primarily of SMEs (e.g. construction) late payment occurs in 70% of the contracts. **Late payment** accounts for 1 out of 4 bankruptcies among SMEs in the EU. Moreover, SMEs often do not claim interests and compensations when they are paid late, let alone go to Court to claim payment, out of fear of losing their clients and prospective contracts. This makes SMEs more vulnerable to unfair payment practices. As late payment is deeply embedded in the business environment, there needs to be a decisive shift towards a new business culture where prompt payment is the norm.

Over the last years, EU financial instruments (2014-2018) have helped to mobilise EUR 100 billion of financing that support over half a million SMEs.⁴³ Within its Capital Markets Union (CMU) initiative, the Commission has put in motion a comprehensive set of legislative and non-legislative measures to improve SMEs' access to capital markets.

Key Actions

Immediate

Take a zero tolerance approach to enforcement of the **Late Payments Directive** by stepping up infringement procedures and launching a pilot on **conflict resolution/arbitration mechanisms**

³⁹ Per year during 2014-2018; see: https://eur-lex.europa.eu/resource.html?uri=cellar:97218bf4-6a31-11e8-9483-01aa75ed71a1.0001.03/DOC_2&format=PDF

⁴⁰ European Commission and European Central Bank, "Survey on the Access to Finance of Enterprises", November 2019

⁴¹ Israel's share is at 0.38% and Canada at 0.18%

⁴² 2018 EU publication "A comparative analysis of legal measures vs. soft-law instruments for improving payment behaviour"

⁴³ Draft general budget of the European Union for the financial year 2020, Working Document Part X, COM(2019) 400 - June 2019. More recent numbers not yet confirmed.

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Launch the ESCALAR initiative, which provides a first of a kind risk/reward mechanism crowding in private investments to support the scaling up of companies through venture capital

Longer term

Review the Late Payments Directive to remove loopholes especially on enforcement

Establish a new private-public fund specialising in Initial Public Offerings (IPOs) for SMEs

Building on these achievements, and in order to address the persisting financing gap, the Commission will:

- Continue its substantive support to SMEs through the InvestEU programme (earmarking at least €11.25 billion of the budgetary guarantee). Complementing initiatives at national level, the SME window of InvestEU will support SMEs and small midcaps that are perceived as high risk or have insufficient collateral, and would not be financed in the absence of the EU guarantee. The Commission will prioritise funding for areas of special EU policy interest such as sustainability, digitalisation, innovation or gender-smart financing.
- Improve SMEs access to alternative sources of finance, notably in context of the revised CMU. The Commission will establish a new private-public fund specialising in Initial Public Offerings (IPOs) for SMEs which will facilitate public listing by SMEs and help them to scale up and create new jobs. The number of European IPOs still remains below pre-crisis levels, which merits targeted action to improve SME access to public equity markets.
- Launch the ESCALAR initiative⁴⁴ to support scaling up of companies through venture capital investments supported by EU guarantees. This initiative contains a first of a kind risk/reward mechanism in view of crowding in private investments for European venture and growth capital funds. The ultimate goal is to ensure that fast-growing companies have access to growth capital in Europe and to create a diversification of the institutional investor base (e.g. increase participation of pension funds in VC).
- Analyse how SMEs, notably start-ups, could make better use of the FinTech sector. The emergence of new FinTech solutions has the potential to provide SMEs with much faster, cheaper and more sustainable market access, alternatives to raise capital (e.g. crowd funding) and with faster payment options⁴⁵.
- Ensure all these sources of finance are identifiable and accessible via the Access to Finance pages on Your Europe⁴⁶.

⁴⁴ European Scale-Up Action for Risk Capital

⁴⁵ In particular, distributed-ledger technologies ("blockchain") are drivers of the digitalisation of SMEs, as they enable the seamless integration of value chains and advanced manufacturing with crypto payments and smart contracts. This token economy requires adequate framework conditions and better digital education for entrepreneurs to make best use of the opportunities created by new technologies. Cloud computing is a driver of the digitalisation of SMEs that can allow them to scale easier by being cloud native. Distributed ledger technology can enable the seamless integration of value chains and advanced manufacturing with tokenised payments and smart contracts. Making the most of these digital opportunities requires better digital education for entrepreneurs. The EU will support these developments in a new Digital Finance Strategy in Q3 2020.

⁴⁶ As also required by the Single Digital Gateway Regulation (2018/1724, Annex I, section O)

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- **Encourage more SME-friendly taxation** in Member States by exchanging good practices for instance in creating a better tax framework for start-ups, stock options and sustainability investments, and by harmonizing VAT rules across Member States.
- **Make the EU a "late-payment-free" area for SMEs** by ensuring that the public sector sets an example through infringements; fostering education and credit management competences for entrepreneurs; and facilitating the uptake of Fintech and e-invoicing.
- **Reviewing the Late Payments Directive** to strengthen enforcement, combat unfair payment practices, and promote synergies with public procurement.
- **Setting up dedicated enforcement authorities** with power to issue sanctions and carry out investigations, as well as arbitration and mediation bodies.

5. **Delivering tangible results: a strong governance structure and adequate funding**

To deliver meaningful results for SMEs, there needs to be a strong governance structure, facilitating coordination of actions at EU and Member State level. A structured and systematic communication between Member States' authorities, EU policy makers and business organisations has to ensure, on the one hand, that EU SME policy reaches its final beneficiaries, and on the other, that the challenges they face are relayed directly to policy makers.

The current network of national SME Envoys together with the annual SME Assembly⁴⁷ have provided valuable communication and feedback, including through *ad hoc* thematic reports and their recent call for an EU SME policy⁴⁸. The end of the current mandate of the SME Envoy Network in December 2020 is an opportunity to reinforce the role of the Envoys and give them additional tasks.

There is also scope to improve the European Semester process to make SMEs policy more prominent.

The dedicated SME pillar under the forthcoming Single Market Programme and the dedicated SME Window under InvestEU are crucial but close coordination with other programme funds, such as Horizon Europe and regional funds that already have a strong SME focus will be essential to ensure sufficient funding of the strategy. Finally, it needs to be clear which companies qualify as SMEs and benefit from SME policy and support measures.

Key Actions

Immediate

Strengthen the SME Envoy network by appointing a dedicated high profile EU SME envoy

Initiate a group of Strategic Entrepreneurship Ambassadors as an advisory cross-economy expert group

The Commission will therefore:

⁴⁷ See Review of the "Small Business Act", COM(2011)78 final of 23.2.2011, pt. 4

⁴⁸ Call of the SME Envoy Network for a vigorous and forward-looking EU policy for small businesses, July 2019.

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- Strengthen the **SME Envoy network** by increasing its responsibility in the formulation and implementation of policies, by expanding its coverage to regional and local level, and/or regular interaction with the Committee of the Regions, and by appointing a dedicated high profile EU envoy.
- To complement the public sector SME Envoy network, launch a group of **Strategic Entrepreneurship Ambassadors** as an advisory cross-economy expert group composed of entrepreneurs from the private sector with a strong track record of starting and growing companies, and successfully innovating in new technologies. They should act as a strategic resource for the Commission, enabling it to accelerate implementation of key strategic initiatives, including the SME Strategy.
- Ensure a strong and systematic link between the **EEN and EU regional programmes**, as well as between the **EEN and the SME Envoy network** to ensure a comprehensive and coordinated approach to implementing the SME strategy.
- Ensure effective coordination of EU policies on SMEs as well as the funding of the actions under this strategy across various programmes through a Commission **SME Task Force** with support of dedicated SME teams in all relevant Directorates-General.
- Reinforce the SME aspect in the **European Semester** process – possibly by introducing a specific SME chapter and/or through greater involvement of SME Envoys.
- Modernise the **SME definition** to clarify which companies qualify as SMEs and thus, benefit from EU SME policy and related support tools. To allow SMEs – among other things - to be checked against this definition, the Commission will include relevant information such as on ownership structures, in the EU-wide Business Register Interconnection.