European Parliament

Helping European SMEs to grow

Start-up and scale-up initiatives for business ventures in the EU

IN-DEPTH ANALYSIS

EPRS | European Parliamentary Research Service

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Members' Research Service

June 2017 — PE 603.967

EN

This publication looks at the performance of European small and medium-sized enterprises (SMEs), their growth and employment-creating potential, and the main obstacles they face. It also examines recent policy initiatives and programmes aiming to help businesses in the European Union to start up and scale up.

PE 603.967
ISBN 978-92-846-1134-8
doi:10.2861/433038
QA-01-17-565-EN-N

Original manuscript, in English, completed in June 2017.

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EXECUTIVE SUMMARY

Small and medium-sized enterprises (SMEs) are often considered to be the backbone of the European economy. In 2015, more than 22.3 million SMEs in the European Union constituted 99.8 % of all non-financial enterprises, employing around 90 million people and generating around 58 % of total added value. SMEs suffered during the economic and financial crisis but have been recovering since 2014 in terms of employment and value added.

As many as 9 out of 10 European SMEs employ fewer than 10 people, which implies that they often face difficulties with scaling up, especially when compared to their United States or Japanese counterparts. On the other hand there is growing evidence that a limited number of high-growth firms create most of the new jobs in the economy. The importance of nurturing these companies was recognised in the Europe 2020 Strategy, one of the goals of which is to create advantageous conditions for high-growth SMEs.

However, SMEs, owing to their smaller size, face specific obstacles to growth and development. These can be internal (such as insufficient skills), administrative or regulatory (for instance taxation), or financial (they find it more difficult to access finance than larger enterprises). Other pressing problems faced by SMEs are finding customers, shortage of skilled staff or experienced managers, competition, and high production and labour costs. There are also barriers specific to starting up and scaling up, such as insufficient availability of non-bank finance (lack of access to venture capital funds, and business angel capital and know-how), limited access to information and intellectual property rights (IPRs), and the high cost of compliance with tax laws. Bankruptcy regimes are often prohibitively harsh, which may prevent potential entrepreneurs from starting a business or discourage second attempts.

European policymakers broadly recognise these challenges. The EU is striving to create a business-friendly environment, promote entrepreneurship, improve access to new markets and encourage internationalisation, facilitate access to finance, support SME competitiveness and innovation and provide SMEs with key support networks and information. Measures to attain these objectives include a mix of legislative and non-legislative initiatives in various fields, as well as support programmes and networks.

The main recent initiatives launched to help European SMEs grow are parts of the flagship initiatives of the Commission: the investment plan, the single market strategy, the digital single market, and the capital markets union. A November 2016 start-up and scale-up initiative includes measures such as a pan-European venture capital fund of funds, an EU insolvency law, a simpler tax regime, and innovation and entrepreneurial ecosystem support, a new framework for intellectual property and a focus on providing the workforce with the skills businesses need.

Furthermore, a wide range of measures aimed at improving access to finance include proposals on securitisation, venture capital, long-term investment funds and simpler rules on raising capital (prospectus). A more efficient single market for SMEs is also being promoted through new e-commerce and contract rules, as well as measures to digitise European industry and to open up business services markets across the EU.

Finally, in the 2014 to 2019 period, substantial financial, know-how, innovation and networking support is on offer under programmes such as COSME and Horizon 2020, various structural and investment funds, and the EU Programme for Employment and Social Innovation.

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Glossary

Entrepreneurial ecosystem: the resource allocation system that drives the allocation of resources towards productive uses through innovative and high-growth new businesses. This implies that the primary activity of an entrepreneurial ecosystem is to facilitate the creation of new businesses, but the ultimate outcome is the resource allocation dynamic.

Gazelle: a high-growth enterprise that is up to five years old.

High growth enterprise: an enterprise with an average annualised growth rate greater than 10 % or 20 % per year over a three-year period (Eurostat accepts both thresholds). Growth can be measured by the number of employees or by turnover.

Later-stage venture: finance for the expansion of an operating company. Later-stage venture tends to finance companies already backed by venture capital firms.

Pre-seed financing: designed to enable an idea or initial concept to be researched, assessed and developed before a company begins the formal start-up process.

Scale-up company: a company that is expanding and growing rapidly in terms of market access, revenue or number of employees.

Seed financing: provided for companies at a very early stage to help them advance from the idea or prototype stage to earning their first commercial revenues.

SMEs: Whether or not an enterprise is an SME depends on the number of employees and either turnover or the total amount on its balance sheet. *Medium-sized* enterprises are those with under 250 staff and either a turnover equal to or less than €50 million, or a balance sheet equal to or less than €43 million. *Small* enterprises are those with fewer than 50 staff and whose turnover or annual balance sheet does not exceed €10 million. *Micro* enterprises are those with under 10 staff, and an annual turnover or balance sheet of less than €2 million.

Start-up: an entrepreneurial venture set up without the involvement of other enterprises and with at least one employee. Companies created as a result of mergers, restructuring or break-ups are not considered to be start-ups.

Start-up financing: aimed at helping with mass production/distribution and initial marketing; for companies that have not yet sold their product commercially.

1. Introduction

1.1 Legal basis

Less than 5 % of European SMEs conduct cross-border business in the EU. While being subject to considerable national legislation, SMEs are also affected by EU legislation in many important aspects of their operations, such as taxation (Articles 110 to 113 of the Treaty on the Functioning of the European Union (TFEU)), competition (Articles 101 to 109 TFEU) and company law (right of establishment – Articles 49 to 54 TFEU). Furthermore, sectoral EU legislation such as transport often impacts on SMEs.

1.2 European SMEs at a glance

In 2015, more than 22.3 million SMEs in the European Union constituted 99.8 % of all non-financial enterprises. Often referred to as the backbone of the European economy, they employed around 90 million people and generated around 58 % of total added value (€ 3.9 trillion)[1]. Over the past five years SMEs have created around 85 % of new jobs[2] and provided two thirds of total private sector employment in the EU, ranging from 53 % in the United Kingdom to 86 % in Greece. An average SME has four employees.

Most European SMEs are independent enterprises[3] and do not belong to an enterprise group. However, in the sub-segment of medium-sized SMEs, the entities are very often part of a group, mostly in manufacturing and to a lesser degree in knowledge-intensive business services. These dependent enterprises generate a large proportion of the total growth generated by SMEs. Overall, SMEs create a higher proportion of value added in the services sector than large enterprises.

The five most important sectors for SMEs are (i) manufacturing, (ii) construction, (iii) business services, (iv) accommodation, and (v) food and wholesale and retail services, which together account for 79 % of all SMEs, 71 % of SMEs' value added and 78 % of SME employment.

Every year around 200 000 SMEs go into bankruptcy, affecting 1.7 million workers.[4]

1.3 International comparison

According to the Organisation for Economic Co-operation and Development[5] (OECD) Europe has more entrepreneurs per capita than the United States of America, a country often referred to as a world leader in entrepreneurial excellence.

However, many European companies do not manage to grow to scale. For example, as many as 92 % of all enterprises[6] in the euro area have fewer than 10 people employed, while this figure is 79 % in the USA and 86 % in Japan. Companies that have more than 250 staff account for only 0.2 % of all enterprises in the euro area, while the figures are 0.4 % for Japan and 0.6 % in the USA.

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[1] See the opinion of the European Economic and Social Committee, Promoting innovative and high growth firms, 14 December 2016.

[2] Data from the European Commission's website.

[3] As mentioned in Eurostat's website.

[4] European Commission data from November 2015.

[5] OECD, Entrepreneurship at a glance, September 2016.

[6] idem.

2. Performance of European SMEs

2.1 SMEs during the economic crisis

Over the 2008 to 2014 period, as many as 20 Member States showed net employment reduction among SMEs, and eight reported double-digit net employment losses[7]. The situation was exacerbated by the fact that micro-SMEs, which are most vulnerable to the effects of a crisis, market cycles and tightening financing conditions, play a relatively larger role in southern and eastern Europe compared with the EU-28 average. In some cases the net decrease in average SME employment occurred mainly because of the losses experienced by micro-SMEs.

In roughly two thirds of Member States, a majority of industries showed a negative performance in SME employment from 2008 to 2014. On average, during the economic downturn, only about one in two newly established firms survived. The bankruptcies in the SME sector came in four waves[8]: in 2009, 2010, 2012 and 2013. The average number of employees per SME in the EU28 plummeted in the post-crisis years (2008-2013), but the numbers have stabilised since 2013 at four employees per enterprise. This suggests that employment growth in recent years has been driven by new enterprises rather than existing ones.

The ratio of non-performing SME loans has risen since 2008 in three of the six Member States for which historical data are publicly available (Hungary, Italy, and Portugal). In 2014 it ranged from 17 % to 21 % in these countries. The ratio of non-performing SME loans currently seems to be high in many of the Member States, particularly those that were hit hard by the economic crisis.[9] According to the Commission, these figures suggest[10] that 'the SME sector in these countries may experience further high levels of involuntary SME business cessation if the economic outlook does not improve markedly over the coming years'. However, as explained in the sections below, recovery seems to be under way.

2.2 Employment

One of the main tools used by the Commission to monitor the implementation of the Small Business Act is the SME Performance Review. The 2015-16 edition[11] shows that SME employment has been growing moderately since 2013 (by 1.1 % in 2014 and 1.5 % in 2015), with the highest rates being observed in the knowledge intensive sectors. SME employment in 2015 remained below pre-crisis levels. In 2015, 1 150 000 fewer people were employed in SMEs than in 2008 (-2.2 %).

All the Member States with the exception of Finland reported either stable employment or an increase in employment between 2014 and 2015, with growth ranging from 0.1 % in France to 4.8 % in Malta. Finland was the only Member State to experience a decrease in employment at -0.3 %.

Employment figures are likely to have been positively affected by increased household consumption expenditure, which rose by 2 % between 2014 and 2015, and by stronger investment, which rose by 4 % in the same period. There are important differences in

[7] European Commission, Annual Report on European SMEs 2014/2015, 2016, p. 4.

[8] European Commission, Annual Report on European SMEs 2015/2016, 2016, p. 53.

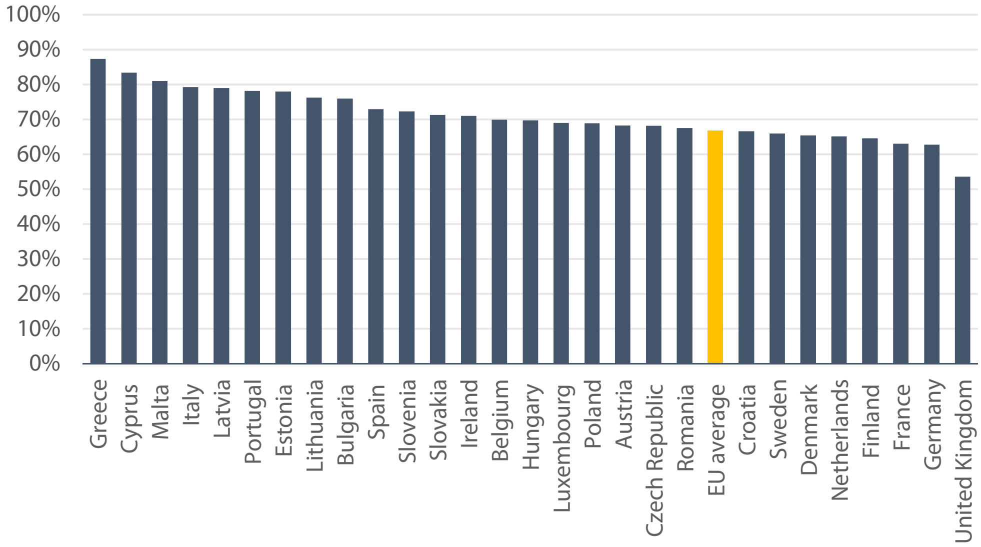
[9] Cyprus, Greece, Spain, Hungary, Ireland, Italy, Portugal and Slovenia.

[10] European Commission, Annual Report on European SMEs 2015/2016, 2016, p. 62.

[11] idem.

the number of people employed by SMEs across Europe, ranging from 87 % of the workforce in Greece to 53 % in the United Kingdom, with the EU average being 66 %.

Figure 1 – Number of people employed in SMEs as % of total number employed in enterprises in 2015



Data source: European Commission, interactive SME database, 2016.

2.3 Value added

SME value added has grown at a faster pace than employment, reporting growth of 3.8 % in 2014 and 5.7 % in 2015. The level of SME value added has exceeded pre-crisis levels since 2014. Added value in 2015 was 8.6 % higher than in 2008 (+€336 billion).

Only two Member States (Estonia and Greece) reported a decline in value added in 2015. Value added is likely to have been positively affected by growth in exports in goods and services and the weakening of the euro exchange rate (for SMEs exporting outside of the euro area).

2.4 Exports

In 2013 only 1.2 million of a total of 22.3 million SMEs in Europe were exporting their goods or services abroad. Of these, 1 million were exporting to countries within the EU and 0.6 million were exporting outside the EU. Around 0.4 million of SMEs were exporting to both of these markets. Between 2011 and 2013 the number of SMEs exporting within the EU increased by about 15 %, while the number of SMEs exporting outside the EU increased by 20 %. The EU continues to be the most important destination in value terms for SME exports: in 2013, it accounted for 67 % of the total value of SME exports.

The size of SMEs is reflected in their export patterns: micro SMEs tend to export mainly within the EU, with less than 50 % selling products and services outside the EU. In contrast, 72 % of medium-size SMEs export outside the EU.

2.5 Outlook for 2017

The Commission forecasts[12] moderate growth in employment and faster growth in value added in 2017, albeit at a slower pace than in 2015. Employment is expected to grow by

[12] European Commission, Annual Report on European SMEs 2015/2016, 2016, p. 47.

1.1 %, value added by 4 % and the number of enterprises by 1 %. Italy, Hungary, and Estonia are all predicted to experience a contraction in employment, while Greece is the only country in which value added is expected to fall.

3. SMEs, growth and job creation

According to Commission estimates, including those of the special report accompanying the Annual Report on SMEs 2015/2016, an increase of 1 % in the number of enterprises will result in an increase of 3 % in gross domestic product (GDP) in the long run. Since the long-term estimates are uncertain, the Commission adds that the effect on GDP at constant prices could be as low as 0.7 % or as high as 5.9 %. There are a number of other estimates examining the effect of enterprises on the generation of both jobs and added value.

3.1 SMEs and larger companies

The views of economists on whether SMEs generate more growth than large enterprises are inconclusive. The literature however suggests that SMEs are less affected by the international business cycle than large companies, since they are in general less open and exposed to international trade. This may be advantageous in times of global economic recession or stagnation. On the other hand, when compared with larger firms, SMEs may 'often produce somewhat weaker results,[13] such as lower profitability, higher staff turnover, lower rate of survival, less success in the field of innovation, lower capacity to invest in staff development and training, and so on'. The OECD study also points to greater variance[14] in profitability, survival and growth of SMEs as compared with larger enterprises.

In 2015 micro SMEs generated 21 % of value added, small SMEs 18 % and medium-sized SMEs 18 %. Large enterprises, meanwhile, created 43 % of value added. In terms of employment in the non-financial business sector, micro enterprises provided 30 % of total employment, while medium enterprises accounted for 20 % and small enterprises for about 17 %. Large enterprises accounted for approximately a third of total employment.

3.2 High growth firms and gazelles

According to the OECD, high growth firms generally represent a small percentage[15] of the total number of companies (on average 3-6 % in terms of employment and 8-12 % by turnover). The gazelles have an even smaller share of total business, representing on average 1 % of employment and 2 % of turnover and accounting for less than a fifth of high-growth companies. Data collected in 2016 for the EU[16] shows that high growth firms represent 17 % of all SMEs, ranging from 10 % in France to 32 % in Romania. Gazelles represent 6 % of all EU SMEs and Romania has the highest share with 6 % of SMEs classified as gazelles.

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[13] M. Szczepański, Barriers to SME growth in Europe, European Parliamentary Research Service, May 2016.

[14] OECD, Small businesses, job creation and growth: facts, obstacles and best practices, 1997.

[15] OECD, High-growth enterprises. What governments can do to make a difference, OECD Studies on SMEs and Entrepreneurship, 2010.

[16] European Commission, Survey on the access to finance of enterprises (SAFE), November 2016.

It appears from the research that such enterprises grow faster in terms of turnover than employment, even though this is more visible in the manufacturing sector than in services, where differences are less pronounced.

3.3 Job creation

There is growing evidence[17] that a limited number of high-growth firms create most new jobs. The OECD argues that start-ups and young firms are the engines[18] of job creation. A database[19] of 18 countries[20] shows that among SMEs young firms play a pivotal role in this respect, accounting for only 17 % of employment but creating 42 % of jobs. A similar report[21] by the OECD shows that firms less than five years old account for only 21 % of total employment, but create 47 % of jobs. The reality is likely to be more nuanced: research suggests that only a fraction of start-ups contribute significantly to job creation, while the majority remain very small or fail in the first years of activity.[22] OECD figures show that out of 100 micro start-ups entering the market, after five years only 1 to 8 have 10 employees or more, 36 to 71 still have fewer than 10 employees, and 26 to 58 do not exist anymore.

Earlier research by Birch and Medoff[23] concluded that during the 1988–1992 period, 4 % of the relatively small firms[24] created 70 % of all new jobs in the USA. A survey[25] of literature by Henrekson and Johansson also provided evidence that a small number of rapidly growing firms create a disproportionately large share of all new jobs compared with non-high-growth firms, and that the former tend to be relatively young companies. The same holds true even in a period[26] of great recession. Some also argue that predominantly young firms,[27] rather than small firms, are responsible for job creation. Nevertheless, the economic literature[28] seems to support the view that most of the high-growth firms are small.

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[17] S.-O. Daunfeldt, D. Johansson, D. Halvarsson, A cautionary note on using the Eurostat-OECD definition of high-growth firms, Journal of Entrepreneurship and Public Policy, Vol. 4 Iss: 1, pp. 50 - 56, 2012.

[18] OECD, No Country for Young Firms? Policy failures and regulations are a greater obstacle for start-ups than for incumbents, Directorate for Science Technology and Innovation Policy Note, June 2016, p. 1.

[19] OECD website, Employment dynamics, young businesses and allocative efficiency.

[20] Austria, Belgium, Brazil, Canada, Finland, France, Hungary, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, the United Kingdom and the United States.

[21] OECD Directorate for Science Technology and Innovation Policy Note, June 2016, p. 1.

[22] Some research at national level, e.g. from the United Kingdom, seems to point out that while the high growth firms seem to make disproportionately high contribution to job creation, their importance is diminishing.

[23] D.L. Birch, J. Medoff, Gazelles. Labor Markets, Employment Policy and Job Creation (pp. 159-167), 1994.

[24] In 1993, the average gazelle firm in the USA employed 61 people.

[25] M. Henrekson, D. Johansson, Gazelles as job creators - a survey and interpretation of evidence, Research Institute of Industrial Economics Working Paper No. 733, 2008.

[26] J. Ortmans, Deconstructing Job Creation from Startups, Kaufmann Foundation Policy Dialogue on Entrepreneurship, October 2015.

[27] J.C. Haltiwanger, R.S. Jarmin, J. Miranda, Who creates jobs? Small vs. large vs. young, National Bureau of Economic Research Working Paper 16300, August 2010.

[28] S.-O. Daunfeldt, N. Elert, D. Johansson, The Economic Contribution of High-Growth Firms: Do Policy Implications Depend on the Choice of Growth Indicator?, Journal of Industry, Competition and Trade, Vol. 14, Iss 3, pp. 337–365, September 2014.

3.4 Survival rates of new companies

Another 2015 working paper[29] by the OECD examined trends concerning start-up dynamics in 16 countries,[30] concluding that on the average the survival rate ranges from about 60 % after three years from entry, to about 50 % after five years, and to just over 40 % after seven years. In the majority of countries, the first two years of activity of those entrants that survive are characterised by a very high average employment growth rate. The study confirmed earlier findings that the large majority of micro start-ups do not increase in size. However, the fraction of these small start-ups that do grow (5 %) creates a disproportionately high number of jobs, ranging from 21 % of total job creation in Netherlands to 52 % in Sweden.

3.5 Views on effective growth-conducive SME policy

As engines of economic growth and employment, high-growth firms have attracted an increasing amount of attention from researchers and policymakers. For example, the European Commission, in its Europe 2020 strategy, mentions specifically that one of its aims is to 'create the conditions for high growth SMEs to lead emerging markets and to stimulate ICT innovation across all business sectors'.

Importantly, many researchers argue that it is practically impossible to identify in advance[31] which firms will achieve high growth levels. Therefore, rather than implementing policies aimed at targeting such firms specifically, policymakers should focus on improving the general conditions for new firm creation and early phases of enterprise growth.

A report[32] by the Danish government's SME representative to the Commission argues that increasing the number of start-ups does not necessarily result in additional scale-up companies. Even if the basic framework conditions necessary for both start-up and scale-up companies are the same, policies targeted at stimulating scale-ups are different from those aiming to stimulate more start-ups. There are no set rules on how many start-ups become scale-ups. Research only confirms that younger and smaller companies are more likely to become scale-ups. The report underlines that scale-up companies can emerge in any sector and region; therefore giving support to the whole entrepreneurial ecosystem seems to be essential to the success of companies.

The structural reforms pursued by the EU are likely to benefit both start-up and scale-up companies since they aim to remove obstacles to the fundamental drivers of growth by liberalising labour, product and service markets. This in effect encourages job creation, investment and higher productivity. The report also argues that a well-functioning single market is indispensable if European companies are to scale up.

The entrepreneurial ecosystem may be strengthened by actions promoting growth in individual companies (e.g. mentoring and access to training), actions boosting the supply and quality of resources in the ecosystem (e.g. by increasing the supply of capital, and

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[29] F. Calvino, C. Criscuolo, C. Menon, Cross-Country evidence on start-up dynamics, OECD Science technology and industry working papers, July 2015.

[30] Austria, Belgium, Brazil, Costa Rica, Denmark, Finland, Hungary, Italy, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden and Turkey.

[31] Daunfeldt, Elert, Johansson, 2014.

[32] Danish SME Envoy Report, Scale-up Companies– is a new policy agenda needed?, 2016, p.1.

improving education) and building stronger links in the ecosystem (e.g. by bringing together entrepreneurs and scientists).

Comparison between the EU and the USA

In the 2008-2015 period US SMEs outperformed EU28 SMEs, displaying cumulative value added growth of 18.8 % and SME employment growth of 5.8 % versus only 10.7 % cumulative growth in EU28 SME value added and a decline of 1.9 % in EU-28 SME employment. However, in the 2013-2015 period, growth in value added for all SME classes and employment in micro enterprises was higher in the EU than in the USA. [33]

When looking at the figures for market entry and exit of new firms there is no significant difference between the EU and the USA.[34] However, fewer European start-ups manage to survive beyond the critical phase of 2 to 3 years. Also, a smaller number of European companies grow into larger firms. For example, the percentage[35] of firms that grow by less than 5 % or not at all is over 45 % in Europe, while it is at 37 % in the USA. Half of all workers in Europe are employed by firms with fewer than 50 employees, whereas only a quarter of US workers are employed by US firms of equivalent size.[36] American enterprises are characterised by a higher number of companies with either rapid growth rates or with decreasing size than their European counterparts, indicating that, in view of limited resources, some companies have to shrink so that others can grow rapidly.

Even though enterprises in the USA start with smaller employment numbers[37] than in Europe, the ones that survive grow much more rapidly and on average achieve a larger size. Given that entry and exit numbers are similar, these differences in performance may indicate that the barriers to growth are higher in Europe than in the USA. It also suggests that barriers to entry may be similar.

It has been estimated that if the share of European scale-ups matched that of the USA, up to 1 million new jobs could be created and EU GDP could increase by up to €2 000 billion over the next 20 years. [38] Since bigger companies and scale-ups tend to be more productive than average SMEs, increasing their number could narrow the significant gap in productivity between the EU and the USA, which is currently estimated at 30 %.[39]

[33] European Commission, Annual Report on European SMEs 2015/2016, 2016, p. 24.

[34] This view has been challenged by T. Aubrey, R. Thillaye, A. Reed, Supporting investors and growth firms. A bottom up approach to the Capital Markets Union, June 2015. They compared Germany, France, Italy, Sweden and the United Kingdom with the USA and concluded that the birth and death rates of enterprises are more than two times higher in the USA than in these countries. This higher rate of start-ups in the USA increases the probability of development of faster growing companies. However, since this process is inherently risky the death rate is also much higher in the USA.

[35] A. Bravo-Biosca, A look at business growth and contraction in Europe, October 2011.

[36] Goldman Sachs, 'Unlocking Europe's Economic Potential through Financial Markets', European Economics Analyst, Issue No. 15/07, 21 February 2015, p. 4.

[37] E. Bartelsman, S. Scarpetta, F. Schivardi, Comparative analysis of firm demographics and survival. Mico-level evidence from the OECD countries, January 2003.

[38] European Commission, Europe's next leaders: the Start-up and Scale-up Initiative Communication, COM (2016) 373, November 2016, p.2.

[39] Danish SME Envoy Report (2016), p.1.

4. Main obstacles to SME growth in Europe

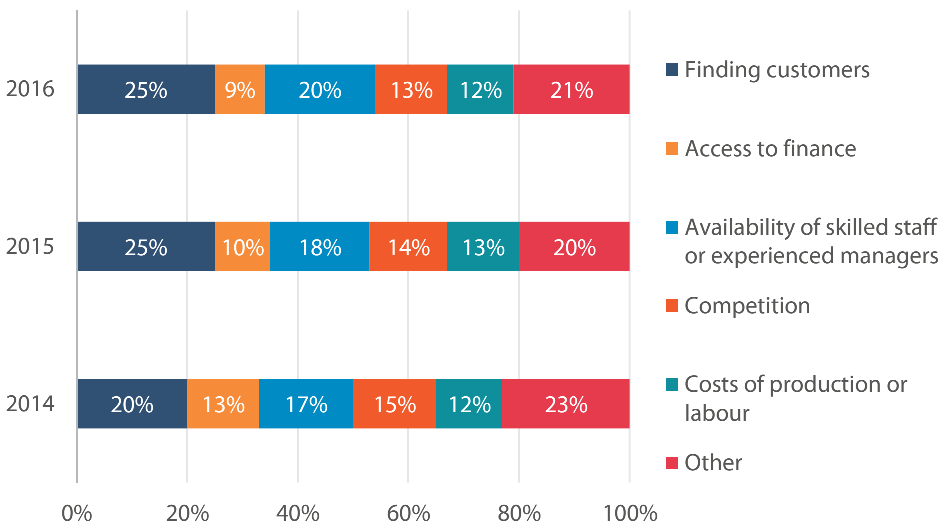
The economic literature broadly recognises that there are three categories of barrier to SME growth and development:[40]

- internal (e.g. insufficient skills and resources at enterprise level);
- administrative/regulatory (e.g. tax systems, complicated laws);
- financial (mainly access to finance).

Parliament has repeatedly underlined in its resolutions[41] that the SME-specific obstacles faced by enterprises are the result of their smaller size. It has highlighted that **reducing the administrative burden and meeting the financing needs** of SMEs are crucial issues that need to be addressed in order to create an environment conducive to business development and job creation.

The European Commission and the European Central Bank (ECB) conduct annual surveys on access to finance for enterprises (SAFE); these also monitor the most critical issues signalled by SMEs. The evolution of this survey is illustrated in Figure 2.

Figure 2 – Most pressing problems faced by SMEs in the period of 2014 - 2016



Data source: European Commission and ECB, SAFE surveys 2014-2016.

The main problem identified from 2014 to 2016, a period of relative recovery for SMEs, has been finding customers. SMEs that heavily rely on domestic markets have been hit by weak demand, which has not returned to its peak pre-crisis levels. Furthermore, it has been harder for them than for larger companies to switch sales to export markets or find new markets.

The second most pressing problem is the availability of skilled staff or experienced managers: the deficit of skilled labour makes it difficult for enterprises to fill vacancies. According to the Commission, the relative stabilisation and recovery of the European economy contributes to skilled labour force shortages in the SME sector. The reality is

[40] M. Szczepański, 2016.

[41] For more information see for example European Parliament's factsheet on SME policy.

likely to be more nuanced: a recent report,[42] for example, shows that educational systems in Europe often struggle to provide young people with the skills they need to succeed on the labour market. The shortage of ICT skills is a major business problem for many employers, who report they will need more skilled ICT workers by 2020.[43]

More than 20 % of enterprises reported competition as their most pressing problem. The Commission suggests that this might be related to the constantly rising costs of labour and inputs[44] to the production process (a most pressing problem for 12 % of SMEs), which increase the competitive pressure.

4.1 Access to finance

The financial and economic crisis had a negative impact on SMEs' access to finance. Their reliance on bank loans as well as high leverage, both being higher than for larger firms,[45] means that tightened credit conditions during the crisis affected them particularly badly, especially in countries[46] that were recipients of financial assistance. A recent report[47] by the Commission underlines that SMEs 'continue to be disadvantaged compared to large firms in terms of interest rates and the overall cost of borrowing, as European banks have increasingly differentiated the lending rates between small and large loans, in particular in the distressed countries of the euro area'.

However, according to the 2016 SAFE survey, the availability of finance seems to have improved over recent years: bank loan availability improved for 21 % of respondents (10 % in 2011), while it deteriorated for 7 % (20 % in 2011). Similar trends can be observed for other types of financing such as trade credit, equity, debt securities issued, bank overdrafts, credit lines, and credit card overdrafts. Only the availability of leasing or hire-purchase remained relatively unchanged since 2011. About 27 % of SMEs applied for a bank loan in 2016 (6 % did not apply because of fear of rejection). About 70 % of SMEs succeeded in getting all or part of the requested bank loan. The picture remains varied at national level, as for example in both Cyprus and Greece almost a quarter of SMEs report access to finance as being their most pressing problem, while for as many as 25 Member States this was reported by only 12 % of SMEs or less.[48]

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[42] T. Hüsing, W. Korte, E. Dasjha, 2015 e-Skills in Europe: Trends and Forecast for the European ICT Professional and Digital Leadership Labour Markets (2015–2020), Empirica Working Paper, November 2015.

[43] M. Mourshed, J. Patel, K. Suder, Education to Employment: Getting Europe's Youth into Work, Mc Kinsey Report, January 2014.

[44] In the economic literature these are divided into four categories: land, labour, capital and entrepreneurship.

[45] W. Bergthalter, K. Kang, Y. Liu, D. Monaghan, Tackling Small and Medium-sized Enterprise Problem Loans in Europe, IMF Staff Discussion Note, March 2015.

[46] A. Sannajust, Impact of the world financial crisis to SMEs: the determinants of bank loan rejection in Europe and USA, IPAG Business School Working Paper 2014-237, 2014.

[47] European Commission, Single Market integration and competitiveness in the EU and its Member States, Staff Working Document SWD(2015) 203, p.14.

[48] SAFE Survey, p. 136.

4.2 Administrative and regulatory burdens

The Commission's expert group on SMEs defined regulatory burden[49] as 'all costs that result from mandatory obligations placed on businesses by public authorities on the basis of a law, decree or similar act'. Administrative burdens can stem from EU or national laws and be general (such as taxation or accounting requirements) or sector-specific. Various studies conclude that for smaller entities the cost of compliance with regulatory burdens and requirements is disproportionately high.[50] The total cost of the administrative burden as a percentage of GDP varies across the EU[51] with Italy, Spain, Poland, Greece and Hungary reporting the highest levels (between 4.6 % and 6.8 %), while Finland, Sweden, the United Kingdom, Denmark, and Ireland report the lowest (between 1.5 % and 2.4 %). The burden on SMEs is heavy because of frequent failure to take the specific characteristics of small business into account when designing laws,[52] as well as the nature of regulatory burdens. The duties and obligations are often identical for smaller and larger firms, but SMEs are less efficient in dealing with regulation (for instance, they invest less in IT support systems, and in smaller companies the entrepreneurs themselves have to spend precious time dealing with compliance and reporting).

Taxation

Taxation is often considered by SMEs to be the most burdensome policy area affecting them. Again, it is a much higher burden for SMEs than for larger firms. The *'total tax compliance cost' to 'all taxes paid' ratio* is above 30 % for the former, while it is only 1.9 % for the latter. SMEs also suffer from disproportionately high value added tax (VAT) compliance costs[53] in relation to their turnover when compared with larger firms. Changes to laws, their complexity, the existence of different tax administrations, the complicated forms and language of tax laws, the strict deadlines for payment, and the cost of tax consultants (often used by SMEs) are the main reasons.[54] A 2015 study on SME taxation in Europe concluded that only five Member States favour SMEs over larger firms in terms of the actual burden of taxes paid.[55] Differences across the EU exist also in terms of the time needed to comply with tax requirements (with Nordic countries offering the simplest system, and the EU average being 176 hours) and tax payments per year (Sweden has as few as 6, Cyprus as many as 29, with an EU average of 12).

Regarding EU law, the Commission evaluates the impact of new or revised legislation on SMEs through its impact assessment process. Nevertheless some EU legislation, or its implementation at national level, creates additional difficulties for SMEs, as was

[49] European Commission, Report of the expert group - Models to reduce the disproportionate regulatory burdens on SMEs, May 2007.

[50] See for example the Commission's 2015 study on SME accounting in Europe, or its 2011 report on Minimising regulatory burden for SMEs.

[51] Irish Tax and Customs, Key administrative burdens faced by Revenue's Small and Medium-sized business customers, Irish tax and customs report, March 2008.

[52] European Commission, Entrepreneurship 2020 action plan - Reigniting the entrepreneurial spirit in Europe, COM(2012) 795.

[53] OECD, Taxation of SMEs in OECD and G20 Countries, OECD Tax Policy Studies, No. 23, September 2015.

[54] M. Szczepański, 2016.

[55] European Commission, SME taxation in Europe – An empirical study of applied corporate income taxation for SMEs compared to large enterprises, May 2015.

expressed in the results of a public consultation[56] on the 10 most burdensome laws for SMEs.

4.3 Bankruptcy regimes

The Commission's 2015/2016 SME report mentions that, in the EU, 82 % of firms created in 2012 and 67 % of firms created in 2011 survived into 2013. The rate of survival beyond the two-year-mark increases with enterprise size, but even for SMEs with more than 10 employees it amounts to a little over 80 %. The Commission estimates that, if 50 % of the owners of bankrupt SMEs had set up a new business, an additional 99 000 new enterprises generating between 198 000 and 396 000 jobs would have been created each year over the 2009 to 2014 period.

The Commission considers bankruptcy regimes to be too harsh in many Member States, which leads to missed economic growth opportunities. This is supported by academic studies showing that stringent bankruptcy regimes inhibit entrepreneurship, employment creation, economic growth, and innovation. According to the global ranking for resolving insolvency[57] published by the World Bank, half of EU Member States are not in the top 25 countries.

Harsh regimes may prevent potential entrepreneurs from ever starting a business and the length and cost of bankruptcy procedures may discourage a re-start for failed entrepreneurs. The Commission argues that 'the extent to which a bankruptcy regime is punitive is the most significant factor, statistically and economically, in explaining differences in the level of entrepreneurship across the 15 countries, and matters more than economic factors such as GDP growth and stock market returns.

4.4 Barriers to starting up and scaling up

In 2016 the Commission carried out a public consultation[58] in the context of its start-up and scale-up initiative (discussed in more detail in Section 5.1 of this paper). In both of these phases of a company's life the barriers are to a large extent the same, and they also mirror the barriers to SME growth mentioned earlier in this report: access to finance, high compliance costs related to tax and employment, and uncertainty about the regulatory environment.

Access to finance (particularly equity financing) constitutes a major obstacle for 72 % of start-ups, and for 65 % of those scaling up inside the EU. Empirical evidence from the Commission confirms that actual and perceived financing constraints are higher for smaller and younger firms, and decrease with firm age.[59]

Stakeholders underlined that the lack of scale of EU-based venture capital[60] funds[61], as well as difficult access to angel and venture capital, are very important barriers for

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56 For more details please see the results of the consultation.

57 T. Aubrey, R. Thillaye, A. Reed, Supporting investors and growth firms, June 2015. The ranking identified weaknesses in existing insolvency law and the main procedural and administrative bottlenecks in the insolvency process.

58 For more details see the consultation website.

59 European Commission, European Competitiveness Report 2014. Helping Firms Grow, Commission Staff Working Document SWD(2014) 277, p.145.

60 Venture capital involves taking of ownership interest in a company at an early stage in its life.

61 According to Boston Consulting Group, in 2014 around €26 billion was invested by venture capital in the USA, while only around €5 billion was invested in the EU. Furthermore, the Commission states in its

companies trying to grow. Non-bank finance indeed is an issue in the EU. Banks in Europe provide around 80 % of the funding for SMEs[62], whereas in the USA it is around 50 %. One estimate showed that as few as 11 000 of 23 million SMEs in the EU use capital markets.[63]

Start-ups owners and investors also mentioned company valuations and exit strategies as problems. As many as two thirds of respondents considered the rules and costs of hiring workers to be a major issue hampering growth.

Access to information on EU and national regulatory frameworks is challenging and highly resource-consuming for entrepreneurs, since relevant information needs to be obtained from numerous sources and it is often presented in a way that is not user-friendly. The quality of administration plays a role in scaling up. The Commission has gathered empirical evidence[64] that high-quality public administration is conducive to the growth of firms. Nearly 40 % of company founders reported that scaling up their company across the border had been harder than they expected, while only 10 % found it easier. As many as 76 % of respondents expressed strong concerns about bankruptcy and about being penalised for failure.

The stakeholders also underlined the issue of difficult access to industrial and intellectual property, as well as their protection, mainly on account of complicated procedures and high costs. More than 70 % of respondents underlined the need for more and deeper connections between local, regional and national entrepreneurial ecosystems. Skills shortages (mainly digital and technical), inadequate educational systems and training were also mentioned. Regarding taxation, which constituted a barrier to growth for more than half of respondents, the replies suggested 'a need to reduce and harmonise corporate taxation and VAT, ensure more stability of fiscal environment and make available transparent information about fiscal regimes and tax incentives for companies at Member States level'.

Aubrey, Thillaye and Reed (2015) carried out an analysis of the barriers to creating a greater number of large SMEs in the EU. They see some structural factors impeding rapid growth, such as rigid labour market regulations that hamper much needed flexibility. Furthermore, the financing of SMEs often requires some knowledge of their management and of local market dynamics. This makes the funding of SMEs an inherently local phenomenon. Furthermore, elevated risks generic to the financing of early-stage SMEs and business angel activities are also responsible for credit contraction and limited financing in these sectors.

Table 1 – Non-performing loans (NPL) and the likelihood of losing money on investments

Large companies	SMEs	Early-stage SMEs	Business angel investments
2.54 % NPL	6.93 % NPL	39 % NPL	44 % likely to lose money

Source: Aubrey, Thillaye, and Reed (2015).

communication Europe's next leaders: the Start-up and Scale-up Initiative that European venture capital funds are on average about half the size (€61 million) of those in the USA (€135 million).

62 AFME, An agenda for Capital Markets Union, 2014.

63 T. Aubrey, R. Thillaye, A. Reed, 2015.

64 European Competitiveness Report 2014. Helping Firms Grow, p.145.

5. Recent EU measures to help SMEs grow

EU policy on SMEs has five main goals:[65] to create a business friendly environment, promote entrepreneurship, improve access to new markets and internationalisation, facilitate access to finance, support SME competitiveness and innovation, and provide SMEs with key support networks and information.

Commission President Juncker's political guidelines,[66] which are centred around 10 main priorities, mention action to help European SMEs, such as addressing administrative and regulatory burdens, lowering the cost of raising capital, reducing SME dependence on bank funding, stimulating investment in new technologies, improving the business environment, facilitating access to markets and to finance, and ensuring that workers have the skills industry needs.

The main recent initiatives undertaken to help European SMEs grow fall under the following flagship initiatives of the Commission: the European Fund for Strategic Investments (EFSI), the single market strategy, the digital single market, and the capital markets union. However, there are plenty of other initiatives across many policy areas that serve the same purpose and that are discussed in this analysis.

5.1 Start-up and scale-up initiative

The November 2016 start-up and scale-up initiative is dedicated to removing barriers for start-ups to scaling up in the Single Market, creating better opportunities for partnership, commercial opportunities and skills, and facilitating access to finance. It comprises a set of measures and initiatives targeting some of the pressing problems that hamper the growth and creation of SMEs.

5.1.1 Access to finance

As announced in the capital markets union plan, [67] the Commission and the European Investment Bank Group are launching a Pan-European Venture Capital Fund of Funds.[68] The EU will provide cornerstone investments[69] of up to €400 million. Since each EU investment is capped at 25 %, the selected promoters must raise the remaining 75 % from private sources. This should trigger investment of about €1.6 billion, which is a significant amount, since the total of venture capital funds raised in the EU in 2015 amounted to €5 billion. The fund will invest in a mix of early-stage, later-stage, and expansion-stage venture capital funds to make it attractive to major investors. The Commission hopes that the fund will allow more SMEs to be financed for a longer period of time, as well as help diversify funding for start-ups, and promote innovation and non-listed companies.

Starting in 2017, the new category of multilateral trading facility (SME growth market), created under the Markets in Financial Instruments Directive II (MiFID II), will create

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[65] For more details see Commission's website on entrepreneurship and SMEs.

[66] J.C. Juncker, Setting Europe in motion, Statement in the European Parliament plenary session, October 2014.

[67] European Commission, Action Plan on Building a Capital Markets Union, COM 2015 (468), September 2015.

[68] According to the Commission, 17 applications from promoters of funds were submitted by the 31 January 2017 deadline.

[69] The EU investment combines resources from Horizon 2020's InnovFin Equity scheme (up to €200 million), EFSI (up to €100 million) and COSME (up to €100 million).

opportunities for SMEs to be listed on small exchanges and raise capital. There is also an ongoing study[70] on the effectiveness of tax incentives for venture capital and business angels, the results of which may lead the Commission to develop further ways to support Member State policies.

The Commission is addressing these issues across several policy areas. In the mid-term budget review, it proposed to increase the budget for EFSI and COSME,[71] reinforce existing financial instruments and mobilise additional financing for SMEs in the start-up and scale-up phases. In 2017 the Commission will examine the best practice in crowd funding and assess gaps in alternative sources of financing.

5.1.2 Insolvency framework

The EU reformed the insolvency rules with a 2015 regulation,[72] which clarified cross-border aspects of insolvency. The regulation did not harmonise the laws of the Member States. In order to further improve legislation on insolvency and the restructuring of companies, the Commission has proposed a first set of European insolvency rules under the capital markets union plan.[73] The directive is aimed at facilitating the early restructuring of companies so that they have a chance of avoiding bankruptcy and staff lay-offs.

The proposal introduces common principles on the use of early restructuring frameworks, which will make it easier for firms to continue their activities and protect jobs. Furthermore, it sets out rules making it easier for entrepreneurs to have a second chance, by proposing a full discharge of their debt after a maximum period of three years. Thirdly, the directive introduces targeted measures for Member States that aim to improve the efficiency of insolvency, restructuring and discharge procedures, reducing their length and costs, e.g. by means of training, specialisation of practitioners and courts, and the use of technology (online filing of claims).

The Commission argues that the new framework will help SMEs to pursue cross-border claims, recover higher amounts from debtors, and reduce barriers for the provision of cross-border credit. SMEs will have access to early warning tools to help detect a worsening business situation and launch restructuring at an early stage. The proposal also introduces model restructuring plans, to be developed nationally to facilitate the development of restructuring plans.

5.1.3 Taxation

In October 2016 the Commission made a new proposal to create a common consolidated corporate tax base (CCCTB).[74] It intends to introduce incentives for enterprises to grow and expand across borders inside the single market. Innovative start-ups and scale-ups would enjoy large tax deduction on investments in research and development, and the taxes would promote equity financing, which helps companies grow. The Commission

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[70] For more details refer to the Center for Social and Economic Research website.

[71] COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises.

[72] Legislative act, European Parliament and Council Regulation (EU) 2015/848 of 20 May 2015 on insolvency proceedings.

[73] European Commission, Proposal for a Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU, COM(2016) 723.

[74] For further details see G. Gimdal, Common Consolidated Corporate Tax Base, European Parliamentary Research Service, January 2017.

estimated in its impact assessment that the new CCCTB system will decrease compliance costs and time, as well as the costs of setting up a subsidiary, which will benefit SMEs, particularly those intending to invest in other EU countries. It is worth noting that the proposal makes the participation of SMEs in the common CCCTB voluntary, allowing them to opt in if they sense an interest.

In December 2016 the Commission proposed a VAT digital single market package[75] in order to facilitate selling and buying online, particularly for start-ups and SMEs. The measures include setting up an EU-wide portal for online VAT payments (the 'One Stop Shop') to reduce VAT compliance costs. Furthermore, VAT on cross-border sales under €10 000 will be handled domestically, and procedures for cross-border sales of up to €100 000 will be simplified. As regards invoicing and record keeping, the smallest enterprises will be allowed to benefit from the same familiar VAT rules as in their home country. The first point of contact will be the tax administration where the business is located, and there will be no further audits in other Member State where the companies make sales.

Other initiatives include a dedicated SME VAT package due in 2017, and guidance on best practice in Member States for venture capital tax regimes.

5.1.4 Support networks and enhancing ecosystems

The Enterprise Europe Network (EEN), which supports SMEs with expertise and knowledge, will help start-ups and scale-ups to navigate the often complex information sources with the help of their new dedicated scale-up advisors, who will inform companies on relevant national and European rules, funding opportunities, partnering, and access to cross-border public procurement. The EEN will also help to link SMEs and new and growing companies with other support networks and initiatives such as Startup Europe (which forges links between entrepreneurial ecosystems), Digital Innovation Hubs, and the manufacturing pilot lines for SMEs funded under Horizon 2020. Furthermore, in 2017, within the high level group of the Competitiveness Council, the Commission will support a thorough peer review of all national rules and practices concerning start-ups and scale-ups.

To further support SMEs, Startup Europe will boost its matchmaking capacity between investors, corporates and entrepreneurs, as well as improve the networking of regional decision-makers. By linking national and regional ministries, the Commission will assist innovation agencies and other stakeholders and ecosystems. The focus will also be on improving links with investors, business partners, universities and research centres.

Opening procurement markets to SMEs

The entry into force of a new framework for public procurement in April 2016 marked an important step towards including more SMEs in public procurement markets in Europe. The rules include provisions encouraging contracting authorities to divide large contracts into smaller parts, and limiting annual turnover requirements needed to be included in tenders to twice the contract value. Furthermore, companies will be required to provide full documentary evidence (often required in different formats and languages, which puts SMEs at a disadvantage) only if their bids are successful. Taking part will be possible on the basis of an electronic self-declaration.

EU procurement contracts have the potential to help SMEs with scaling up. In 2017, the Commission will introduce measures to build networks of buyers focused on public

[75] It comprised two Council directives and one implementing regulation. For further details see the dedicated website.

innovation procurement and connect them with businesses, while also easing access to risk funding. Furthermore, it will provide guidance on innovative procurement.

5.1.5 Creating innovation opportunities

To avoid creating additional regulatory barriers, the Commission is considering the potential impact on innovation of current and new regulation. To improve innovation support, the Commission plans to introduce changes in Horizon 2020 to provide bottom-up support (amounting to €1.6 billion from 2018 to 2020) for breakthrough innovation projects by start-ups with the potential to scale up. The Commission is also in the process of establishing a European Innovation Council,[76] which will aim to maximise the impact of EU research and innovation programmes by stimulating innovative start-ups and SMEs. Another important initiative, the Innovation Radar, enables SMEs to access experimentation and pilot facilities. Furthermore, it facilitates recognition of Horizon 2020-funded innovations with market potential at an early stage and the connecting of potential business partners and investors with innovators.

The European Institute of Innovation and Technology (EIT), created in 2008 to boost innovation and entrepreneurship across the EU, brings together higher education institutions, research laboratories and companies in 'knowledge and innovation communities'. The EIT assists SMEs in areas such as entrepreneurship skills, mentoring, and start-up accelerators for innovative companies. The EIT will consider launching schemes to invest directly in the scaling up of existing innovative companies by attracting investment from public and private sector sources as well as making use of existing instruments.

A 2015 report by the European Union Intellectual Property Office[77] found that while only 9 % of small businesses own intellectual property rights (IPRs), SMEs that use intellectual property generate 32 % more revenue per employee than their peers that do not, allowing them to offer more attractive wages and increase their workforce faster. Only 3 % of EU SMEs use rights with EU-wide coverage. High costs and the complexity of litigation often discourage innovative SMEs from enforcing their IP rights. SMEs also signalled that the reimbursement of legal costs awarded to the successful party often only covers a small part of the total costs incurred.

Therefore, in the 2017 to 2018 period, the Commission intends to adopt a set of measures to support the use of IPRs by SMEs by raising awareness of existing IP support schemes for SMEs, creating a European IP mediation and arbitration network for SMEs, promoting the creation of European-level insurance schemes for litigation and IP theft, and improving coordination of IP support funding schemes. The Commission will also seek to modernise the EU IPR enforcement framework with a special focus on SMEs.[78]

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[76] The High Level Group of Innovators overseeing the process published its statement of intent in May 2017.

[77] Office for the Harmonization in the Internal Market, Intellectual property rights and firm performance in Europe: an economic analysis, June 2015.

[78] For more details see: European Commission, Communication Towards a renewed consensus on the enforcement of Intellectual Property Rights: An EU Action Plan, COM(2014) 392, and European Parliament, Resolution of 9 June 2015 on a renewed consensus on the enforcement of intellectual property rights: an EU action plan (2014/2151(INI)).

5.1.6 Skills

In its 'New Skills Agenda for Europe'[79] adopted in June 2016, the Commission recognises difficulties for SMEs in recruiting skilled workers and announces plans to examine, together with the European Investment Fund (EIF), the feasibility of financial instruments specific to enhancing skills, supported by bank loans offering advantageous rates to SMEs. There are new initiatives aiming to close the skills gap such as the 'Digital Skills and Jobs Coalition', which supports cooperation between education, employment, and industry, so that the labour force has adequate digital skills, and the 'Blueprint for Sectoral Cooperation on Skills', which is meant to design sector-specific skills solutions based on an industry-led approach. The Commission is also examining the possibility of stepping up those EIT activities that promote entrepreneurship, management and innovation skills.

Other initiatives that may address the problems of skills shortages are the frameworks refining the teaching and assessment of skills: the European Entrepreneurship Framework and the Digital Competence Framework, which aim to bridge the worlds of education and work and become a reference for initiatives trying to boost the entrepreneurial and digital capacities of the European workforce.

5.2 Access to finance

5.2.1 The Investment Plan for Europe

The plan's main instrument is the European Fund for Strategic Investments (EFSI), which provides EU guarantees to mobilise private investment. One of the main goals of EFSI is to provide support for SMEs. By taking on a part of the risk of new projects through a first-loss liability, the fund enables private investors to participate under favourable conditions. Building on €16 billion in guarantees from the European Union (EU) budget and €5 billion from the European Investment Bank (EIB), EFSI is expected to allow more than €315 billion of additional investment to be mobilised over the 2015 to 2018 period. When it comes to smaller enterprises, more than 255 financing agreements with EFSI support have been approved, with total financing amounting to over €8 billion.[80] The projects and agreements approved for financing under EFSI so far are expected to mobilise over €168 billion in total investments across 28 Member States, giving access to finance to more than 387 000 SMEs.

In September 2016 the Commission proposed to double the duration of the fund (until 2020) and expand its financial capacity to €500 billion in investments, by increasing the guarantees to €26 billion and the EIB contribution to €7.5 billion. The Commission expects that a larger part of financing will be geared towards SMEs since 'the market absorption has been particularly quick under the SME window where the EFSI is delivering well beyond expectations'.[81] To ensure that sufficient funding is available to SMEs with EFSI support, the SME window was increased by €500 million in July 2016. The Commission is also promising a new product enhancing equity financing for fast-growing SMEs.

[79] European Commission, A New Skills Agenda for Europe - Working together to strengthen human capital, employability and competitiveness, COM (2016) 381.

[80] For more details refer to the Commission's press release from February 2017.

[81] European Commission, Strengthening European Investments for jobs and growth: Towards a second phase of the European Fund for Strategic Investments and a new European External Investment Plan, COM(2016) 581, p.3.

Furthermore, SMEs have been identified[82] as one of the sectors with the greatest need for advisory services. The European Investment Advisory Hub has been established to provide technical advice and assessments to help SMEs make their projects investment-ready. It is complemented by the European Investment Project Portal, which improves the visibility of investment opportunities and matches promoters with investors.

5.2.2 Securitisation

Securitisation[83] can benefit SMEs in multiple ways, for instance by making the amount of capital available for loans in the banking sector larger and by matching SME financing needs with the funds of bank and non-bank investors. This can happen when SME loans are securitised and therefore easier to trade. Securitisation also improves the ability of banks to fund and distribute risk.[84]

In September 2015 the Commission adopted a securitisation package[85] aiming to revive securitisation markets in Europe, which had been subdued since the start of the financial crisis. The proposals should help to finance SMEs by means of lending via SME asset-backed securities and commercial papers. Furthermore, the package should make it easier for banks to transfer risk off their balance sheets, freeing up capital for SMEs. The package will increase consistency and standardisation on the markets, which should lower the costs of securitisation for SMEs, costs that currently are higher than average. The proposals are currently being discussed in trilogue negotiations.

5.2.3 Venture capital

The main goal of a social enterprise is to achieve a social impact (rather than giving priority to profit or shareholder value). Funds that are dedicated to invest in social enterprises are hampered by specific obstacles: they can be expensive and hard to establish, and encounter difficulties in obtaining finance. Furthermore, they are not always easily distinguishable from other funds. Two regulations adopted by the EU,[86] define social fund 'brands' and set up uniform requirements and conditions for managers of collective investment undertakings who plan to use the label 'EuVECA' or 'EuSEF' when marketing these types of funds.[87] Under these rules all operators investing in start-up SMEs and social businesses need to register only with the competent authority in their home Member State, but are then able to market their venture capital and social entrepreneurship funds throughout the EU. The rules require that the funds commit at

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82 PricewaterhouseCoopers, Market gap analysis for advisory services, European Investment Bank, March 2016.

83 A European Parliament website describes securitisation as 'a financing technique by which homogeneous income-generating assets - which on their own may be difficult to trade - are pooled and sold to a specially created third party, which uses them as collateral to issue securities and sell them in financial markets'.

84 For more detail see the speech by ECB Executive Board member Y. Mersch on Banks, SMEs and securitisation, 7 April 2014.

85 European Commission, Proposal for a Regulation laying down common rules on securitisation and creating a European framework for STS securitisation, COM(2015) 472 and Proposal for a Regulation amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, COM(2015) 473.

86 Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds.

87 For more detail see A. Delivorias, Reviving risk capital: a proposal to amend EuVECA and EuSEF, European Parliamentary Research Service, 2017.

least 70 % of the capital to equity investments in unlisted SMEs or on equity or debt support for social enterprises.

In July 2016, as part of the capital markets union initiative, the Commission published a proposal[88] to amend the regulations. The amendments propose to include a wider range of asset managers (also allowing big fund managers to take part) to use the EuVECA and EuSEF labels, to increase the size of SMEs accepted as qualifying undertakings, and to decrease the costs and complexity of registration. In May 2017 the representatives of Council and Parliament reached agreement on new rules allowing larger fund managers (managing assets worth more than €500 million) to market and manage the funds and expanding the list of companies in which EuVECA funds can invest to include small unlisted mid-caps (up to 500 employees) and SMEs listed on SME growth markets.

5.2.4 Long-term investment funds

In 2015 the EU adopted a regulation on European Long-Term Investment Funds (ELTIFs).[89] These funds allow investors to finance companies and projects that need long-term capital. Listed SMEs that issue equity or debt instruments can also be financed using ELTIFS. The regulation established uniform ELTIF operation rules, in particular regarding the composition of their portfolios and the investment instruments that they are permitted to use to secure exposure to long-term assets, such as equity or debt instruments issued by listed SMEs and by unlisted undertakings.

5.2.5 Prospectus regulation

The new EU prospectus[90] rules will exempt the smallest capital raisings from the obligation to publish a prospectus (a lengthy and expensive endeavour). Start-ups and SMEs will be allowed to raise up to €1 million of capital on local markets without having to prepare a prospectus, which will be mandatory from €8 million upwards in capital raised (the previous threshold was €5 million).[91] Member States will be able choose to set limits between €1 million and €8 million, but no lower than €1 million (no obligation to draw up a prospectus), and no higher than €8 million (prospectus obligatory).

Smaller companies that want to raise money from across the EU will be able to use a new EU growth prospectus. It will be available for SMEs, mid-caps[92] admitted to an SME growth market, or even small issuances by non-listed companies. A shorter prospectus for secondary issuances will allow issuers to use a lighter prospectus for any consecutive issuances. The European Parliament and Council reached a compromise in December 2016 and adopted the act.

[88] European Commission, Proposal for a Regulation amending Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds, COM(2016) 461.

[89] Legislative act, European Parliament and Council Regulation (EU) 2015/760 of 29 April 2015 on European long-term investment funds.

[90] For further information see the relevant European Parliament website.

[91] European Commission, Proposal for a Regulation on the prospectus to be published when securities are offered to the public or admitted to trading - Prospectus Regulation, COM(2015) 583.

[92] There is no commonly agreed EU definition of mid-caps. However, according to the Commission, 'they are broadly said to have between 250 and 3 000 employees'.

5.3 Initiatives stemming from the digital single market and single market strategies

5.3.1 Contract rules for digital content and sale of goods

SMEs are affected by differing national contract law rules, generating an EU-wide one-off cost of around €4 billion for retailers selling to consumers. This additional one-off cost for enterprises is estimated to be around €9 000 for each Member State they intend to sell to. In order to remove these barriers to cross-border trade the Commission is proposing to introduce a standard contract regime[93] for digital content and online sales of goods. SMEs should benefit from these contracts as they are often highly affected by compliance costs. The new rules are also designed to boost cross-border trade and enable SMEs to find new markets, customers and reap the benefits of economies of scale.

The Commission estimates[94] that under the new rules at least 122 000 more enterprises will commence online sales to other EU countries, roughly between 8 and 13 million additional consumers will start buying online from other EU countries, increasing EU GDP by €4 billion. This increase in business and competition is likely to drive consumer prices down and increase household consumption in the EU by €18 billion. Consumers will have set rights with a high level of protection when accessing digital content and buying goods online. The proposals are currently being considered by the co-legislators.

5.3.2 New e-commerce rules

Consumers and businesses – particularly SMEs – are showing an increasing interest in cross-border trade in the EU, and online sales of products are rising by 22 % per year. At the same time many traders still refuse to sell to customers in another EU Member State or offer the same prices as to local clients. A Commission survey[95] found that only 37 % of websites allow customers from another Member State to reach the payment phase of the shopping process. Furthermore there were over 1 500 complaints[96] between 2008 and 2015 concerning cases of alleged inferior treatment on account of the customer's nationality, place of residence or place of establishment. To address these issues the Commission has proposed a regulation[97] prohibiting online traders from discriminating between online and local customers in their general terms and conditions, including price discrimination when selling goods or services. The draft text excludes from its scope copyright-protected content (mainly audiovisual and radio broadcasting services). The main burden for SMEs would be to ensure access to websites and prevent automatic re-routing.

Smaller enterprises and consumers often pay higher prices for cross-border parcel delivery and are served by fewer operators, particularly in peripheral areas. SMEs

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[93] The package consists of two directives. For more detail see the following EPRS briefings by R. Mańko, Contracts for supply of digital content to consumers and Contracts for online and other distance sales of goods, both 2016.

[94] European Commission, Digital Contracts for Europe - Question & Answer Factsheet, December 2015.

[95] European Commission, Geo-blocking of consumers online, May 2016.

[96] The Commission received these complaints either directly or via various channels such as Your Europe Advice, the European Consumer Complaints Registration system, European Consumer Centres, or questions by MEPs.

[97] European Commission, Proposal for a Regulation on addressing geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market, COM(2016) 289.

complain that this is an important obstacle to selling or buying more across the EU. In order to facilitate cross-border trade, the Commission proposed a regulation[98] in May 2016 to increase price transparency and regulatory oversight of cross-border parcel delivery services, in order to make them more affordable for customers and small businesses. The proposal is under examination by the co-legislators.

Another measure intended to improve the regulatory environment for retail markets is the proposal to strengthen the enforcement mechanism used by national authorities to address harmful practices.[99] This should benefit SMEs by allowing them to avoid legal expertise costs when exporting and increase certainty that EU consumer law is equally applied in the cross-border markets they wish to enter. The proposal is under examination in the European Parliament and the Council.

5.3.3 Digitising European industry

In April 2016, the Commission unveiled its digital industry package. The proposed measures include the European cloud initiative,[100] which will help build the cloud and data infrastructure and (openly available) research data. This will boost Europe's competitiveness by benefiting start-ups, SMEs and companies that use data as a basis for research and development and innovation. The Commission plans to invest €500 million in a pan-EU network of digital innovation hubs, to set up large-scale pilot projects to strengthen the internet of things, advanced manufacturing and technologies, and to encourage public – private partnerships to mobilise €50 billion for digitalising industry. Digital innovation hubs will give SMEs and start-ups access to knowledge and testing facilities in the latest digital technologies. SMEs will be able to utilise cloud-based and easy-to-use high-performance computing resources, applications and analytics tools. The Commission envisages that an increasing number of SMEs will be involved with each other via data and software centres of excellence, as well as data services innovation hubs for SMEs.

The package also includes a list of priority areas where EU standardisation is to commence, and proposes a regular process of adapting them in the future. The priorities include big data, cloud services and the internet of things, which are deemed crucial to improving competitiveness. These are all heavily data-based, and data is often recognised as a catalyst for economic growth, innovation and digitisation for SMEs and start-ups.[101] Furthermore, the joint initiative on standardisation, and measures to increase the interoperability[102] of technologies will help to create common open standards that will make it easier for SMEs to access new innovative services. The joint initiative, which is a stakeholder dialogue focused on improving standardisation at European level, involves SMEs from the outset in order to avoid the emergence of

[98] European Commission, Proposal for a Regulation on cross-border parcel delivery services, COM(2016) 285.

[99] European Commission, Proposal on cooperation between national authorities responsible for the enforcement of consumer protection laws, COM(2016) 283.

[100] European Commission, Communication on European Cloud Initiative - Building a competitive data and knowledge economy in Europe, COM(2016) 178.

[101] European Commission, Communication on a Digital Market Strategy for Europe, COM(2015) 192, p.14.

[102] The other important initiative in interoperability outside of this package is the Programme on interoperability solutions for European public administration, businesses and citizens (ISA2). It seeks to increase accessibility of e-government services with a particular focus on the SMEs.

incompatible standards that could hamper product development. Improved standardisation should help SMEs to compete with larger companies.

The package also includes the eGovernment Action Plan 2016-2020,[103] which aims to make the business environment more transparent by interconnecting all business and insolvency registries and linking them with the eJustice portal. The plan also envisages launching a pilot project for the 'once-only' principle[104] for businesses in the EU so that they will be required to supply public authorities in one Member State only with information that can then be re-used in different countries. This will also be applied to public procurement markets.

5.3.4 Data economy

In 2014 the Commission envisaged the data-driven economy as an ecosystem of multiple stakeholders[105] generating additional business opportunities, in particular for SMEs. However, the trend is increasingly towards storing data locally rather than sharing. This could create obstacles for data-driven SMEs and start-ups, and prevent them from scaling up (e.g. requiring them to invest in data centres in each Member State where they intend to conduct business). It may also hamper the centralisation of data and reduce the analytical capacities necessary to develop new products and services. To address these issues, the Commission announced a set of actions in its 2017 communication.[106] Principally, it will commence structured dialogues with Member States and stakeholders to determine the proportionality and nature of data localisation restrictions and their impact on businesses, especially SMEs and start-ups. Furthermore, and taking particular account of feedback from SMEs and start-ups, the Commission intends to launch infringement proceedings to address unjustified or disproportionate data location measures. The Commission will also take further initiatives on the free flow of data whenever necessary.

5.3.5 Single digital gateway

In May 2017 the Commission also adopted the single digital gateway proposal,[107] which will improve access to information for businesses. Problems[108] facing entrepreneurs include the fact that information is often scattered across several websites, that e-government portals are unevenly developed, that national product rules are often provided upon request only, that many procedures cannot be completed online, and that the lack of a single entry point for starting up a company prevents many from doing so. Since resources spent on familiarisation with legislation and its changes are often

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[103] European Commission, Communication on an 'EU eGovernment Action Plan 2016-2020 – Accelerating the digital transformation of government', COM(2016) 179.

[104] The *once-only* principle means that individual users/businesses should not be required to supply the same information more than once. For example, if information has already been submitted to one public administration, businesses or users ought not to be required to submit this same information again to another public administration.

[105] European Commission, Communication 'Towards a data-driven economy', COM(2014) 442. The ecosystem comprises 'data providers, data analytics companies, skilled data and software professionals, cloud service providers, companies from the user industries, venture capitalists, entrepreneurs, public services, research institutes and universities'.

[106] European Commission, Communication on 'Building a European Data Economy', COM(2017) 9.

[107] European Commission, Proposal for a Regulation on establishing a single digital gateway to provide information, procedures, assistance and problem solving services and amending Regulation (EU) No 1024/2012, COM(2017) 256, 2017/0086(COD).

[108] European Commission, Inception impact assessment: Single Digital Gateway, July 2016.

considerable, SMEs and start-ups are often disadvantaged and do not utilise the full potential of the single market. The gateway will provide SMEs with access to information on starting a business, employment, taxation and environmental rules, selling goods, providing services, product requirements, and access to finance. It will also direct them to further assistance services if necessary and allow completion of national administrative procedures online. At least 13 key administrative procedures are envisaged including five on either starting up or doing business (e.g. registration of business activity). The Commission estimates the annual benefits at between €11 billion and €55 billion.

5.3.6 European services e-card

SMEs, which are predominant in business and construction services markets (e.g. engineering firms, architects or IT consultants), are more affected by compliance costs than larger companies, especially when doing business abroad. The legislative proposal for the European e-services card[109] aims to enable SMEs to apply to provide services abroad in their home country, using the national language. The e-card is a simplified electronic procedure under which applications will be transmitted (after verification) from the home country single interlocutor to the host Member State. The latter retains the power to apply domestic regulatory requirements and to accept or, if justified, reject the application. The e-card will be available both for temporary provision of services, and for establishing branches and agencies abroad. This should reduce compliance costs for these SME-dominated sectors. The single digital gateway will be linked up with this procedure, which should facilitate the identification of the beneficiaries.

6. Main support programmes for European SMEs

6.1 COSME

The EU's programme for competitiveness and SMEs (COSME) has a total budget of €2.3 billion for the 2014-2019 period, with an expected generation of €25 billion in total financing from financial intermediaries via leverage effects. At least 60 % is dedicated to facilitating access to finance for SMEs by using two financial instruments. They are managed by the European Investment Fund (EIF) in cooperation with financial intermediaries in Member States.

The COSME loan guarantee facility (LGF) supports guarantees and counter-guarantees, including securitisation of SME debt finance portfolios, to financial institutions, so that they can provide more loans and leases to SMEs. The latest available data[110] shows that by the end of 2016 contracts for a total guarantee of €612 million were signed; these are expected to provide SMEs with almost €19 billion in financing. By that time the facility had supported 143 000 SMEs and 556 000 jobs. The second instrument, the COSME equity facility for growth, invests in equity funds that provide SMEs with risk capital

[109] European Commission, Proposal for a regulation introducing a European services e-card and related administrative facilities, COM(2016) 824 and Proposal for a directive on the legal and operational framework of the European services e-card, COM(2016) 823.

[110] European Investment Bank, Competitiveness of enterprises and SMEs – Loan Guarantee Facility, December 2016. In December 2016 the Commission signed an agreement with Ireland which will support €100 million in loans for SMEs.

(venture capital and mezzanine finance[111]) from the early stages up to the expansion and growth stages. As of the end of April 2017 the facility was active in nine countries with more than €103 million in financial support offered through intermediaries.

6.2 Horizon 2020

The EU supports SMEs through this programme, which is running from 2017 to 2020, with both direct financial support for their research, development and innovation projects, and by means of indirect support that increases their innovation capacity. The Commission expects that 20 % of the total combined budget for all the 'Societal Challenges' Europe 2020 policy priority and for the specific Horizon 2020 'Leadership in Enabling and Industrial Technologies' objective will go to SMEs. This amounts to more than €8 billion through which the EU will help to support either individual SMEs or consortia in which they collaborate with other firms and research organisations. The Commission stated in the start-up and scale-up initiative that so far all the financing activities have brought SME participation above the 20 % budget target level, while also increasing the number of demonstration projects, providing easier access to experimentation and pilot facilities, and delivering actions on innovative procurement.

6.2.1 Innovation in SMEs

The Horizon 2020 'Innovation in SMEs' objective assists innovative enterprises in a variety of ways. Approximately €3 billion of the total budget for SME support is allocated to the dedicated SME instrument. It provides direct funding for high potential, innovative (but often highly risky) SMEs. The funding focuses on the concept and feasibility phase (assessment of project potential) and the innovation stage (e.g. testing, prototyping, project development). As of November 2016 nearly 2 000 SMEs had received support for their innovative projects. The Commission estimates[112] that over 7 500 SMEs will be beneficiaries of the instrument over the whole funding period.

Innovation in SMEs supports entrepreneurial ecosystems through actions such as tailored services (IPR advice) and projects helping capacity building, networking and mobilisation, as well as the Eurostars joint programme, which promotes cross-border cooperation of SMEs focused on research and development, with a total budget of €1.14 billion.

6.2.2 InnovFin and the expansion and growth window

InnovFin – EU finance for innovators – is a joint initiative launched by the European Investment Bank Group (EIB and EIF) in cooperation with the Commission under Horizon 2020. It offers a series of integrated and complementary financing tools and advisory services. InnovFin covers the entire value chain of research and innovation, supporting investments in, among others, SMEs. By the end of the funding period, InnovFin is expected to make over €24 billion of debt and equity financing available to innovative enterprises (SMEs, mid-caps and large companies) which will support €48 billion of final investments.

InnovFin SME Guarantee provides loans, guarantees and other forms of debt. It focuses on research and innovation-driven SMEs, enabling financial intermediaries to provide debt financing at favourable terms. InnovFin SME Venture Capital is an equity product

[111] Mezzanine finance is a collective term for hybrid forms of finance, which forms a bridge between two main types of finance: senior debt and pure equity financing (and has features of both).

[112] For more details see the dedicated SME website of Horizon 2020.

providing finance mainly for early-stage research and innovation-driven SMEs. The aggregate investment to venture capital funds made out of this facility is estimated to support between €1.6 and €2 billion of equity financing for final beneficiaries.

InnovFin Equity provides innovative entrepreneurs and SMEs with equity investments and co-investments in the pre-seed, seed, and start-up phases. It is expected to mobilise a total of €4 to 5 billion in investment. It comprises four different products. InnovFin Technology Transfer aims to accelerate technological innovation by supporting technology transfer projects or rights. It targets investment in technology transfer funds operating in the pre-seed and seed stages. InnovFin Business Angels provides equity investment in funds managed or pooled by business angels (or funds where they co-invest) focusing on innovative early-stage enterprises and social enterprises. InnovFin Fund-of-Funds provides equity investment and co-investment for, or alongside, funds focusing on the early stage financing of SMEs. It is also involved in financing the Pan European VC Fund-of-fund programme. InnovFin Venture Capital provides risk capital financing for enterprises in their seed, start-up and other early stages. Finally, InnovFin Advisory helps SMEs to structure their research and innovation projects in order to improve their access to finance, and therefore their chances of success.

Later stages of SME development are within the scope of the expansion and growth window of the EIF. This provides equity investments for, or alongside, funds or other entities focusing on such SMEs. These investments also aim to have a social impact, and therefore target social enterprises and social sector organisations.

6.2.3 Fast track to innovation

This scheme, which ran in the years 2015 and 2016, was set up to shorten the time from idea to market, and increase the participation of SMEs and industry in Horizon 2020. It offered a maximum contribution of €3 million per proposal, with a time-to-grant period of around six months. Over two years it helped to fund 94 projects, involving 426 participants from 27 countries with its €200 million budget, which has been exhausted. Based on these results, the Commission is considering resuming the project in the 2018-2020 period.

6.3 The SME initiative

This initiative is a joint financial instrument of the EC and the EIB Group that aims to trigger SME financing by providing partial risk cover for the SME loan portfolios of financial institutions (risk-sharing). It uses funds from COSME, Horizon 2020 and European Structural and Investment Funds (ESIF) combined with resources from the EIB and EIF. Selected financial intermediaries can gain access to loss protection and potential capital relief at an advantageous cost. In return the intermediaries provide SME loans, leasing and/or guarantees at favourable terms. The initiative is currently operating in five Member States[113] offering more than €3.3 billion in guarantees and counter-guarantees as of 30 April 2017.

6.4 European structural and investment funds

The most relevant of the 11 thematic cohesion policy objectives is 'improving the competitiveness of SMEs'. Investments and assistance to SMEs are also available under other thematic objectives, more specifically under 'research and innovation', 'the low-carbon economy' and 'information and communication technologies'. The total budget

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[113] Bulgaria, Finland, Malta, Romania and Spain.

for the competitiveness of SMEs theme is almost €95 billion for the 2014-2020 period[114] and the objective is to target 800 000 SMEs. Cohesion policy is implemented mainly through the European structural and investment funds (ESI funds). These funds are delivered through nationally co-financed multiannual programmes, and managed by Member States and regions. According to data mentioned in the start-up and scale-up initiative, the ESI funds have enabled venture capital support to be offered to 140 000 companies, and agreements under the funds have targeted 377 000 SMEs. The 'competitiveness of SMEs' objective was designed to grant aid to 233 000 SMEs, offer advice to 370 000 SMEs and give assistance to 140 000 start-ups.[115]

In essence, the ESI funds make access to finance easier through facilities such as grants, loans, loan guarantees and venture capital. SMEs also have access to business support such as specific know-how and advice, networking opportunities and cross-border partnerships. The ESI funds also focus on facilitating SME access to global markets and international value chains and exploiting new sources of growth such as the green economy, sustainable tourism, health and social services. They also support investment in human capital and vocational education and training, and strengthen links between SMEs, research centres and universities. The rules enabling SMEs to access cohesion policy funds have been simplified by measures such as online reporting on the use of funds, clearer eligibility rules, and less frequent audits for small operations.

The European Regional Development Fund (ERDF) is the largest EU financial tool supporting SMEs, with €57 billion, or around 20 % of its total funding, dedicated explicitly to SMEs. The ERDF helps SMEs and entrepreneurs in areas such as research, technological development and innovation, access to and use of ICT, competitiveness, employment promotion and labour mobility.

The European Social Fund (ESF) has for the first time been linked with SME and entrepreneurial policies in the 2014-2020 period. In this field, the ESF focuses on employment, labour mobility, investment in education and skills, and enhancing business friendly public administration. It also supports microfinance.

In the context of SMEs the European Agricultural Fund for Rural Development focuses on co-investment in competitiveness, innovation, modernisation, know-how, ICT skills and diversification of activities (e.g. into non-rural ones).

The European Maritime and Fisheries Fund (EMFF) assists SMEs by helping them to diversify the coastal economies and by financing projects that make fishing profitable, support small-scale fisheries, develop sustainable aquaculture and improve scientific knowledge.

Within the ESI framework projects can be financed via grants and financial instruments. The scope for use of the latter has been widened in the 2014-2020 period. The new financial instrument, called the 'co-investment facility to provide funding to start-ups and SMEs', was designed to combine public and private financial resources and increase fund take-up by Member States. It will help SMEs to develop their business models and draw additional funding through a collective investment scheme which can amount to up to €15 million per SME.

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[114] EU funds two thirds and the Member States one third.

[115] More information is available on the Commission's European Structural Aid webpage.

6.5 Microfinance and social entrepreneurship

One of the three axes of the Programme for Employment and Social Innovation (EaSI) is to support access to microfinance and social entrepreneurship.[116] It does so by facilitating access to micro-loans (less than €25 000) for micro-enterprises and people unable to become self-employed because of difficulties in accessing traditional banking services. In the EU, 99 % of all start-ups are micro or small enterprises, and one third of them were launched by unemployed people[117]. Entrepreneurs are not financed directly by the EaSI, but through the issuance of guarantees enabling microcredit providers to increase lending. The programme aims to mobilise more than €1 billion in microfinance loans for micro-borrowers. Since the start of EaSI in 2014 the EU has helped to generate €660 million of financing for over 50 000 micro-enterprises and social enterprises. The total budget for all three axes is close to €920 million[118] for the 2014-2020 period.

6.6 SMEs in cultural and creative sectors

Access to finance can be challenging for SMEs operating in the cultural and creative sectors, mainly on account of the intangible nature of their assets and collaterals, the relatively limited size of the market, demand uncertainty, and the shortage of financial intermediary expertise. Therefore, in order to increase lending to SMEs and enable them to scale up their activities, the EU has established a Cultural and Creative Sectors Guarantee Facility under the Creative Europe programme. This scheme, with a budget of €121 million, is expected to create more than €600 million worth of bank loans in the 2014-2020 period. The facility also helps to boost capacity-building activities for financial intermediaries, giving them sector-specific expertise free of charge, provided by companies selected by the EIF. So far, financial intermediaries from Spain, France and Romania have signed agreements with the EIF.

[116] The other two concern modernisation of employment and social policies as well as job mobility.

[117] Data from EIF website on microfinance.

[118] In 2013 prices.

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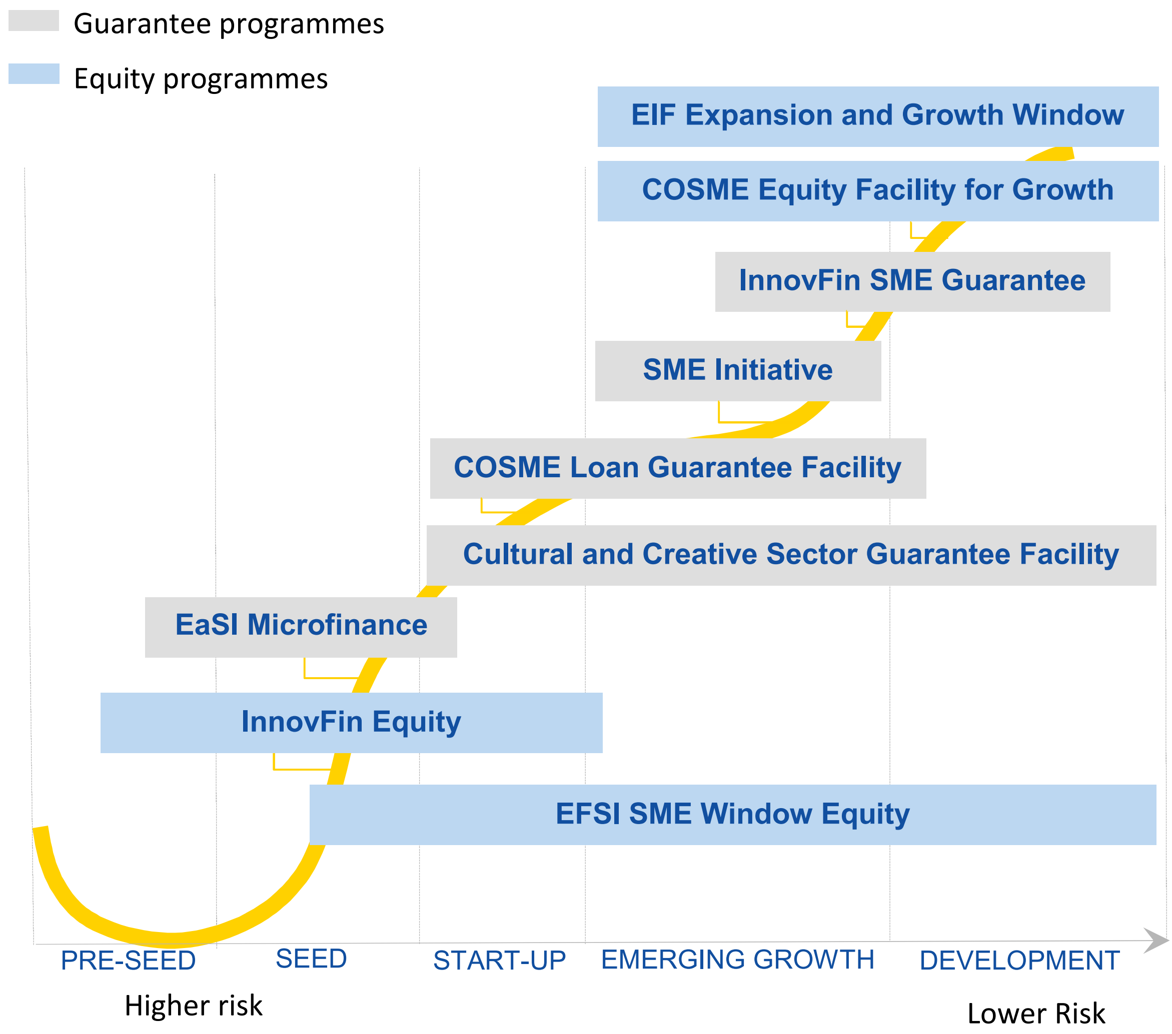
8. Annex

Figure 1 – Selected EU financial programmes and their involvement in SME development stages



Data source: European Investment Fund, 2017.

Table 1 – Selected EU funding programmes and their scope

Name	Type	Amount	Focus	Micro	SMEs	Mid-caps
EaSI	Microfinance	<€25 000	Micro-enterprises	✓		
	Investments	<€500 000	Social enterprises	✓	✓	
COSME	Guarantees	<€150 000	General	✓	✓	
	Equity		Growth, expansion	✓	✓	
Creative Europe	Guarantees		Sectoral	✓	✓	
InnovFin	Guarantees	€25 000 – €7 500 000	Innovation, Research and development	✓	✓	✓
	Equity		Start-up, early stage	✓	✓	✓
EFSI and ESIF	Guarantees loans, equity		General	✓	✓	✓

Data source: Drawn from various EU websites

Table 2 – Selected EU portals, platforms and databases helping to start and grow business

Name	Content	
Start-up Europe Club One Shop Stop	Links start-ups with investors, networks and universities, connects local ecosystems, helps with third markets.	Main portals
European Small Business Portal	Puts together all the SME-related information ranging from explaining policy to practical advice	
Access to Finance	Practical information on how to apply for loans and venture capital supported by the EU (including contact points)	
Your Europe Business Portal	Information and interactive services that help entrepreneurs to expand their business across the border	
Enterprise Europe Network	Provides SMEs and entrepreneurs with access to market information, solutions to legal obstacles and helps to link potential business partners across the EU (matchmaking)	
SME Internationalisation Portal	Information on investment and exporting to foreign markets and support tools (matchmaking, IPR protection information)	Internationalisation
IPR SME Helpdesk	Helps SMEs to protect and enforce intellectual property rights (IPR) in or in relation to China, Latin America and Southeast Asia through the provision of free information and services	
SME Participation in research and innovation	Information on opportunities offered by the EU to SMEs active in research and innovation and advice on how to get personalised guidance	Research and innovation
SME Techweb	Portal with SME-tailored information on research and innovation, available support and grants	
Research & Innovation Participant Portal	Possibility to find and secure financing for projects under Horizon 2020	
CEN-CENELEC SME Helpdesk	Help and support centre for SMEs in the field of standardisation	
Early Warning Tool	Survey which gives an indication of business performance and tips to improve it	Performance
IMP³rove benchmarking tool	Online tool to help businesses assess their innovation performance and identify strategies to improve it	
EURES	EU job portal matching entrepreneurs and job seekers	Human resources
Erasmus for Young Entrepreneurs	Exchange programme funded by the EU matching starting and experienced entrepreneurs	
European Investment Project Portal	Linking promoters and investors	Other
Regional development programmes	Database of operational programmes which may to help co-finance SMEs (for each Member State)	
Taxes in Europe Database	Updated information on the main taxes in the EU Member States as well as on their reforms	

Data source: Drawn from various EU websites.

Small and medium-sized enterprises (SMEs) constitute 99 of every 100 businesses, and employ two out of three employees in Europe. Some of them are high-growth firms that generate a disproportionately high number of new jobs. However, SMEs often face obstacles specific to their smaller size that can hamper their growth potential.

The main recent initiatives undertaken to help European SMEs grow fall within the flagship initiatives of the Commission: the European Fund for Strategic Investments, the single market strategy, the digital single market, and the capital markets union. The EU also supports SMEs through a range of long-term programmes running in the 2014-2020 period, such as COSME, Horizon 2020 and the structural and investment funds.

QA-01-17-565-EN-N

This is a publication of the
Members' Research Service

Directorate-General for Parliamentary Research Services, European Parliament

PE 603.967
ISBN 978-92-846-1134-8
doi:10.2861/433038