

## SMEs and Better Regulation

Small and medium-sized enterprises (SMEs) are the backbone of the European economy. However, numerous internal and external constraints, such as red tape and stringent business regulations, can make running a small business very difficult for entrepreneurs. Creating a business-friendly regulatory environment is a long-standing EU objective. The European Commission's cross-cutting policy on better regulation spearheads improvements, and its 'SME Test' scrutinises the impact of EU proposals on SMEs. The Commission is due to make a statement during the February plenary session on SMEs and better regulation.

### Background

Small and medium-sized enterprises, namely firms with fewer than 250 employees, are at the heart of the EU economy. In 2017, they accounted for 99.8% of all non-financial enterprises in the EU, with approximately nine out of ten consisting of micro-enterprises that employ fewer than 10 workers. Their contribution to the European economy is significant, accounting for more than 85% of new jobs and around 57% of total value added. Due to their size and limited resources, however, SMEs are often affected disproportionately by the costs of existing and new regulation compared to their bigger competitors. In addition, they generally face greater difficulties in accessing capital and expanding their activities to international markets. This limits their scope to scale up and grow both in local markets and across borders.

Creating a business-friendly environment for all enterprises, especially SMEs and new entrepreneurs, is a key objective for the EU. The Commission adopted the [Small Business Act](#), which aims to improve its overall approach to entrepreneurship, simplify the regulatory and policy environment for SMEs and remove remaining barriers to their development. In addition, since 2015, efforts under the Commission's cross-cutting policy on [better regulation](#) have aimed at ensuring that new legislation delivers its objectives at the least cost to business and that existing legislation is checked to identify and tackle red tape.

Central to the better regulation agenda is the '[SME Test](#)', which has been effectively integrated into the impact assessment of all new regulations. Updated in 2017, the SME Test assesses the costs and benefits of policy options and analyses the possible effects of EU legislative proposals on European SMEs. By assessing the costs and benefits of policy options, it helps implement the '[think small first](#)' principle and improve the business environment.

Following an extensive stocktaking exercise, the Commission adopted a [communication](#) in April 2019, which discusses the strengths and shortcomings of the better regulation agenda and identifies possible avenues for progress. Among the key lessons learned is that the concept of better regulation is supported and should remain at the heart of EU decision-making processes for the future. While the rationale for evidence-based regulation is growing stronger, consultation and engagement with the public and stakeholders should be more robust and there is a clear need for better communication and awareness-raising to encourage citizens' participation. There is also room for improvement in the way EU policies are designed and evaluated.

SMEs comprise three different categories of firms: micro-enterprises, small enterprises and medium-sized enterprises. The official EU definition of SMEs includes three different criteria: the number of employees and either the level of turnover or the total size of the balance sheet. This definition, which dates from 2003, is currently under evaluation to check its relevance in today's business and financing environment

Specifically, the 2019 communication emphasised that legislation should remain fit for purpose, and become simpler and less burdensome for SMEs, as this would improve implementation and enforcement, and ultimately deliver better results. Consultations during the preparation of the communication also highlighted that, when assessing the impact of legislation, there should be a strong focus on economic considerations, including for SMEs. In this context, a 2019 [EPRS appraisal](#) of the quality of the European Commission's impact assessments from 2015 to 2018 has identified the need for a more thorough assessment of impacts on SMEs and competitiveness, among other things.

## European Commission

In her mission letters to Executive Vice-President [Margarethe Vestager](#) (Digital Age), Executive Vice-President [Valdis Dombrovskis](#) (Economy) and Commissioner [Thierry Breton](#) (Internal Market), Commission President Ursula von der Leyen called for a new SME strategy to help SMEs scale up and expand, ensuring they can thrive by reducing red tape and improving their access to the market.

During his [hearing](#) at the European Parliament, in November 2019, Breton strongly reiterated this emphasis on a dedicated SME strategy, stressing that, among other things, it needs to address the reduction of regulatory barriers SMEs face. To this end, scrutiny of the SME dimension in all impact assessments will need to be strengthened, while dialogue with the Parliament and Council will have to be initiated to strengthen impact assessments on the effect of major legislative amendments on SMEs. Commissioner Breton also stressed that single market rules should take SMEs' specific needs into account, and that the [Digital Services Act](#) should give SMEs and start-ups the predictability and legal clarity they need. As part of this effort, a full-time European SME Envoy will be appointed by a new cross-DG SME Task Force.

In view of the above, the Commission is currently preparing a new SME strategy. This should be [presented](#) in conjunction with a broader new industrial strategy for Europe, expected in March 2020. The strategy is likely to pay specific attention to the media and audiovisual sectors. More broadly, the Commission is also preparing a communication on better regulation, to be [presented](#) in the second quarter of 2020. In this context, the Commission will also develop a new instrument, based on the 'One In, One Out' approach, to ensure that newly introduced administrative burdens are offset by relieving people and businesses – notably SMEs – of equivalent administrative costs at EU level in the same policy area.

## European Parliament

During the eighth parliamentary term, the European Parliament contributed systematically to the policy debate on industry, entrepreneurship and SMEs, with resolutions and own initiative reports on key issues. For example, in its 2017 [resolution](#) on building an ambitious EU industrial strategy as a priority for growth, employment and innovation in Europe, Parliament underlined the need to support the creation of a business-friendly environment by establishing a level playing field for all EU SMEs, start-ups and scale-ups, and young entrepreneurs, in particular in the most innovative areas, and social economy enterprises. As regards better regulation, Parliament has adopted several resolutions calling for particular attention to be paid to impact assessment. In its [resolution](#) of 30 May 2018 on the interpretation and implementation of the Interinstitutional Agreement on Better Law-Making, Parliament reiterated the importance of impact assessment as a tool for better law-making and that particular attention be paid to the potential impacts on SMEs, civil society and trade unions, among others.

