

SME support in EU regions

SUMMARY

The European Union supports businesses and entrepreneurship through a wide range of programmes. Specific focus is afforded to small and medium sized enterprises (SMEs), as they form the largest share of EU businesses and provide the majority of jobs and turnover. SMEs are also important for EU regional competitiveness, as they often operate on a local scale and play a crucial role in strong regional economies.

In addition to financial assistance, the EU offers various types of business support, such as information, advice and training. The EU also supports SMEs through regulatory changes, such as eliminating obstacles in cross-border trade and streamlining administrative procedures. Providing access to finance is, however, a major EU SME policy priority, as small enterprises encounter the greatest difficulties to procure funding. European SMEs rely predominantly on bank loans, therefore the EU not only provides direct grants, but also tries to increase the credit available to SMEs. Additional steps are taken to develop innovative financing instruments, such as risk-sharing schemes and guarantees, in order to mobilise venture and equity investors, and to encourage expanded use of capital markets for financing SMEs.

SMEs applying for EU funding can do so via several sources. Grants from the European Structural and Investment Funds, which finance cohesion policy, are accessed through calls for application published by national and regional authorities who manage the funds. Various financial instruments (such as loans and microcredits), provided by the European Investment Bank and European Investment Fund, are available through local financial intermediaries, who offer loans to SMEs on preferential terms. Lastly, SMEs can apply directly for funding by programmes managed by the European Commission, such as Horizon 2020, COSME (Competitiveness of Enterprises and Small and Medium-sized Enterprises) and others, in areas including environment, transport, research and innovation.



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Glossary

Bond: a type of tradable document acknowledging a debt. The issuer commits to an obligation to repay the bondholder according to specific terms.

Business angels: private investors who put money into new business activities, often those based on advanced technical ideas.

Collateral: assets used as security for a loan.

Corporate bonds: bonds issued by a company in order to raise money.

Guarantee: an agreement to be responsible for someone else's promise, especially a promise to repay a loan if the original borrower defaults.

Equity: value of shares in a company (in the form of entitlement to part of a company's profit and voting rights)

Securities: a general term for stocks, bonds, options, subscription rights, warrants and other tradable investments that confer a right to income or ownership.

Venture capital: private equity or institutional funding for start-up companies considered to have strong growth prospects.

Source: [European Central Bank](#) glossary and [Financial Times Lexicon](#).

SMEs in the EU

Small and medium-sized enterprises (SMEs) are often called 'the [backbone](#) of the European economy'. They play a central role as drivers of growth, employment and innovation. According to the 2014 [Annual Report](#) on European SMEs, about 22 million SMEs operate in the EU. SMEs account for almost 99% of all EU businesses, provide two thirds of employment in the private sector, and create 58% of gross value added produced by businesses. In recognition of their importance to the EU economy, SME support is a major EU policy priority. SMEs are [defined](#) as companies with fewer than 250 employees, and a specific turnover or balance sheet total. The SME group, however, is varied, and can be divided into micro-, small and medium-sized enterprises (see Table 1). In terms of number of SMEs, the micro-enterprise group is the largest (over [90%](#) of all SMEs). This group includes the self-employed and family businesses. As regards other key SME performance indicators, i.e. employment and value added, the distribution is more equal (around 30% each). Almost 80% of all SMEs are active in five [key sectors](#): manufacturing, construction, business services, accommodation and food, wholesale and retail trade. Most SMEs operate only on the domestic level, with only about [25%](#) of SMEs exporting goods or services abroad (within the EU or externally). These differences determine SME financing needs and possibilities. EU financial assistance and other SME-related support therefore requires an [approach](#) tailored not only to the size of an SME, but also to the type of activity, the stage of development (e.g. start-up, growth/expansion, transfer of business), and geographical setting (availability of liquidity or venture capital, as well as interest rates and lending rates, varies between countries and regions).

Table 1 – Classification of SMEs in the EU

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Data source: European Commission ([Recommendation 2003/361/EC](#)).

How are SMEs financed?

SMEs generally borrow funds to start or expand their activity. European SMEs show a preference for debt-based financial instruments (such as loans) rather than equity financing. This minimises interference and prevents loss of control over company ownership. According to the [Survey](#) on the Access to Finance of Enterprises conducted by the European Central Bank (ECB), bank lending remains the most common source of SME funding in Europe (See Figure 1). Due to the recent financial crisis, however, SMEs face reduced credit supply, tighter credit standards and higher bank loan costs. A major

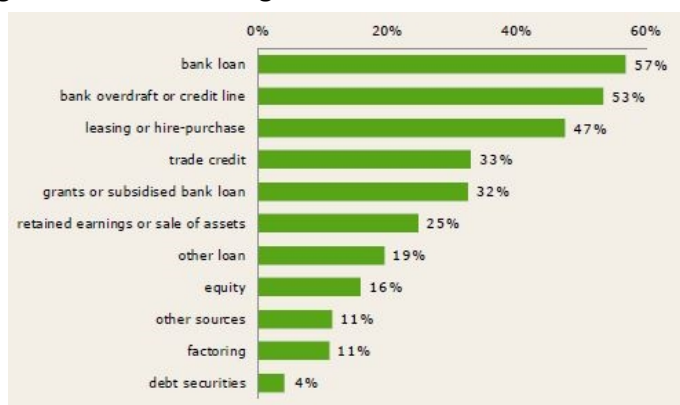
[obstacle](#) to SME growth is thus difficulty in accessing finance, not only due to reduced bank credit supply, but also to the fact that the capital market for SME equity financing is not well developed in Europe. SMEs financing their activity via capital markets (e.g. by issuing corporate bonds); encounter barriers such as insufficient liquidity, high costs and high information requirements. Compared to the United States, the European capital

[market](#) is also traditionally more risk-averse when it comes to financing SMEs, high-risk projects and innovative solutions. Thus, investors are often reluctant to support SMEs, especially start-ups, due to perceived higher risk and uncertain return, as well as lack of analytical capacities to assess small enterprise viability. This situation is exacerbated by the market gaps related to insufficient risk mitigating mechanisms for investors in SMEs (such as risk sharing and guarantees). There is opportunity therefore to increase the role of the capital markets in SME financing and expand opportunities for SMEs to finance their operations through e.g. equity, bonds and securities – the planned [Capital Markets Union](#) is an interesting initiative in this regard. However, it is important to bear in mind that this would only be relevant to some SMEs, as the majority still rely on bank loans. Focus should subsequently continue on mechanisms for increasing bank credit supply, and some of the EU financial instruments aim to address this issue.

SMEs and EU policy

EU [SME policy](#) focuses on improving access to finance and to markets, as well as boosting competitiveness and innovation. It also aims to promote entrepreneurship and to establish information and support networks. Creating a business friendly environment and improving access to finance for SMEs is also part of the Investment Plan for Europe (also known as the [Juncker Plan](#)). In addition to initiatives to ease [regulatory burdens](#) for SMEs and improve the business environment (e.g. through the Late Payments Directive), the EU offers both financial and non-financial assistance, providing funding for over 200 000 businesses per year. Financial assistance includes grants, loans and guarantees, as well as venture capital and equity, and micro-finance. Non-financial measures focus on business support services, information and advice. Some of the funding (or support services) is provided [directly](#) to SMEs as part of dedicated EU programmes (such as [COSME](#) (Competitiveness of Enterprises and Small

Figure 1 – SME financing sources in EU-28



Data source: [Survey on the Access to Finance of Enterprises \(SAFE\)](#), 2014.

and Medium-sized Enterprises) and [Horizon 2020](#)), which are managed by the European Commission and, in some cases, the Executive Agency for Small and Medium-sized Enterprises ([EASME](#)). Part of EU funding (European Investment Bank and European Investment Fund financial instruments) is processed by local financial institutions, which then act as intermediaries in providing loans to SMEs, often on preferential terms; aiming to stimulate the supply of credit available for SMEs in the economy and increase the lending capacities of financial providers. Other forms of financial assistance include co-financing of projects managed at the national and regional level (e.g. the European Structural and Investment Funds (ESIF) available under cohesion policy), which benefit SMEs.

These measures should facilitate access to finance for SMEs and address the market imperfections that currently limit SME growth. The EU offers initiatives focusing on areas where it is hard to obtain funds on the market (due to low supply, high requirements, or projects being too risky for private market providers), such as innovative and start-up projects. EU initiatives offering access to finance are also meant to attract additional resources, i.e. private financing, and thus stimulate the markets.

The funding provided may finance projects in various areas such as innovation, transport mobility, environment, information and communication technologies (ICT), new business models, urban projects and industrial technologies.

Small Business Act

The [Small Business Act](#) (SBA), adopted in 2008, is a package of 10 principles that guide the EU policy framework for SMEs and entrepreneurship (see box). Based on the 'Think Small First' approach to developing new legislation, it ensures the impact on SMEs is taken into account. The application of the 'Think Small First' principle involves a '[SME Test](#)', which includes consultations with SMEs and a detailed impact assessment. The EU promotes its [application](#) at national and regional level, to create a more business friendly environment by streamlining the regulatory and administrative procedures for SMEs.

Funding sources at EU level

Cohesion policy and European Structural and Investment Funds

Cohesion policy is one of the main sources of investment and financial assistance for SMEs. Regions [benefit](#) from economically strong SMEs due to their job and wealth creation capacity. SMEs are also usually closely related to their local environment and can increase regional competitiveness. SME support is thus an important part of a successful [regional policy](#). The European Structural and Investment Funds (ESIF) benefit

Small Business Act – 10 principles

- 1) Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded;
- 2) Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance;
- 3) Design rules according to the 'Think Small First' principle;
- 4) Make public administrations responsive to SME needs;
- 5) Adapt public policy tools to SME needs: facilitate SME participation in public procurement and better use state aid possibilities for SMEs;
- 6) Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions;
- 7) Help SMEs to benefit more from the opportunities offered by the Single Market;
- 8) Promote the upgrading of skills in SMEs and all forms of innovation;
- 9) Enable SMEs to turn environmental challenges into opportunities;
- 10) Encourage and support SMEs to benefit from market growth.

Source: European Commission ([Communication COM\(2008\) 394 final](#)).

SMEs through a variety of thematic programmes implemented in the regions, with SME competitiveness being one of the [11 thematic objectives](#) set as priorities for 2014-20. SMEs can also take advantage of other funding priorities which include an SME or entrepreneurship [component](#). Investments under thematic objectives such as research and innovation, information and communication technologies (ICT), SME competitiveness, as well as a low-carbon economy, are mainly financed from the European Regional Development Fund (ERDF), with about [20%](#) (€57 billion) earmarked specifically for SMEs. The European Social Fund (ESF) finances education and training for entrepreneurs and their employees. (The Cohesion Fund – the third ESI Fund forming part of cohesion policy – is less relevant to SMEs as it finances public environmental and transport infrastructure projects.) In addition to the three funds mentioned above, SMEs in rural and maritime regions can also benefit from the European Agricultural Fund for Rural Development (EARD) and European Maritime and Fisheries Fund (EMFF). The two latter funds are part of the [five ESIF](#), but complement rather than constitute part of cohesion policy.

The specific programmes financed by ESIF are managed at national and regional level. Therefore, SMEs wishing to apply for financing should monitor and directly respond to calls for application issued by [managing authorities](#) in each EU country. In addition to grants offered through ESIF, the managing authorities can choose to invest some of their ESIF allocations in revolving funds, e.g. through providing loans that have to be repaid. Instruments used for this purpose include [Jessica](#) (urban sustainability projects) and [Jeremie](#) (enterprise access to investment capital).

Examples of ESIF-financed SME projects

The cross-border [ECOMARK project](#), implemented in regions in Italy, Greece, France, Slovenia and Spain, aims to raise environmental awareness among SMEs in industrial areas and empower them to turn environmental challenges into opportunities. The project strengthens SME innovation capacities in the environment field by using environmentally friendly energy technologies, sustainable logistics and efficient productive processes to reduce CO2 emissions. (Total budget: €1 600 000; ERDF investment: €1 200 000). [InfoPark](#) in Debrecen (Hungary) enables a university-SME partnership in IT research and development. SMEs gain access to the latest technology resources and expertise, while sharing practical knowledge from the business world in return and offering an opportunity to test academic knowledge in practice. (Total budget: €2 860 000; ERDF investment: €1 430 000). '[Better Future for Women](#)' in Romania is a project empowering disadvantaged women in rural communities by helping them set up and manage their own businesses and associations. (Total budget: €4 543 448; ESF investment: €3 831 990).

Financial instruments (European Investment Bank and European Investment Fund)

During the 2014-20 period, financial instruments are increasingly used to complement the traditional grants used in regional policy. These are provided by the [EIB Group](#), i.e. the European Investment Bank (EIB) and the European Investment Fund (EIF). These institutions offer capital supply to financial [intermediaries](#) (financial institutions such as banks, credit institutions, private equity and venture capital funds, microfinance providers) in order to increase their lending capacity. This capital is usually accompanied by an obligation to provide loans to SMEs on preferential terms (e.g. lower interest rates and collateral requirements). Such financial instruments may include loans, guarantees and equity. Microcredit providers may participate in the [Progress Microfinance](#) initiative, through which they receive capital for lending to SMEs. The [European Angels Fund](#) supports business angels willing to lend to SMEs. The [EIB](#) and [EIF](#)

publish a list of financial providers (by country) providing capital to SMEs on preferential terms. They also offer information on opportunities to financial institutions that wish to provide loans, guarantees, microfinance and equity to SMEs.

The [SME Initiative](#) financial instrument aims to stimulate SME financing by encouraging financial intermediaries to provide SME loans in return for partial risk cover through an EIB financial guarantee. In return for sharing risk, financial intermediaries are obliged to offer SME loans and guarantees on favourable terms (e.g. reduced interest rates and collateral requirements). The SME initiative combines resources from ESIF with EIB Group financial instruments and other funds from the EU central budget (such as COSME or Horizon 2020). However, to date only Malta and [Spain](#) take part in this initiative.

EU programmes

SMEs may apply directly for EU funding provided as part of specific programmes. The largest programmes with an SME dimension are Horizon 2020 and COSME, but there are many other opportunities for SMEs to participate in EU programmes in various areas.

The [Horizon 2020](#) Framework Programme for Research and Innovation, with a budget of nearly €80 billion for 2014-20, has several [sections](#) where SMEs can directly apply for funding. These include, projects supporting innovation, industrial technologies, environment, and advanced technology. It is estimated that about [20%](#) of the budget dedicated to Horizon 2020 'Societal Challenges' and the 'Leadership in Enabling and Industrial Technologies' objective, will be spent on SMEs. SMEs can also benefit from two of the programme's specific objectives: '[Innovation in SMEs](#)' and '[Access to risk finance](#)'. In addition, a separate the [SME Instrument](#) is dedicated to SMEs, –offering highly innovative and high growth SMEs with international ambitions grants of up to €2.5 million. SMEs can also participate in the [Fast Track to Innovation](#) pilot which aims to reduce time from idea to market for innovative enterprises and the time-to-grant period. The '[InnovFin](#) – EU Finance for Innovators', a joint European Commission and EIB Group initiative within Horizon 2020, aims to provide €24 billion of debt and equity financing to innovative companies by 2020. SMEs can benefit from InnovFin through the [SME Guarantee Facility](#) and [SME Venture Capital](#), either directly or through financial intermediaries. Horizon 2020 also encourages SMEs involved in research and development that wish to expand international cooperation, to participate in the [Eurostars](#) programme, run jointly with the [Eureka](#) network. SMEs seeking European research funding can make use of the information [SME TechWeb](#) portal, or approach SME [National Contact Points](#) and other [bodies](#) providing practical information and assistance to participants.

The [COSME](#) programme, with a budget of €2.3 billion for 2014-20, supports SMEs by facilitating access to finance at various stages of their lifecycle (creation, expansion and transfer), through, for example, the [Loan Guarantee Facility](#) providing guarantees and counter-guarantees to financial institutions to increase their lending to SMEs, and the [Equity Facility for Growth, which](#) provides risk capital to equity funds investing in SMEs. Both instruments are managed by the EIF. Moreover, COSME aims to improve SME access to markets (EU and international) as well as encourage an entrepreneurial culture and enhance competitiveness. Specific [projects](#), in a variety of areas, are managed by EASME which publishes calls to which individual SMEs can apply.

The [LIFE programme](#) finances investments in environment and climate action, with a budget of €1.46 billion for 2014-20. Grants for SMEs are managed by the European Commission and [EASME](#), while two financial instruments are offered by the European Investment Bank – the Natural Capital Financing Facility ([NCFE](#)), focusing on ecosystems, green infrastructure and biodiversity; and the Private Finance for Energy Efficiency ([PF4EE](#)). Further environment-related [funding](#) is available directly from the European Commission Directorate-General for the Environment.

SMEs operating in the cultural and creative industries sector can apply for funds from the [Creative Europe](#) programme, with a budget of €1.46 billion for 2014-20. Also linked to the programme is the Cultural and Creative Sector Loan Guarantee Facility. A smaller programme with a budget of under €1 billion – the EU Programme for Employment and Social Innovation ([EaSI](#)) – which funds social and microenterprises. The programme is aimed at improving social inclusion and combating unemployment in the EU. SMEs active in these areas may apply directly to calls for tender and calls for proposals.

Other opportunities for SMEs to apply directly for EU funding include public contracts and grants, published regularly by the [European Commission](#), listing ongoing programmes and instruments, categorised by area.

Non-financial assistance

As SMEs are an EU policy priority, there are targeted by numerous other initiatives, in addition to financial assistance. These include regulatory measures and various business services, including consultation and advisory support, coaching and mentoring schemes, as well as training. These services are aimed at helping SMEs with information on how to set up a business or make efficiency improvements, how to apply for EU funds, prepare a business plan and assess project viability, enhance managerial skills, and expand financial and accountancy knowledge. Specific support also includes information campaigns and EU-run information portals offering practical advice on EU regulations and cross-border opportunities.

SME initiatives and events

The most important European event for SMEs organised by the EU is the [SME Assembly](#) (organised for the fourth time in Luxembourg in November 2015), which takes place annually during [European SME Week](#). The Assembly, together with a network of [SME Envoys](#), constitute the governance structure of the Small Business Act. The Assembly enables exchanges between SMEs and an opportunity to approach policy makers, and also hosts the [European Enterprise Promotion Awards](#). An additional SME-oriented event is the [EU Access to Finance Days, which](#) take place in various countries throughout the year and bring together SMEs and financial intermediaries.

Further initiatives in the area of supporting entrepreneurship include the [Entrepreneurship 2020 Action Plan](#) which focuses on fostering entrepreneurship through education and training, eliminating barriers to entrepreneurship and creating an entrepreneurial culture in Europe. Moreover, entrepreneurs can take part in cross-border schemes through the programme [Erasmus for Young Entrepreneurs](#). Since the programme's inception in 2009, about [1 700](#) exchanges have allowed participants to share practical knowledge and receive financial assistance to cover travel and accommodation expenses.

Information sources and networks

The largest EU information portals for SMEs are the [European Small Business Portal](#), [Access to Finance](#) portal and [Your Europe Business](#) portal (with a section on [Access to Finance](#)). These resources provide comprehensive information on funding, legal regulations and cross-border opportunities. The [SME Internationalisation Portal](#) offers information for companies that wish to expand their operations to Europe and beyond.

The network of [SME Envoys](#), serves as a communication channel between the Commission and SMEs, promoting SME interests and voicing their opinions. In addition, the [Enterprise Europe Network](#) established by the European Commission provides various types of business support, including information and partnership opportunities.

European Parliament

In 2013 the EP adopted a [resolution](#) on improving SME access to finance. It stressed the diversity of SMEs which results in their different needs, and the requirement for EU policy to provide diverse solutions accordingly. It also called for special coaching on financial knowledge, as well as accountancy and managerial skills, alongside specific funding. The resolution urges better communication of information on EU initiatives for SMEs, including funding opportunities and other EU programmes (e.g. training). The need to ease bank credit and provide more risk capital solutions (such as guarantees, risk-sharing and innovative financial instruments), as well as expand the current EU funding programmes was emphasised. Moreover, it called for the regulatory environment to be streamlined.

Main references

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