Ensuring the recovery and resilience of EU small and medium-sized enterprises

SUMMARY

This briefing focuses on policy measures benefiting small and medium-sized enterprises (SMEs) that have been enshrined in the national recovery and resilience plans (NRRPs). Member States drew up their recovery plans in order to take advantage of the Next Generation EU (NGEU) recovery instrument and its Recovery and Resilience Facility (RRF), designed to support recovery from the pandemic while fostering the green and digital transitions.

The RRF is structured around six pillars representing key EU policy areas that will help Member States emerge from the crisis stronger and future-proof. The pillars also define investment priorities and the scope of financing under the RRF. On account of its particular relevance for SMEs, this briefing addresses the RRF’s ‘Smart, sustainable and inclusive growth’ pillar, but other pillars can also include SME-related measures.

The SME sector, including micro-enterprises, constitutes over 99% of all businesses in the EU and was severely affected by the pandemic. Since SMEs represent the bedrock of the economy, it was essential to support them, and Member States have put forward extensive measures in their NRRPs targeting the SME sector both directly and indirectly. SME-related measures range from learning opportunities for SME employees to advance their digital skills to business decarbonisation, the setting up of new financing instruments aimed at developing new technologies in SMEs, and the removal of administrative and regulatory obstacles to boost the productivity of smaller businesses. SME-related measures under the ‘Smart, sustainable and inclusive growth’ pillar may also address other RRF objectives, including the specific digital and climate targets.

While the type and scope of the investments and reforms vary between Member States, all the measures feed into at least one of the three axes of the SME strategy developed and presented by the European Commission in 2020. These axes refer to capacity building and support for transition to sustainability and digitalisation, reducing the regulatory burden and improving market access, and boosting access to financing. These dimensions are also reflected in the country-specific recommendations (CSRs), presented in the context of the European Semester. To obtain RRF funding, the NRRP measures must address at least a significant subset of the 2019 and 2020 CSRs.
SMEs and the European Semester

In 2021, there were 23 million small and medium-sized enterprises (SMEs) operating in the EU's single market. This figure accounts for 99.8% of all enterprises in the non-financial business sector, employing 83.2 million people and providing two out of three jobs in the EU. Since SMEs represent the backbone of the EU economy – they account for half of the EU’s gross domestic product (GDP) – in 2020 the European Commission developed an SME strategy aimed at helping SMEs to become sustainable and more digitalised. The strategy builds upon a number of previous initiatives such as the 2008 Small Business Act and the 2016 start-up and scale-up initiative, and is centred around three axes with corresponding action points, as shown in Table 1. These actions are to be supported through a strong partnership between the EU and the Member States in monitoring the implementation of the strategy and conducting performance reviews, among other things.

Table 1 – Commission’s SME strategy

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<th>SME strategy axis</th>
<th>Action examples (non-exhaustive)</th>
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| Capacity building and support for transition to sustainability and digitalisation | • Upgrading the Enterprise Europe Network, including with dedicated sustainability services  
• Developing digital crash courses for SME employees to become proficient in areas such as artificial intelligence, cybersecurity or blockchain  
• Updating the European Skills Agenda, including the Pact for Skills with a dedicated SME component  
• Allocating at least €300 million to encourage breakthrough Green Deal innovations under the European Innovation Council (EIC) |
| Reducing the regulatory burden and improving market access                      | • Addressing gold-plating in the transposition process of EU legislation through SME envoys (EU and national) to minimise the regulatory burden on SMEs  
• Implementing the Single Digital Gateway in Member States (one-stop shop)  
• Facilitating cross-border cooperation with and among SMEs under the European Defence Fund and mapping strengths in its research and innovation ecosystem  
• Implementing the Late Payment Directive to protect SMEs from late payments and improve their competitiveness |
| Enhancing access to financing                                                   | • Setting up a private-public initial public offerings fund for SMEs under the InvestEU programme  
• Launching a gender-smart financing initiative to stimulate female entrepreneurship  
• Launching a green tech investment initiative to increase access to equity finance for innovative SMEs that develop and adopt green tech solutions  
• Introducing a blockchain-based initiative enabling issuance and trading of SME bonds across Europe |

Data source: European Commission.

The importance of the SME policy has also been reflected in the European Semester. Since its introduction in 2010, the Council has been adopting country-specific recommendations (CSRs) annually, with the Commission assessing Member States’ progress in addressing the challenges identified. In 2019 and 2020, Member States received recommendations regarding their respective SME sectors, which needed to be addressed through measures laid down in countries’ National Recovery and Resilience Plans (NRRPs) in order to benefit from Recovery and Resilience Facility (RRF) funding (see next sections). Figure 1 shows the number of SME-related recommendations issued to the Member States between 2019 and 2022.
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Figure 1 – SME-related country-specific recommendations, 2019-2022

Data source: European Commission. Notes: Recommendations issued to Poland refer to companies in broader terms and not specifically to SMEs.

In 2019, the Council issued recommendations to three Member States, asking them to improve the position of their SMEs. Specifically, it recommended the governments concerned to improve SMEs’ access to finance (Cyprus), boost SMEs’ productivity (Ireland) and enhance the overall competitiveness of the SME sector (Slovakia).

The 2020 CSRs, on the other hand, echoed the need to protect SMEs from the repercussions of the pandemic, namely the interruption or closure of businesses, disruptions to supply chains and production delays, and increased operational costs due to debilitated employees. Hence, 19 of the recommendations asked the countries to introduce liquidity and support measures for SMEs (Austria, Belgium, Bulgaria, Croatia, Cyprus, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovakia and Spain). A CSR calling for better access to finance for SMEs has been maintained for Cyprus, while Bulgaria and Poland, showing similar concerns, were recommended the same. The need to boost digitalisation of businesses was stressed for Germany and Poland, while special payment arrangements were recommended to ensure more flexibility (Bulgaria) and to avoid late liquidity injections to businesses by governments (Italy and Spain).

The following 2022 Semester exercise produced only one CSR, for Latvia, in the SME domain. The Council recommended Latvia to improve SMEs’ access to finance through public lending and guarantee schemes aimed at facilitating investments of strategic importance, in particular for the green transition and regional development. Moreover, the 2022 CSRs contained one universal recommendation applicable to all Member States to continue implementing the measures enshrined in their individual NRRPs, which largely target the SME sector (see next section). This recommendation has not been reflected in the above figure.

EU financing for SMEs

The EU budget has traditionally provided funding to SMEs. The 2014-2020 multiannual financial framework (MFF) included various programmes benefiting SMEs, such as the programme for the competitiveness of enterprises and SMEs (COSME), EU finance for innovators (InnovFin) under the Horizon 2020 programme, the EU programme for employment and social innovation (EaSI), the cultural and creative sectors guarantee facility (CCSGF) and the European fund for strategic investments (EFSI). Some of these programmes were enhanced and continued in the 2021-2027 MFF, and some new ones were introduced. Examples of such programmes include the EIC under the Horizon Europe programme, InvestEU (the follow-up to EFSI), the single market programme (including COSME), and Erasmus for young entrepreneurs as part of a broader Erasmus+ programme. In addition, as it represents almost a third of the EU budget, cohesion policy has habitually been the main source of EU funding for SMEs. While access to funding for businesses
remains vital, finding the right programme and obtaining support is equally important. To this end, the Enterprise Europe Network (EEN) helps SMEs to understand and access various EU funds.

Since SMEs are more vulnerable to negative consequences of (economic) crises compared to larger firms – this was particularly true during the COVID-19 crisis – additional financing options have been made available. Notably, SMEs can also benefit from the EU recovery instrument Next Generation EU (NGEU) that was adopted to help economies emerge more resilient from the pandemic. Almost 90% of NGEU resources (or €723.8 billion in current prices, in the form of grants and loans) form the Recovery and Resilience Facility, which has a strong SME focus, thus boosting the implementation of the SME strategy. While the RRF’s ‘Smart, sustainable and inclusive growth’ pillar supports all enterprises, around 19% of its resources are specifically dedicated to measures directly or indirectly supporting SMEs; this data stems from 27 NRRPs. The remaining amounts of NGEU money top up existing programmes, such as InvestEU, in the 2021-2027 MFF.

**Smart, sustainable and inclusive growth pillar, and common indicators**

The NGEU instrument and its flagship Recovery and Resilience Facility are the largest-ever EU financing tools, created to mitigate the socio-economic fallout from the pandemic. The European Commission issued guidelines to the Member States to help them draft their NRRPs and benefit from RRF funding. According to these guidelines, investment and reforms under the individual NRRPs should, in the first instance, significantly address the CSRs, as well as a set of commonly identified challenges (European flagships). Specifically for the ‘Smart, sustainable and inclusive growth’ pillar (or pillar 3 of the RRF’s six pillars), the RRF Regulation notes that the relevant measures are key in promoting strong, highly digitalised and sustainable SMEs. It is worth mentioning, however, that measures aimed at boosting the recovery and resilience of SMEs can also be featured under the other RRF pillars, notably green transition and digital transformation (e.g. enhancing the energy efficiency of buildings belonging to SMEs or the digitalisation of businesses, with a special emphasis on SMEs).

In July 2022, the Commission published its RRF review report, which was based on 25 NRRPs (all except those of Hungary and the Netherlands, which, at the time of the report, had not yet been endorsed). In it, the Commission stated that the measures supporting the ‘Smart, sustainable and inclusive growth’ pillar amount to roughly €235 billion, distributed between a dozen policy areas, including one specifically devoted to ‘Support to SMEs’. The latter policy area is worth roughly €44 billion in 19 NRRPs according to a Commission thematic analysis from January 2022. More recent data from the Scoreboard are included in Figure 2 below, which focuses solely on the ‘Support to SMEs’ policy area and displays its contribution as a share of pillar 3 in national plans.

While the EU average sits at 19% of pillar 3, per country data is available for 21 Member States, with eight countries planning SME support above and 13 countries below the EU average for this pillar. This policy area comes with 118 measures, divided into 332 milestones and targets (298 linked to investments and 34 to reforms), of which 14% had been fulfilled as at 18 April 2023. The remaining six Member States do not have measures that are explicitly tagged under the ‘Support to SMEs’ policy area. However, SMEs can be supported though measures included in other policy areas and RRF pillars, which may bring about discrepancies in approaches summing up the worth of relevant measures.
To track progress on the implementation of the RRF, a Delegated Regulation, adopted by the European Commission on 2 December 2021 and complementing the RRF Regulation, introduced a set of 14 common indicators. Out of seven indicators referring to the 'Smart, sustainable and inclusive growth' pillar, this briefing focuses specifically on the indicators 'enterprises supported (of which small – including micro, medium, large)' (common indicator 9) and 'enterprises supported to develop or adopt digital products, services and application processes' (common indicator 6).

Figure 3 shows the number of SMEs supported per country based on data that, at the time of writing, were available for 13 Member States. The data indicate that the RRF has so far supported more than 331 000 SMEs across 13 countries, with France accounting for more than 70% of the total number. Moreover, the RRF is funding almost 40 000 SMEs to adopt and more than 6 000 to develop digital products, services and processes according to common indicator 6.

Data source: RRF scoreboard. Note: The figures include micro and exclude large enterprises.
Measures targeting SMEs in recovery plans

This section provides an overview of SME-related measures that the Member States have included in their NRRPs, while making links to the three axes of the SME strategy (see section on ‘SMEs and the European Semester’). Since SME investments and reforms featured in the recovery plans are plentiful, as shown in the thematic analysis on SMEs from the RRF Scoreboard, only selected measures have been discussed in detail (Table 3).

Table 2 – Case studies with selected SME-related measures

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<thead>
<tr>
<th>SME strategy axis</th>
<th>Examples of measures in NRRPs</th>
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<tbody>
<tr>
<td><strong>Capacity building and support for transition to sustainability and digitalisation</strong></td>
<td><strong>Greece:</strong> Digital Transformation of SMEs (€375 million)</td>
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<td>Component 2.3 on digitalisation of business of the Greek recovery plan brings about an investment that will enable development and provision of digital products and services in the area of electronic payments and sales, industrial data platforms and cash registers and point-of-sale ecosystem upgrades. The measures will be achieved by establishing a central supporting mechanism for SMEs facilitating the provision of training and awareness programmes for better utilisation of tools and services offered in the digital marketplace. The implementation of the measure is expected to be finalised by mid-2025, following the completion of two milestones (launching calls for proposals for the funding of voucher schemes linked to the objectives of the investment, and selecting beneficiaries and delivering equipment and services to SMEs from the calls for proposals). For this measure, non-repayable RRF support is envisaged.</td>
</tr>
<tr>
<td><strong>Reducing the regulatory burden and improving market access</strong></td>
<td><strong>Slovakia:</strong> Reform on reducing the regulatory burden for businesses (€0) and related investment in capacity building (€3 million)</td>
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<td>Under the NRRP’s component 14 on improving the business environment, this reform is supposed to reduce the regulatory burden, primarily for SMEs, by taking several steps. These include evaluating (ex-ante) the planned transposition of the legislation, preventing gold-plating, assessing the effectiveness of the already enacted legislation, sanctioning the 1-in-2-out rule linked to new legislation, and introducing additional regulatory packages that will simplify administrative requirements for businesses. The reform comes with two milestones (entry into force of the regulatory burden reduction tools, and three additional packages of at least 100 measures to ease the administrative burden for businesses) and is to be finalised by the end of 2024. Linked to this, the government is also planning an investment, worth €3 million in RRF grants, to build capacities for reforms reducing the regulatory burden. This measure comes with one milestone (carrying out training, evaluations, checks and controls, and consultations linked to the reform) to be completed by June 2025.</td>
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<tr>
<td><strong>Enhancing access to finance</strong></td>
<td><strong>Croatia:</strong> Financial instrument for micro, small and medium-sized enterprises (€146 million)</td>
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<td>This investment is featured in the NRRP’s component 1.1 on resilient, green and digital economy and aims to provide SMEs with favourable financing conditions, especially those that do not manage to obtain access to finance, and therefore strengthen their competitiveness and resilience. The measure, to be financed by the RRF’s non-repayable resources, comprises the creation of four different financial instruments (direct micro-credits from the Croatian Agency for SMEs, direct loans from the Croatian Bank for Reconstruction and Development, and interest rate subsidies linked to micro-credits and loans respectively), which are expected to finance a variety of investments in areas such as green technologies, renewable energy sources and energy efficiency. The measure is intended to be implemented by 2026; it comes with one milestone (establishing the four financial instruments by 2022), and two targets (providing 800 micro-credits and related interest rate subsidies to SMEs by 2026).</td>
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Data source: Annexes to the Council Implementing Decisions on the NRRPs.

Other countries have also announced SME-related measures that feed into the three axes of the SME strategy to varying degrees and, at the same time, take into account the country-specific
recommendations issued by the Council (see section on ‘SMEs and the European Semester’). It is important to stress that measures can address several objectives of the strategy simultaneously.

A number of countries have planned measures that will enable their SMEs to transition towards sustainability and digitalisation, including by capacity building. Under the NRRP’s component 9 on governance and public administration, Hungary envisaged a reform – a training and support scheme – that will facilitate the participation of at least 3 200 SMEs (micro-enterprises included) in public procurement procedures by mid-2026. Latvia envisages a reform focused on establishing an adult learning framework that aims to open the door for improving the (digital) skills of employees in SMEs. Digital transformation of enterprises, especially SMEs (including micro-firms), is featured as a standalone component of more than €220 million in the Estonian NRRP, which promotes, for example, the adoption of digital technologies and the development of industrial data clouds. By the end of 2025, Malta will have completed an investment worth €15 million aimed at intensifying the digitalisation of the private sector, primarily SMEs (including micro-firms and the self-employed). Similarly, Denmark planned an investment of €9 million focused on the digitalisation of SMEs – a prolongation of an existing scheme – as the sector was hit particularly hard by the pandemic.

Finland is committed to accelerating the growth of micro and small enterprises by providing grants for business development linked to new digital solutions and green transition, as well as research and development (R&D) activities. In the green domain specifically, Sweden will provide horizontal support programmes to SMEs – the so-called ‘industry leap’ and ‘climate leap’ measures – to achieve green transition under its green economy NRRP component. Germany planned several measures focused on the green transition of SMEs; two investment examples refer to the project-related climate protection research (decarbonisation) that focuses on innovative SMEs, and the support programme for the development of climate-friendly timber construction. The Netherlands has not presented measures specifically targeting SMEs in its recovery plan, but the SME sector can benefit indirectly through measures promoting the green transition, for instance. One example is the energy taxation reform that aims to incentivise businesses and households to limit their energy consumption and switch to alternative, greener sources of energy.

Several countries have put forward measures in their NRRPs to improve access to finance for SMEs. Under its NRRP’s component 1.4 ‘Digital economy and society, innovative start-ups and new technology’, Czechia planned to invest in the European blockchain services infrastructure that will ultimately facilitate SME debt financing. Cyprus envisaged an investment measure worth €52 million that will improve access to funds for innovative SMEs and start-ups via the ‘Fast-Track Innovation’, ‘Pre-Seed’, ‘Seed’ and ‘Innovate’ programmes. Belgium put forward a reform aimed at ensuring that the existing instruments designed to stimulate innovation do not constrain SMEs’ access to innovation subsidies, while Lithuania envisaged measures that foster the development of its start-up ecosystem via venture capital investments. Bulgaria included in its plan a guarantee instrument for growth that will enable SMEs to secure credit finance to quickly recover from the COVID-19 crisis and expand their businesses to achieve growth and sustainable development. Italy envisaged an investment that will refinance an existing fund for SMEs to support their internationalisation and enable access to foreign markets, while Spain has an entire NRRP component worth €4.9 billion dedicated to SMEs, with planned improvements for accessing financing opportunities through state guarantees.

Reducing the regulatory and administrative burden for SMEs is vital to increase their productivity, and several countries have introduced measures in their NRRPs in that direction. Poland envisaged such a reform under its NRRP component on the resilience and competitiveness of the economy. Plans to streamline their regulatory frameworks for the benefit of SMEs (direct or indirect) have also been made by Austria (reform: liberalisation of business regulations); Ireland (reform: reducing regulatory barriers to entrepreneurship); Portugal (reform: economic justice and business environment); Romania (reform: legislative transparency, de-bureaucratisation and procedural simplification for business); and Slovenia (reform: removing administrative barriers). Luxembourg planned a number of measures simplifying different administrative processes for
citizens and businesses (investment example: development of ‘MyGuichet’). Finally, France, which has a strong focus on SMEs in its NRRP (see Figure 2) covering all the domains of the SME strategy,10 envisaged a reform that will introduce a law on accelerating and simplifying public action (‘loi ASAP’).

Stakeholders' views

A recently published article in the scientific journal Piccola Impresa/Small Business analysed the measures directed towards SMEs in 22 NRRPs. The authors stress that the national recovery plans will play an important role for the digitalisation and the greening of SMEs, which are considerable challenges for the sector. A similar tone has been taken on Euractiv, where the EU recovery instrument was dubbed a ‘game-changer’, especially in addressing common SME-related challenges; it was also pointed out, however, that different degrees of digitalisation between Member States' SME sectors remain an issue.

SMEunited called for more flexibility in implementing the NRRPs in response to the ramifications of the war in Ukraine. In particular, the association argues that some programmes, such as investments in energy efficiency, which are important for SMEs, have already been oversubscribed and that flexibility is needed between the diverse pillars of the NRRPs to respond to differences in demand for various programmes without endangering overall objectives.

European Parliament

SMEs are a priority for the European Parliament as they represent the backbone of the EU economy and contribute significantly to the good functioning of the single market. On 16 December 2020, the Parliament adopted a resolution on a new strategy for European SMEs, which takes into account pre- and post-pandemic challenges, as well as a strategy for the recovery of the SME sector.

On the RRF specifically, the Parliament’s involvement is vital for ensuring transparency and democratic scrutiny of the implementation of the instrument. Based on the provisions of the RRF Regulation and the Interinstitutional Agreement (IIA) on cooperation on budgetary matters, the Parliament scrutinises the Commission’s work, relying on the provision of information, dialogues and reviews. Its scrutiny role over NGEU spending stems from its competences as one of the arms of the budgetary authority, and from its involvement in the dialogue on the European Semester. So far, Parliament has held 10 RRF dialogues, provided for by Article 26 of the RRF Regulation, the latest of which took place on 17 April 2023.

The Parliament’s lead committees dealing with the implementation of the RRF and, more broadly, with that of the NGEU are the Committee on Budgets (BUDG) and the Committee on Economic and Monetary Affairs (ECON). The Committee on Industry, Research and Energy (ITRE) focuses on industrial policy (including SMEs), EU research and innovation policy, space policy, energy policy and the application of new technologies. The Committee on Budgetary Control (CONT) is responsible for scrutiny of the expenditure under NGEU through the discharge procedure (for the grants alone).11 Since March 2021, the Parliament has had a Standing Working Group on scrutiny of the RRF.

Ahead of the Commission’s RRF review report, the European Parliament adopted a resolution on the RRF implementation on 23 June 2022. In it, the Parliament welcomed the strong focus in NRRPs on supporting SMEs, but warned governments to remove the unnecessary (administrative) obstacles to the RRF-funded projects for SMEs, especially concerning the investments in digital technologies.
EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

D'Alfonso A., Next Generation EU: A European instrument to counter the impact of the coronavirus pandemic, EPRS, July 2020.


ENDNOTES

1. According to the European Commission definition, to be characterised as an SME, a company must employ less than 250 people and have a turnover of less than €50 million (with a balance sheet of less than €43 million). Within the SME category, micro enterprises are those that employ fewer than 10 people.

2. The 2021 European Semester cycle has been skipped so that Member States could focus on developing their NRRPs.

3. Cohesion policy is being delivered through the following funds: the European Regional Development Fund, the Cohesion Fund, the European Social Fund Plus, and the Just Transition Fund.

4. The six RRF pillars are: green transition (pillar 1), digital transformation (pillar 2), smart, sustainable and inclusive growth (pillar 3), social and territorial cohesion (pillar 4), health, economic, social and institutional resilience (pillar 5) and policies for the next generation (pillar 6).

5. There are seven European flagships: 1) Power up, 2) Renovate, 3) Recharge and Refuel, 4) Connect, 5) Modernise, 6) Scale-up, and 7) Reskill and upskill. These were identified by the European Commission in the 2020 annual sustainable growth strategy that launched the 2021 European Semester.

6. The breakdown per policy area in RRF pillar 3 is available on the RRF Scoreboard and includes, for example, building renovation and construction, research, development and innovation, competitiveness and business environment.

7. Other indicators supporting pillar 3 include: savings in annual primary energy consumption (No. 1), additional operational capacity installed for renewable energy (No. 2), alternative fuels infrastructure (refuelling/recharging points) (No. 3), researchers working in supported research facilities (No. 8), and number of people in employment or engaged in job searching activities (No. 11).

8. The figures (indicator No. 6) on the RRF Scoreboard stem from seven Member States as at 18 April 2023.

9. The rule refers to newly introduced burdens that are being offset by removing at least the equivalent burdens in the same policy area according to better regulation principles.

10. Examples of measures supporting SMEs include investments in energy renovation of micro- and small and medium-sized enterprises (€120 million), contribution to regional investment funds (€250 million) and support for innovative businesses (€750 million).

11. The discharge procedure does not cover the loan component of the RRF, which lies outside the EU budget.

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