SMALL AND MEDIUM-SIZED ENTERPRISES

Micro, small and medium-sized enterprises (SMEs) constitute 99% of companies in the EU. They provide two thirds of private sector jobs and contribute to more than half of the total added value created by businesses in the EU. Various action programmes have been adopted to increase the competitiveness of SMEs through research and innovation, and to provide better access to finance. Achieving carbon neutrality and the digital transition have also been taken into account in the strategies adopted to ensure better framework conditions for SMEs. Furthermore, the impact of the COVID-19 pandemic and of the war in Ukraine has stimulated new thinking about economic recovery, reconstruction and building SME resilience.

LEGAL BASIS

SMEs operate mainly at national level, as relatively few are engaged in cross-border business within the EU. However, independently of their scope of operations, SMEs are affected by EU legislation in various fields, 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). The Commission’s definition of SMEs can be found in Recommendation 2003/361/EC.

OBJECTIVES

Micro, small and medium-sized enterprises make up 99% of all businesses in the EU. They employ approximately 100 million people, constituting an essential source of entrepreneurial spirit and innovation, which are crucial for the competitiveness of EU companies. EU policy for SMEs aims to ensure that Union policies and actions are small business friendly and contribute to making Europe a more attractive place to set up a company and do business.

ACHIEVEMENTS

A. Small Business Act (SBA)

A comprehensive and encompassing initiative on SMEs was put forward by the Commission in June 2008, in the form of a communication on the Small Business Act (SBA). The SBA aimed at creating a new policy framework integrating the existing instruments and building on the European Charter for Small Enterprises and the Modern SME Policy for Growth and Employment. It took a ‘political partnership approach with Member States’ rather than proposing a fully fledged Community
The goal of the SBA was to improve the overall approach to entrepreneurship in the EU by ‘thinking small first’.

1. **Smart regulation**

Cutting red tape and bureaucracy is a high priority for the Commission in the SBA. Making public administrations more responsive to the needs of SMEs can make a major contribution to their growth. The amendment to the Late Payments Directive (requiring public authorities to make payments within 30 days, which serves as a security guarantee for SMEs) and the Directive on e-invoicing (giving e-invoices equal status to paper ones) were particularly helpful to small businesses. Furthermore, the modernisation of EU public procurement policy means that SMEs experience a lighter administrative burden when accessing public procurement and have better opportunities for joint bidding. The same approach has been found to simplify financial reporting obligations and to reduce administrative burdens for SMEs through the modernisation of both public procurement in the EU and the Accounting Directive (now Directive 2013/34/EU).

In its [communication of 29 April 2021 on ‘Better Regulation: Joining forces to make better laws’](https://www.europarl.europa.eu), the Commission introduced the ‘one in, one out’ approach for policymaking at EU level, focusing the attention of policymakers more closely on the implications and costs of applying legislation, particularly for small and medium-sized enterprises (SMEs). The aim of this approach is to offset new burdens resulting from the Commission’s legislative proposals by reducing the existing burdens in the same policy area so that they balance out.

2. **Access to finance**

Financial markets have often failed to provide SMEs with the financing they need. Some progress has been made in improving the availability of financing and credit for SMEs through the provision of loans, guarantees and venture capital. The European financial institutions – the European Investment Bank (EIB) and the European Investment Fund (EIF) – have increased their operations in respect of SMEs.

The SBA identified access to finance as being the second-largest problem faced by individual SMEs. Therefore, in November 2011, the Commission proposed an ‘action plan to improve access to finance for SMEs’. Among other things, the action plan included policy initiatives to ease access to venture capital markets for SMEs. The Commission monitors developments in SMEs’ access to finance through the joint Commission/European Central Bank Survey on the access to finance of enterprises (SAFE).

3. **SMEs in the single market**

The SBA and the Commission communications entitled ‘Towards a Single Market Act – For a highly competitive social market economy’, and the ‘Single Market Act II’ stressed the need for the continuous improvement of the framework conditions for businesses in the single market. Various initiatives and measures exist or have been planned in order to facilitate the establishment and operation of SMEs in the internal market. SMEs have been granted derogations in many areas, such as competition rules, taxation and company law.
4. **Competition policy**

The EU's State aid policy has for a long time treated SMEs favourably, recognising the special difficulties they face on account of their size. In 2014, the Commission adopted a revised General Block Exemption Regulation for State aid (Regulation (EU) No 651/2014). One of the components of State aid modernisation was the increased flexibility given to Member States to grant State aid to SMEs without prior notification and approval by the Commission, provided that certain conditions were met. On the basis of this regulation, SMEs have been able to benefit from public support of up to EUR 7.5 million.

**B. EU networks for SMEs**

Examples of networks aimed at SMEs include, firstly, general support services for SMEs in the EU, such as the ‘Enterprise Europe Network’, ‘SOLVIT’, ‘Your Europe – Business’, ‘SMEs and the Environment’ and ‘Dealing with Chemicals: National REACH Helpdesks’. Secondly, support for innovation and research includes the ‘IPR Helpdesk’, ‘SME Techweb’, ‘China IPR Helpdesk for SMEs’, ‘European Business and Innovation Centres (BIC) Network (EBN)’, ‘European Workplace Innovation Network’ and ‘Gate2Growth’.

**C. SMEs and research**

Research and innovation are crucial to the sustainable success and growth of SMEs in the EU. The Horizon 2020 programme for the 2014-2020 period aimed at creating a better and more comprehensive support environment for the research and innovation activities of SMEs, including a major simplification through a single set of rules. As part of this approach, SMEs were encouraged to participate through a new ‘specific SME instrument’, which aimed to fill gaps in funding for early-stage, high-risk research and innovation by SMEs.

In 2020, a review by the European Court of Auditors[1] found that while the SME instrument provided effective support to SMEs in developing their innovation projects, there were some challenges in delivery, for example in terms of regional coverage and the late introduction of the non-bankability criterion.

In addition, improving the competitiveness of SMEs was one of the 11 thematic objectives for cohesion policy in 2014-2020. Additional investments in SMEs were also made under other thematic objectives, particularly research and innovation, the low-carbon economy and information and communication technologies.

**Horizon Europe**, the EU’s research and innovation funding programme that runs until 2027, contains a new element that its predecessor did not have – the European Innovation Council, with a budget of EUR 10.1 billion to support game-changing innovations throughout the lifecycle from early stage research to the financing and scaling up of start-ups and SMEs.

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D. Programme for the Competitiveness of Enterprises and SMEs (COSME)

Regulation (EU) No 1287/2013 of the European Parliament and of the Council establishing a Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) for the period 2014-2020 was adopted on 11 December 2013. With a budget of EUR 2.3 billion over the period 2014-2020, COSME pursued the following general objectives:

— To improve access to finance for SMEs in the form of equity and debt: an equity facility for growth-phase investment, and a loan guarantee facility provided SMEs with direct or other risk-sharing arrangements with financial intermediaries to cover loans; EUR 1.3 billion of the COSME budget was allocated to financial instruments;

— To improve access to markets both inside the Union and globally: growth-oriented business support services were provided via the Enterprise Europe Network in order to facilitate business expansion both within the single market and outside the EU;

— To promote entrepreneurship: activities included developing entrepreneurial skills and attitudes, especially among new entrepreneurs, young people and women.

E. Latest initiatives


Taking into account the especially strong detrimental effect on SMEs of inflation and uncertainty caused by the sharp rise in energy and raw materials costs, Commission President Ursula von der Leyen announced a forthcoming ‘SME Relief Package’ in her September 2022 State of the European Union address. The cornerstones of the package would include the adoption of a single set of tax rules for doing business in Europe (BEFIT) to reduce the administrative burden, and the strengthening of the Late Payment Directive to mitigate risks to SMEs’ liquidity, helping them to pay their employees and make sustainable investments. In addition, Commissioner Breton has highlighted the need to harness the power of digital tools and data in the service of SMEs, and, importantly, to facilitate their access to skills and finance, including to a future European Sovereignty Fund.

As highlighted in the SME Strategy, small businesses struggle more than large enterprises to obtain finance. On 7 December 2022, the Commission published a proposal amending Directive 2014/65/EU to make public capital markets in the Union more attractive for companies and to facilitate access to capital for SMEs, and repealing Directive 2001/34/EC.
On 18 October 2022, the Commission published its Work Programme for 2023, in which a legislative proposal for the revision of the Late Payments Directive is set to be delivered in the third quarter of 2023.

ROLE OF THE EUROPEAN PARLIAMENT

As early as 1983, Parliament declared a ‘Year of Small and Medium-sized Enterprises and the Craft Industry’ and launched a series of initiatives to encourage their development. Since then, Parliament has consistently demonstrated its commitment to encouraging the development of European SMEs. For example:

— In June 2010, Parliament adopted a resolution on Community innovation policy in a changing world. In this resolution, it emphasises the need to create conditions whereby risk capital would be more readily available for SMEs. It calls for the development of SME financing tools, such as microcredit, venture capital for people seeking to invest in innovative enterprises and ‘business angels’ to sponsor business projects by young researchers. It also calls for Member States and the Commission to create tax, financial, business and administrative incentives for investment.

— In May 2011, Parliament adopted a resolution on the Small Business Act review. In this resolution, Parliament stresses its concern that the SME test has not been applied properly and consistently in all new legislative proposals, particularly at national level. In addition, it warns Member States about ‘gold-plating’ by exceeding the requirements of EU legislation when transposing directives into national law.

— In October 2012, Parliament adopted a resolution entitled ‘Small and medium-sized enterprises (SMEs): competitiveness and business opportunities’. In this resolution, it highlights a number of domains, including the reduction of administrative burdens, support for competitiveness and job creation, the launching of start-ups and access to information and financing.

— In January 2014, Parliament adopted a resolution on reindustrialising Europe to promote competitiveness and sustainability, stressing the importance of SMEs in the EU economy and calling for specific support and assistance for SMEs.

— In September 2016, Parliament adopted a resolution on access to finance for SMEs and increasing the diversity of SME funding in a Capital Markets Union.

— In July 2017, Parliament adopted a resolution on building an ambitious EU industrial strategy as a strategic priority for growth, employment and innovation in Europe.

— In February 2019, Parliament adopted a resolution on a comprehensive European industrial policy on artificial intelligence (AI) and robotics.

— On 17 April 2020, Parliament adopted a resolution on EU coordinated action to combat the COVID-19 pandemic and its consequences.
— On 18 June 2020, Parliament adopted a decision on setting up a special committee on artificial intelligence in a digital age, and defining its responsibilities, numerical strength and term of office.


— In its resolution of 7 July 2022 on Better regulation: Joining forces to make better laws, Parliament called on the Commission to make its ‘one in, one out’ calculator public. It underlined that in applying the ‘one in, one out’ approach, all compliance costs, both administrative and adjustment costs, should be considered, and stressed the need to ensure that this approach is applied by the Member States and by local and regional authorities.

— Parliament held a debate on the State of the SME Union on 15 September 2022.

For more information on this topic, please see the websites of the Committee on Economic and Monetary Affairs and of the Committee on Industry, Research and Energy.

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