SMALL AND MEDIUM-SIZED ENTERPRISES

Micro, small and medium-sized enterprises (SMEs) constitute 99% of companies in the EU. Various action programmes adopted aim to increase the competitiveness of SMEs through research and innovation, and to provide better access to finance. Strategies to ensure better conditions for SMEs have also taken into account carbon neutrality and the digital transition. Also, recent geopolitical developments have 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, 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

SMEs employ approximately 100 million people, constituting an essential source of entrepreneurship 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 initiative on SMEs was put forward by the Commission in June 2008, in the form of a Communication on the Small Business Act (SBA). It 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 approach.

1. Smart regulation

Cutting red tape and bureaucracy is a high priority for the Commission in the SBA. The amendment to the Late Payment 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 on ‘Better Regulation: Joining forces to make better laws’ of April 2021, 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 SMEs. The aim of this approach was to offset new administrative burdens resulting from the Commission’s legislative proposals by reducing an equivalent amount of existing burdens.

2. Access to finance

Financial markets have often failed to provide SMEs with the finance they need. Some progress has been made in improving the availability of finance 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 stepped up their SME-related operations.

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.

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 treated SMEs favourably for a long time, recognising the special difficulties they face. 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, upon certain conditions. 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

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. 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 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 life cycle from early stage research to the financing and scaling up of start-ups and SMEs.

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

Regulation (EU) No 1287/2013 establishing a Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) for the period 2014-2020 was adopted in 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 market access both inside the Union and globally: growth-oriented business support services were provided via the Enterprise Europe Network in order to facilitate business expansion;

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

E. Latest initiatives

As highlighted in the SME Strategy, small businesses struggle more to obtain finance. In December 2022, the Commission published a proposal amending Directive 2014/65/EU to make public capital markets in the EU more attractive for companies and to facilitate access to capital for SMEs.

Taking into account the strong detrimental effect of inflation and uncertainty caused by the sharp rise in energy and raw materials costs, the Commission adopted a communication on an SME Relief Package in September 2023. It includes proposals for a regulation on combating late payment in commercial transactions (COM(2023)0533) and for a directive establishing a Head Office Tax system for micro- and SMEs (COM(2023)0528). It also details a set of measures to improve access to finance and skilled workers, and to support SMEs throughout their business life cycle.

ROLE OF THE EUROPEAN PARLIAMENT

In 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. It called 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 called 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. Parliament stressed 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’. It focused on a number of areas, 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.

— In April 2020, Parliament adopted a resolution on EU coordinated action to combat the COVID-19 pandemic and its consequences.

— In November 2020, Parliament adopted a resolution on a New Industrial Strategy for Europe, calling for an industrial strategy that involves all industrial ecosystems, including SMEs.

— In its resolution of 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.

— In its resolution of July 2023 on the state of the SME Union, Parliament called on the Commission to carry out an overall assessment of the cumulative effect of EU legislation on SMEs in the EU, and to propose simplifications where needed. It also called for the urgent adoption of a revised Late Payments Directive, and to assess a possible revision of the state aid rules in order to evaluate how the interests of SMEs are safeguarded. The Commission was called on to increase its efforts on the capital markets union (CMU) and to unlock funding for Europe’s growth.

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.

Corinne Cordina
10/2023