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NOTE

From: Presidency
To: The High Level Working Group on Competitiveness and Growth
Subject: Mainstreaming of SME policy

Delegations will find in Annex a Presidency discussion paper on Mainstreaming of SME policy, in view of the meeting of the High Level Working Group on Competitiveness and Growth on 15 February 2018.

1. Introduction

Very significant changes have taken place in a relatively short period of time concerning the traditionally established business models and the factors which have had the greatest importance for the development and growth of enterprises in Europe. Increasingly competitive global markets, adoption of smart technologies and the necessity of new integrated products and services requires a new strategic approach which ensures that the EU economy can cope with the challenges it faces. SMEs are usually more affected by those effects than large companies and business in general. In this context vital for the flourishing of the EU economy is to guarantee that the most appropriate policy measures are created for SMEs to go smoothly through these complex processes.

In recent years policy measures that support enterprises have often been targeted at different subgroups such as start-ups, scale-ups or midcaps.. Whilst this approach leads to well targeted initiatives, it has also led to a variety of definitions in different documents, initiatives and financial instruments. Ensuring a clear and broadly accepted definition of the different sub-groups might be of interest to policy makers to avoid ambiguity and to improve the effectiveness of the measures in question.

SMEs in the EU have followed a moderate growth path in recent years. In 2012-2016, SME value added increased by 13.4 % and already recovered to pre-crisis levels by 2013, and in 2016 exceeded its 2008 level by 10.9 %. In 2013-2016, SME employment increased by 5.1 %. Furthermore, around 1.8 million new jobs in the EU-28 are forecasted to be created in SMEs by 2018. To support the positive development trend, SMEs' concerns need to be taken into account in all policy-making levels to create a business environment that helps small business to thrive. Ensuring the adoption of well-designed regulatory instruments, fostering innovation, promoting the circulation of new ideas and the implementation of key technologies are essential to enhance competitiveness and further increase prosperity.

2. Mainstreaming of SME policy

The European Commission has launched specific policy initiatives which set out a comprehensive set of measures to mainstream the "Think Small First" principle into European legislation and to establish the most favourable policy and regulatory environment where it is easy to start and scale-up a business. Since 2008 the Small Business Act (SBA) has been a comprehensive framework for the EU policy on SMEs. After the launching of the Small Business Act for Europe a wide range of pro-enterprise measures were designed and set up to make a friendly and supportive environment for SMEs across Europe. The "Think Small First" principle was adopted by all Member States and placed SMEs at the forefront of policy making process. As a continuation of these efforts the Better Regulation agenda, adopted in May 2015, includes a package of measures and a strong commitment to the application of the "Think Small First" principle. With the New Better Regulation Guidelines¹ the Commission aims to strengthen the commitment on consultations from one side and to make the whole process transparent, targeted and available for all relevant stakeholders.

¹ http://ec.europa.eu/smart-regulation/guidelines/docs/swd_br_guidelines_en.pdf

Member States also have a key role in implementing the "Think Small First" principle, e.g. through specific action programmes on national level. In 2017, the SME Envoy Network finalised its work on a 'European SME Action Programme' which was presented at the last meeting of the Competitiveness Council during the Estonian Presidency. It contains over 100 measures suggested by the national SME Envoys and business organisations² alike. This Action Programme enters into its implementation phase and has a potential to further advance the SME policy objectives.

2.1. Examples of tools on the mainstreaming of SME policy:

a) Better Regulation and SME Test

In order to conduct an effective horizontal policy to support development and growth of European SMEs, the efforts should be continued towards greater emphasis on designing simple and convenient legislation and measures which take into account the specific needs and particular problems which SMEs face. The SME test requires that each legislative proposal is checked for its compatibility with the needs and specificities of SMEs. The SME test or similar procedure has by now been adopted in practically all Member States. The recent report by the Belgian SME Envoy on the use of the SME test in Member States, suggests that the SME Test leads to more awareness and generally helps administrations to take more into account the interests of SMEs when drafting legislation and that the use of the test is moving in the right direction in the EU.

The Commission's Better Regulation agenda, in particular the SME test and the REFIT programme, have been delivering good results, even though more could be done on European and national level in terms of systematic application, transparency and visibility of results. Effective implementation of the SME Test and design of regulations which does not put excessive and unnecessary burdens, require a quantification of impact specifically on SMEs, and a more thorough and differentiated approach to measure the effects on the different SME sub-groups. These groups have very specific difficulties and needs in terms of financing, business environment, regulations and access to markets.

² European level representative business organisations attend the meetings of the SME Envoys as observers.

Applying the "Think Small First" principle is a joint challenge for the EU institutions and the Member States. As foreseen in the Inter-Institutional Agreement on Better Law-Making, the Council has committed to carry out impact assessments on any substantial amendment to the Commission's proposal, when appropriate and necessary. In a concerted effort, the Council should always assess the impact on SMEs of substantial amendments.

b) The Start-up and Scale-up initiative³ - Peer Review

In 2016, the European Commission adopted an initiative to improve the economic and regulatory situation for start-ups and scale-ups⁴ containing 46 policy actions designed to drive forward a European policy agenda for young enterprises, especially those showing the potential for rapid and often exponential growth.

In this Communication the Commission makes a commitment to support [...] *a major, comprehensive and detailed peer review of all Member State rules and practices towards start-ups and scale-ups [...]*.

Such a peer review would seek to deliver a comparison of national rules and would facilitate the exchange of best practices. Comparing rules between Member States, but also with selected non-EU countries, would facilitate peer learning within the EU but also from other economic areas. The tool used in the Start-up Nations Atlas of Policies (SNAP) developed by the Global Entrepreneurship Network is a simple and informal tool to set the ground for a more in-depth analysis.

2.2. SME policy mainstreaming in specific policy areas

a) Single Market

On 19 December 2017, the Commission tabled two legislative proposals to strengthen the Single Market for goods. They will make it easier for companies, especially SMEs, to sell their products across Europe, and to strengthen controls by national authorities and customs offices to prevent unsafe products from being sold to European consumers.

³ https://ec.europa.eu/growth/content/europes-next-leaders-start-and-scale-initiative-1_bg

⁴ ['Europe's next leaders', Communication from the Commission](#)

In particular, mutual recognition assists for removing barriers to intra-EU trade when harmonisation is either not desired or technically impossible. Non-harmonised sectors represent a significant contribution to the economy. SMEs represent around 98% of the enterprises operating within the non-harmonised sectors. For SMEs, national technical rules represent entry barriers to those national markets, and SMEs refrain from selling their products in those countries. Strengthening the current weak use of the principle of mutual recognition presents both significant potential for ensuring free movement of goods in the Single Market and considerable business opportunities for SMEs.

The Regulation on Compliance and Enforcement will help create a fairer internal market for goods, through fostering more cooperation among national market surveillance authorities and sharing information about illegal products, so that authorities can take effective action against non-compliant products. This Package is a good example of including SME policy objectives in other EU policies, because its objective is to respond to SMEs' specific need for protection, to reduce red tape, and to contribute to promoting entrepreneurship while taking into account the role SMEs play in the European economy. Improving the Single Market for goods will reinforce trust of consumers in the products they buy, create a level playing field for businesses and bring economic benefits.

b) Access to finance

The EU promotes access to finance for SMEs through the main instrument for SMEs – COSME. Furthermore, there is an additional support for SMEs under the European Fund for Strategic Investments (EFSI) of the Investment Plan for Europe. By December 2017, EFSI operations totalling over €4.5 billion had been approved, which are expected to mobilise almost €90 billion in investments and benefit almost 540 000 enterprises. Overall leverage of 19.8 is expected, with the highest expected leverage coming from the COSME Loan Guarantee Facility. This success has ensured broad support for the EFSI 2.0 Regulation, which entered into force on 1 January 2018 and which will extend and enhance EFSI, ensuring that the momentum continues.

c) Public procurement

Estimates show that an improved access for SMEs to public procurement market would amount for almost €2 trillion. In 2017, the Commission put forward an initiative that encourages Member States to develop a strategic approach to procurement policies, focusing on six priorities, one of which is improved access for SMEs to procurement markets in the EU, and by EU companies in third countries. This initiative aims to strengthen the Single Market and is part of the continuous effort to stimulate investment in the EU by carrying out procurement in a sustainable manner and more efficiently while making full use of digital technologies to simplify and accelerate procedures.

d) Energy

Energy prices are crucial for economic performance and sustainability of all economic operators. Price hikes or uncertainty affect SMEs more than large companies. The European Union's energy policies are driven by three main objectives: to secure energy supplies to ensure the reliable provision of energy, to ensure that energy providers operate in a competitive environment that ensures affordable prices for homes, businesses, and industries and energy consumption to be sustainable. These goals will help the EU to tackle its most significant energy challenges and SMEs are supposed to profit the most from their implementation.

e) Sustainability

The way European SMEs operate is crucial to make our economy more sustainable and competitive. While the environmental impacts of individual SMEs are generally smaller in comparison to those of large companies, the cumulative impact of all SMEs taken together is considerable. Therefore, the Commission has developed tools for support of SMEs to better understand environmental legislation and policies and to guide them towards compliance with European environmental requirements⁵. This also creates economic opportunities, as exemplified by the EU Circular Economy Action Plan. Increased resource efficiency and participation in green markets represent significant opportunities for European SMEs to boost their productivity and competitiveness. In January 2018, the Commission adopted its third package of measures on Circular Economy, including a European Strategy for Plastics in the Circular Economy⁶.

3. SME Performance Review

The annual SBA reports are a good estimate for the achievements of the policy in each of the 10 principles of SBA. Furthermore the concrete measures, which Member States implement, and the exchange of best practices are of high importance for the policy makers to evaluate and improve the business environment for SMEs. SBA highlights tendencies in economic sectors, which are leaders by generated value added and growth of employment as well as introducing other sectors, which face difficulties in overcoming crises. The annual SME Performance Review made by the Commission supports Member States in making thorough analyses on the different subgroups of SMEs concerning their number, employment and value added.

Each of these subgroups has specific needs for support and faces various difficulties in the business environment. For example microenterprises, self-employed and crafts apply niche marketing and need access to microfinancing. It is very important for policy makers to focus directly to a subgroup and its needs in order to incorporate concrete measures and achieve essential results.

⁵ More detailed examples can be found on webpages on [chemicals](#) and [waste policy](#).

⁶ https://ec.europa.eu/commission/sites/beta-political/files/plastics-factsheet-industry_en.pdf

In the last Annual report on European SMEs 2016/2017⁷ provided by the Commission, there is a thorough analysis with focus on self-employment. The Commission has used Eurostat and Labour Force Statistics data on defining the self-employment subgroup. In that analysis it is mentioned that 56% of all enterprises in Europe are with 0 employees, which is the majority of enterprises. Some of these self-employed entrepreneurs are owners of small business initiatives, to others it is an additional income to their permanent job or it is a professional field of realisation including crafts. These useful analyses are valuable for national policy makers to support with initiatives this subgroup of enterprises. Another subgroup which represents start-up enterprises is important for generation of high value added, incorporation of innovations and new technologies, and ensure employment for high qualified employees. Usually start-ups are defined as fast-growing enterprises or “gazelles” which are micro- or small enterprises in their initial face of business lifecycle. They have high annual growth concerning turnover or employment over a three year period.

Questions for the lunch debate:

- 1. In order to guarantee that the SME Test thoroughly checks the influence on SMEs, do you think that enough alternatives of possible impact on SMEs are analysed? What can be further done to improve the use of the SME Test at all levels of policy making, i.e. European, national/subnational?*
- 2. Which other policy areas, in addition to the examples listed above, would you suggest for mainstreaming of SME policy?*

⁷ https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en