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Delegations will find attached the 2017 Report of the SME Envoy Network to the Competitiveness Council with a view to the meeting of the Competitiveness Council on 30 November 2017.

SME ENVOY NETWORK

**2017 Report of the SME Envoy Network
to the Competitiveness Council**

1. Introduction

The EU SME Envoy Network submits this Annual Report to the Council following the request by the Competitiveness Council of September 2013 to the SME Envoys to report annually on the state of the EU SMEs and the implementation of the Small Business Act (SBA).

The fourth report presents an overview of the latest trends in the performance of the EU SMEs and summarises the work done by the SME Envoys in 2017 on the following priorities: SME Test, transfer of business and family business as well as start-up and scale-up support. The SME Action Programme – a comprehensive strategy prepared by Envoys and based on the Small Business Act (SBA) - is set out in chapter three. Last but not least, the report presents an outline for the activities in 2018 and beyond.

2. SMEs in Europe – How are they doing?

The well-known adage that 'SMEs are the backbone of Europe's economy' remains valid. All but 0.2 % of enterprises which operated in 2016 in the EU-28 non-financial business sectors were SMEs. These SMEs employed 93 million people, accounting for 67% of total employment and generating 57% of EU-28 non-financial business sector value added. Some 93.2 % of the SMEs are micro enterprises employing less than 10 persons, and in many cases, have no paid employees. SMEs accounted for more than 80 % of EU-28 employment in accommodation and food-related services, business services and construction.

In 2016, SMEs continued to recover from the financial and economic crisis in 2008/2009. The general macro-economic environment supported SME activity in all industries due to the increase of demand in household and government consumption, in capital investments by households, governments and businesses, and exports of goods and services. In previous years, the main driver of SME recovery was exports.

2016 is the third consecutive year of steady increase in EU-28 SME employment and value added. The employment in SMEs increased annually by 1.6 % in 2015 and 2016, marking a recovery from the economic and financial crisis. The employment recovery in SMEs remains more dynamic in services industries compared to manufacturing.

The value added generated by SMEs rose by 1.4 % in 2016 following an increase of 5.8 % in 2015 showing an even greater recovery: 11 % higher than in 2008 before the crisis. As inflation continued to remain low, this increase in value added largely reflected a real-term increase in the volume of economic activity of EU-28 SMEs in 2016 and 2015.

All Member States except Latvia recorded growth in SME employment in 2016. In 14 Member States the SME employment grew by 2% or more. The frontrunners were Malta, Croatia, Slovakia, Portugal, Cyprus, Lithuania and Luxembourg where SME employment growth exceeded 3% in 2016.

All Member States, except Greece and Poland, also saw SME value added increase in 2016. It rose by more than 2 % in 22 Member States and by more than 5 % in five Member States (Bulgaria, Croatia, Ireland, Malta and Romania).

Europe's SMEs are expected to continue their recovery in the coming years. EU-28 SME employment is forecast to increase by 1 % in 2017 and 0.9 % in 2018. The EU-28 SME value added is predicted to grow by 2.5 % in 2017 and 3.8 % in 2018. Some of the projected acceleration of the growth in value added reflects the expected pick-up in inflation from the very low levels of previous years.

3. European SME Action Programme – A strategic bottom-up initiative

The SME Envoy Network put forward an Action Programme at the initiative of Sabine Hepperle, SME Envoy for Germany. It gives impetus to the Small Business Act (SBA), the cornerstone of today's European SME policy, by presenting a comprehensive strategy to tackle the main challenges small businesses are facing across the EU. The programme is a joint product of the SME Envoys and the business organisations acting as observers to the Network. It thereby complements and supports the Commission's initiatives for SMEs, in particular the SBA and the Start- and Scale-up Initiative, with a more bottom-up approach.

The first step is a non-exhaustive catalogue of over 100 recommended actions both for the Member States and the EU in the areas of better regulation, access to markets, scaling up, access to finance, entrepreneurship education, entrepreneurship promotion and start-up infrastructure, second chance, business transfer, sharing economy, skills & training and digitisation. The implementation of these actions has already started. The next 2018 annual report of the SME Envoy Network will set out the progress achieved.

The European SME Action Programme is attached to this report.

The SME Envoys ask the Council to encourage Member States and the Commission:

- distribute the SME Action Programme to all relevant stakeholders within Member States and the Commission's Directorates-General in order to raise awareness and promote the implementation of the recommendations;
- continue their work on the recommendations mentioned in the European SME-Action Programme.

The Network of SME Envoys will:

- continue to share best practices and current research on the topics raised in the European SME Action Programme;
- monitor progress on the proposed actions.

4. Activities of the SME Envoys in 2017

The work of the Envoys contributes to the Commission's policy priorities and supports the implementation of the flagship initiatives, in particular the Start- and Scale-up Initiative as well as the Single Market Strategy, the Capital Market Union and the Skills Agenda. The SME Envoys met four times and focussed on the SME Test, family business, transfer of businesses as well as start- and scale-ups. The following section briefly outlines the results of their work.

4.1 Family business and transfer of business

The SME Envoy Network decided to take a closer look at family businesses. The work focused in particular on the impact of the ownership structure on the transfer of a family business. Transfers of ownership in private businesses are a highly topical and important issue in all European countries, affecting over 700,000 companies and millions of jobs every year.

The rapporteur, Christian Cardona, SME Envoy for Malta, shared the best practices from his own country, including the legislation to ensure a smooth transfer of family business. The report pointed also to the need of awareness raising for alternative forms of (family) business transfer to a cooperative. His report was discussed at a policy conference in March 2017 and presented to the Competitiveness Council at the end of May in Brussels.

The SME Envoys encourage Member States:

- to further raise awareness for the need to prepare business transfers well;
- to make sure that business transfers, in particular of family businesses, are not unnecessarily hampered.

The Network of SME Envoys will:

- continue to work in particular with the business organisations to encourage the exchange of best practice in this matter that facilitate the transfer of businesses in the EU.

4.2 SME Test in Member States

Didier Kinet, the SME Envoy for Belgium, presented the first report on the SME test in Member States in 2015. The findings were positive but showed clearly that more work was needed to make the SME test fully effective in the Member States.

On the basis of their 2015 report the Envoys asked the Council to request Member States "[...] to apply SME tests when assessing the impact of legislative proposals [...] effectively instead of carrying out a 'tick-the-box' exercise [and to do so] in a uniform way". The Network itself undertook to "[...] step up the exchange of good practice on the application of the SME test [and] elaborate guidelines for an effective approach to the SME test across the Member States."

The Envoys have delivered in the course of 2016 on their commitment to step up the exchange of good practice with a specialised training initiative. As a further follow-up to the initial initiative Didier Kinet presented a new report in 2017. It shows encouraging progress: seven more, i.e. nearly all Member States, indicate that they have now an SME Test or an equivalent system in place. Many countries reported that the introduction of the SME Test was linked to a more extensive strategy to promote the development of SMEs and/or to further develop the already existing impact assessment procedures.

Several countries accompanied the introduction of the SME Test with other measures, including extensive information and training across the public administration on how to apply the Test in practice. Some countries reported that they complemented the introduction of the SME Test by establishing a body to monitor the implementation of the Test. In several Member States the SME Test is part of an overall method and strategy of better regulation and law-making. Moreover, the transparency has increased: only a minority of Member States do neither publish the results nor make them available upon request.

Despite the good progress, there is still scope for strengthening the effective application of the SME Test, e.g. by sharing best practices. A specific accent will be put on the new start- and scale-up element which is part of the revised EU SME Test. The application of the SME test by the European Commission was assessed in a parallel study conducted by EUROCHAMBRES that was presented to the Network in October.

The SME Envoys ask the Council to encourage Member States and the Commission:

- to continue the work to make the SME Test an integral part of their impact assessment and improve its application;
- to consider in their SME Test a start- and scale-up dimension to ensure that new legislation does not create obstacles to starting and scaling up a business.

The Network of SME Envoys will:

- continue to work on the promotion of the Test and to monitor the progress, where appropriate including on sub-national level¹;
- report again in due time and in case of major developments;
- put a specific accent on start- and scale-ups in the context of administrative burden reduction.

4.3 Start- and scale-up support

The SME Envoy Network contributed to the preparation of the Commission's start- and scale-up initiative "Europe's Next Leaders"² and assume a key role in its implementation which is well on the way. The initiative strives to offer European entrepreneurs the right conditions to set up and grow their breakthrough business ideas into successful companies. The initiative aims to help companies overcome legal, regulatory and administrative barriers, remedy difficulties with access to finance and create more opportunities to engage with potential business partners, investors and innovation sources in better connected entrepreneurial ecosystems. The Initiative contains 46 concrete actions, both legislative and non-legislative. Less than a year after the adoption of the Initiative, the implementation of six actions is completed, 37 actions are ongoing and three actions are under preparation. The 2017 SME Assembly will put a particular accent on the implementation of this initiative.

¹ It is understood that this is entirely a decision of the Member State in question.

² For more information see http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8998

The SME Envoys ask the Council to encourage Member States:

- to continue supporting initiatives that help Europe's SMEs to scale in order to create jobs and maintain the positive economic situation;
- to maintain start-up friendly policies and initiatives in place to make sure that the success of European and Member States' start-up policies continues to yield positive results.

The Network of SME Envoys will:

- continue the work on the support for start- and scale-ups by contributing actively to the implementation of the Start- and Scale-up Initiative, paying attention also to administrative burdens specific to start- and scale-ups;
- report in 2018 on progress and identify areas where more needs to be done.

4.4 Other issues dealt with by the SME Envoy Network

Following the adoption of the European Defence Action Plan the SME Envoy Network started working on the SME-related aspects of European defence policy to make sure that Europe's SMEs can fully benefit from it. They will deepen this work in 2018 and Mario Antonić, SME Envoy for Croatia has taken up the challenge to be the rapporteur for this subject.

Another subject of discussion was the modernisation of the Single Market and in particular the Compliance & Assistance Package. Making the Single Market work even better for SMEs is an important task and Torsten Andersen, SME Envoy for Denmark, has accepted to lead this work as the rapporteur.

As part of its ongoing dialogue related to SMEs and REACH the Envoys discussed the cumulative cost assessment for SMEs in the chemical sector.

Given the importance of access to finance and in particular EFSI related support for SMEs the Envoys were kept up to date about the development of the Fund.

First discussions about the SME definition and the COSME programme review complemented the work in 2017.

5. Ideas From Europe

In 2015 and 2016 the SME Envoys participated in Ideas From Europe, an initiative started under the auspices of Pieter Waasdorp, SME Envoy for the Netherlands. Its objective is to find inspiring European entrepreneurs with interesting business ideas that contribute to the solution of societal challenges in many areas such as health, the environment, care or farming, to name just a few. Ideas From Europe is not an award scheme or competition. It has developed from a PR initiative showcasing that Europe has great ideas and great entrepreneurs into an initiative which supports the scaling of concepts beyond individual companies. Ideas From Europe takes the business idea of an individual entrepreneur, analyses the concept behind it and tries to pave a way towards the scaling of the concept. Like this not only one entrepreneur but all entrepreneurs active in the same field can profit from this initiative.

Because of the huge success of the first round in 2017 the Envoys started a second round for another group of inspiring entrepreneurs.

6. Key Issues for 2018 and beyond

The Network of SME Envoys will continue to address the Commission's initiatives which have a particular impact on SMEs. For 2018 the SME Envoys will in particular:

- continue and intensify the dialogue on SME policy in general and the exchange of good practices for SMEs, in particular related to the implementation of the European SME Action Programme, the latter with a specific focus on digitalisation, access to finance and access to markets;

- address the future of the COSME programme;
- as foreseen by the Single Market Strategy, the Small Business Act and the Start- and Scale-up Initiative continue their work on the completion of the Single Market, access to finance and access to markets as well as start- and scale-ups;
- equally continue working on digitalisation, public procurement, SMEs and defence as well as transfer of business and family business and take a closer look at the impact of Galileo on SMEs;
- discuss the findings of the public consultation on the SME definition;
- intensify the dialogue with the Commission's Directorates General and other Services on SME issues and
- continue their cooperation with the Global Entrepreneurship Network.

7. Conclusion

The SME Envoys request the Council to endorse this report and to take note of the next steps.

The SME Envoy Network underlines that SME aspects need to be taken into account in all legislative and policy initiatives both in the EU and in the Member States. The SME Envoy Network is fully committed to this work and stresses the importance of the regular debate at the Council to engage Member States in the implementation of SME policy and ensuring that SMEs remain high in the political agenda in the coming years.