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NOTE

From:	General Secretariat of the Council
To:	Council
Subject:	2018 Report of the SME Envoy Network

Delegations will find attached the 2018 Report of the SME Envoy Network to the Competitiveness Council with a view to the meeting of the Competitiveness Council on 29 November 2018.

SME ENVOY NETWORK

**2018 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 fifth report presents an overview of the latest trends in the performance of SMEs in Europe and summarises the work done by the SME Envoys in 2018 on the following priorities: SMEs in the Single Market, Defence, start- and scaleup initiative as well as public procurement and access to finance. The report also contains an outline for the activities in 2019 and beyond.

2. SMEs in Europe – How are they doing?

Over the period 2008 to 2017, the gross value added generated by EU-28 SMEs increased cumulatively by 14.3% and SME employment increased by 2.5%, while the economy as a whole generated a cumulative increase of 16.5% in value added and 1.8% in employment.

However, these EU-wide statistics mask highly divergent developments in Member States, with the level of SME value added in 2017 still below its 2008 level in six Member States (CY, EL, ES, HR, IT and PT) and the SME employment level in 2017 below its 2008 level in 15 Member States (BG, CY, CZ, DK, EL, ES, FR, HR, IE, IT, LT, LV, PT, RO and SI).

EU-28 SMEs made a significant contribution to the recovery and subsequent expansion of the EU-28 economy following the economic and financial crisis of 2008/09. They accounted for 47% of the total increase from 2008 to 2017 in the value added generated by the non-financial business sector and for 52% of the cumulative increase in employment in the sector. In fact, their contribution exceeded what would have been expected on the basis of their relative importance in the economy.

The number of SMEs in the EU-28 increased by 13.8% from 2008 to 2017. However, due to the high mortality rate of SMEs over this period, especially among young SMEs, the number of newborn SMEs exceeds markedly the actual increase in SME population. In fact, in the EU-28 overall, an increase in the SME population of 1 unit required the birth of 9 SMEs on average over the period 2012-2015.

In view of the Commission's Start- and Scale-up Initiative from November 2016 we are looking in particular at the situation of the start-ups with potential to scale up. All start-ups are SMEs, but not all SMEs are start-ups, due to their differences in set-up and vision. There is no EU-wide register of start-up businesses and national registries commonly do not consider the degree of innovativeness, the aim to grow or the sources of financing during business creation, which makes it difficult to find data on this specific type of businesses.

Based on data gathered for the EU Startup Monitor project¹, collected from February 2018 until May 2018 with an online survey in which individual participants from 18 Member States took part, the following can be summed up:

- The average (participating) founder is male (82.8%), holds a university degree (84.8%), and is currently 38 years old – but was 35 years old when founding the business. This goes against the stereotype of a 'youngster in a garage' and reflects the level of education and experience of the founders when starting their businesses.
- When asked about their motivation to start a business, founders reported mainly about looking for self-fulfillment and independence. They also identified a market opportunity which they have decided to tackle with a team of 2.71 founders, on average, per start-up.
- The (participating) start-ups are predominantly active in IT/Software development (19.1%) and software as a service (18.5%), but also bio-, nano- and medical technology (6.5%), consulting (5.9%), fin-tech (5.1%), media and creative industries (4.6%), green tech (4.0%) and education (3.5%). The most important sources of funding for the start-ups are business angels, venture capital and crowd investors.

¹ The data presented was collected by the EU Startup Monitor project, www.startupmonitor.eu, drawing on the following criteria to defining start-ups: age (younger than ten years), innovation (in product or business model), aim to scale (intention to grow the number of employees and/or markets operated in).

- Most start-ups that took part in this data collection are either in the start-up stage (46.1% have completed a marketable product or service and show first revenues/users) or in the growth stage (33.7% show significant positive developments in sales turnover and/or number of users). On average they have 12.8 employees and were planning to hire another 7.5 people within a year. Growing is a crucial aspect of start-ups and 88% of participating start-ups were planning to (further) do business cross-border within a year, thus deepening the Single Market is crucial for them.
- Growing across borders can be difficult and founders are confronted with many challenges. In terms of internationalization, the biggest hurdles for them are differences in legislation and regulations (59.1%), differences in tax systems (38.2%), followed by cultural differences (32.4%) and language barriers (26.8%). Putting the internationalization-related aspects aside, their biggest challenges are profitability (86.2%) and cashflow/liquidity (72.3%), followed by sales/customer acquisition (55.9%), growth of revenue (50.8%), product development (39.7%), raising capital (37.8%) and recruiting (23.4%).

The 2018 SME Performance Review will also use the Start-Up Monitor data relating to the key characteristics of start-ups in the European Union, in the context of how SMEs contributed to the recovery and growth of the EU-28 economy since 2008.

3. Activities of the SME Envoys in 2018

The SME Envoy Network ensures that the 'think small first' principle is integrated into policy-making and regulatory proposals of the European Commission. 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 and the renewed Industrial Policy Strategy. The SME Envoys met four times in 2018; the section below outlines the most important elements of their work.

3.1 Defence and SMEs

In a fast-changing world a solid European defence policy is ever more important. The industrial base for an autonomous defence policy is an essential part thereof and SMEs play a strong role, as everywhere in Europe's economy. The launch of the European Defence Fund in 2017 was accompanied by an awareness campaign directed at European SMEs on available EU funding opportunities. The campaign was carried out through the Enterprise Europe Network as well as the European Network of Defence-related Regions funded by the COSME programme. Furthermore, to foster cooperation between defence clusters, COSME supports the building of strategic cluster partnerships.

The SME Envoy for Croatia, State Secretary Mario Antičić, has accepted to be the *rapporteur* for this important subject. Based on the initial overview which was presented to the Envoys in March 2017 a more in-depth discussion took place in July 2018 based on presentations by industry and defence officials alike.

The SME Envoys encourage Member States:

- to further raise awareness of the importance of SMEs in the defence value chain;
- to make sure that SMEs are getting real possibilities to participate in defence procurement actions.

The Network of SME Envoys will:

- deepen its work in this context and pay particular attention to fair procurement for SMEs in defence;
- report on national best practices, in particular regarding dual use and other issues of particular importance for SMEs.

3.2 SMEs in the Single Market

In the 25th year of its existence the Single Market is one of the biggest European achievements. However, in particular for smaller companies there is still a lot to do. It is in that spirit that the Network started working on report regarding specific SME related issues in the Single Market. Torsten A. Andersen, SME Envoy for Denmark, is the rapporteur for this subject and is in the process of preparing his report. The SME Envoy Network will also be more involved in the running of the annual Single Market Forum, a series of smaller events in Member States which deal with specific issues related to the Single Market.

The SME Envoys encourage Member States:

- to continue making sure that the Single Market is improved in particular for smaller and young firms.

The Network of SME Envoys will:

- provide a report on the situation of SMEs in the Single Market before the end of 2018.

3.3. Public procurement

Public procurement is a huge market for the European economy but SMEs are still underrepresented. This is why Didier Kinet, SME Envoy for Belgium, accepted to be rapporteur for this subject. The members of the Network work on their contributions and the report is scheduled for 2019.

3.4. Start- and scale-up support; Ideas from Europe

The Commission's start- and scale-up initiative "Europe's Next Leaders"² is well advanced regarding its implementation for which the SME Envoy Network assumes a key role. In fact all actions foreseen in the initiative have been started with 13 actions already finished; 33 actions are ongoing. It should be noted that some, due to their nature, do not have an end date.

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

Start- and scaleups will continue to need our support. In this context it is very important to make sure Europe follows global developments and at the same time profits from its many specificities such as a more 'values oriented' approach to doing business. In particular start- and scaleups whose business ideas and business models have a clear link to sustainable development goals and contribute to solving of societal issues can clearly benefit from a more vocal political support.

3.5. Other issues dealt with by the SME Envoy Network

Apart from the above mentioned issues the Network also followed closely the development of the SME definition and European Fund for Strategic Investments (EFSI).

The SME Envoy Network had also a number of discussions about the next Multiannual Financial Framework (MFF) to make sure that SMEs can count on the same level of support till 2027.

The SME Envoys have furthermore been informed about the ongoing work regarding the SME definition. In 2019 this will continue on the basis of an external study.

As a *rapporteur* for access to finance Pieter Waasdorp, SME Envoy for The Netherlands, has also launched a new initiative to identify financing gaps for SMEs in Member States and to give an overview of best practices on initiatives improving access to finance for SME in Member States. This report will help making sure that SMEs are getting the financial support they really need.

4. Key Issues for 2019 and beyond

The Network of SME Envoys will continue to address the Commission's initiatives which have a particular impact on SMEs. For 2019 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, training & skills, access to finance and access to markets;
- follow closely the discussions on the next MFF and the proposed Single Market 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; this includes following new developments related to advances in technology such as artificial intelligence, blockchain, new business models etc. and their impact on SMEs;
- continue in particular with defence related issues and public procurement;
- accompany the process related to the SME definition;
- intensify their work for Ideas from Europe, by starting another round of national searches for outstanding European Entrepreneurs with business ideas that contribute to solving societal challenges as well as supporting effective scaling up mechanisms. As the Ideas from Europe initiative evolves the Envoys will focus in particular on the three business areas renewable energy, self care and personalised medicine.

5. 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.
