



Council of the
European Union

Brussels, 24 November 2022
(OR. en)

14689/22

COMPET 888
IND 468
MI 815

NOTE

From: General Secretariat of the Council
To: Council

Subject: 2022 Report of the SME Envoy Network to the Competitiveness Council
Presentation by the Commission

Delegations will find attached the 2022 Report of the SME Envoy Network to the Competitiveness Council with a view to its meeting on 1 December 2022.

SME ENVOY NETWORK

**2022 REPORT OF THE SME ENVOY NETWORK
TO THE COMPETITIVENESS COUNCIL**

FOREWORD

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 SME policy.

2022 started as the year in which Europe and its entrepreneurs would come out of the economic crisis brought about by the pandemic. In February, Russia started its war of aggression against Ukraine which led to a new and different crisis situation.

Reports indicate that it will again be SMEs who deliver the resilience Europe's society needs. However, making sure that the necessary framework for SMEs is there, became more difficult.

SMEs are critical to the success of the green transition in the EU. Whilst they are currently responsible for around 60 % of all greenhouse gas emissions by enterprises, they are also part of the solutions through their innovative products and services. They are equally important for the transition towards a digitalised economy. At the same time they are very hard hit by the crisis brought about by the Russian aggression.

This is what Commission President von der Leyen recognised in proposing a SME Relief Package, of which in particular the revision of the Late Payments Directive will play an important role. The SME Envoy Network looks forward to contributing to this ambitious initiative.

This report informs about the work we have undertaken in 2022 and the way forward.

Hubert Gambs

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on behalf of the SME Envoy Network

1. SMEs IN EUROPE – HOW ARE THEY DOING?

On 20 June, the Commission published the 2022 SME Performance Review (SPR).

The Review shows that since early 2020, due to the Covid-19 pandemic, the 23 million EU-27 SMEs, and more generally, SMEs throughout the world, have faced unprecedented economic uncertainty and turmoil. Moreover, through part of 2021, SMEs faced difficulties in hiring new staff to meet an unexpectedly strong rebound in demand, while also having to deal with sharp and rapid increases in the price of many of their inputs. At the same time as coping with extraordinary economic and social challenges during the last two years, SMEs have also had to prepare for the transition to a digital and sustainable economy.

In 2021, 99.8% of all enterprises in the EU-27 non-financial business sector (NFBS) were SMEs. They employed 83 million people, the equivalent of 64% of total employment in the NFBS, and generated 52% of the total value added produced by the non-financial business sector.

In 2021, SMEs accounted for more than 50% of the value added generated by six out of the fourteen industrial ecosystems which the European Commission monitors regularly, namely 'cultural and creative industries' (57% of total ecosystem value added), 'proximity, social economy and civil security' (61%), 'retail' (61%), 'tourism' (63%), 'textiles' (65%) and 'construction' (72%). In contrast, SMEs accounted for only 35% or less of the value added generated by the industrial ecosystems of 'health' (29%), 'electronics' (33%), 'energy – renewables' (34%) and 'aerospace and defence' (35%). The differences in the value added contribution of SMEs across the various ecosystems mainly reflect differences in the value added contribution of micro SMEs.

The pandemic broke the typical link between SME value added and employment. Many enterprises experienced marked declines in sales, and a wide range of public measures were introduced to help SMEs and large enterprises to weather this crisis, and avoid or limit permanent lay-offs. Thus, while the value added generated by EU-27 SMEs in the NFBS fell by 5.5% in 2020, SME employment declined by only 2.0%.

EU-27 SMEs rebounded in 2021, with their value added in the NFBS growing by 8.0% in current prices and their employment increasing by 0.5%. This large difference between SME value added and employment growth in 2021 was due to two factors. Firstly, SME value added is here measured in current prices and, as a result, the strong value added growth in 2021 partially reflects a pick-up in inflation. Secondly, the various Covid-related programmes put in place by governments in 2020 supported SME employment, so that it fell by much less than SME value added in 2020. The corollary is that the rebound in SME value added was associated with only limited employment increases in 2021. Meanwhile, in contrast to 2020, large enterprises in the EU-27 NFBS fared slightly better in 2021 than SMEs, and, within the overall SME population, micro SMEs performed better than small and medium-sized SMEs.

Although the total value added generated by SMEs increased in 2021 and was 2.1% higher in 2021 than pre-pandemic 2019, not all SMEs had recovered in 2021 from the large drops in value added of 2020. In particular, the level of SME value added in 2021 remained lower than in

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2019 in 'accommodation and food services' (-9.2%), 'transportation and storage' (-2.3%), 'wholesale and retail trade' (-1.3%) and 'administrative and support services' (-0.3%).

More generally, the 'knowledge-intensive' sector (according to Eurostat definition) experienced an increase in SME value added, employment and number of SMEs between 2019 and 2021. In contrast, the 'low knowledge-intensive' sector experienced a decrease in all three indicators. The 'high-', 'medium-' and 'low-tech' sectors saw similar trends across the three SME performance indicators, with higher value added in 2021 than in 2019, but with lower levels of employment and number of enterprises during the same period.

A preliminary assessment of the impact of the Russian war of aggression against Ukraine and the sanctions against Russia and Belarus suggests that, overall, the direct international trade effects on EU-27 SMEs may be relatively limited (even though differences between EU member states may exist) as the shares of Russia and Belarus in total EU exports are respectively 1.7% and 0.1% and the shares of Russia and Belarus in total EU imports are respectively 3.0% and 0.1%. However, some SMEs and some industries will be impacted much more markedly. Moreover, the indirect impacts will be more substantial. All SMEs and large enterprises will be affected by the very high energy prices and sharp increases in commodities and raw materials prices, and any potential drop in consumer confidence as well as demand. For at least some part 2022, therefore, although SMEs are projected to experience further growth in both employment and value added, the outlook for SMEs' recovery is still uncertain.

2. ACTIVITIES OF THE SME ENVOYS IN 2022

In 2022 the Envoys met 4 times: in March, June, October, and in November during the SME Assembly. The main subjects of discussion were the crisis brought about by the Russian war of aggression against Ukraine and the economic fall-out thereof, high energy prices, better regulation as well as the further development of SME policy.

In the context of the network, we held in addition two ad-hoc meetings, related to the Single Market Emergency Instrument and the Forced labour initiative as well as the SME Performance Review and Better Regulation. In general, 2022 has seen a much intensified cooperation in the Network, in particular with the Sherpas and the observers from business organisations.

Part of this intensified cooperation was related to easing access to finance for European SMEs a information session on InvestEU was organised mid-year. The session aimed at providing national financing experts within the SME Envoys Finance network with the latest update on the launch of the InvestEU programme and other programmes such as CARE and the ESF to support Ukraine entrepreneurs, as well as the Scaleup Initiative launched under the French Presidency of the Council.

The presentation of studies commissioned to underpin SME policy and make it knowledge and data-driven, such as the study on late payments¹ and on mid-caps², completed the Network's activities in 2022.

¹ [Study on late payments.](#)

² The study will be published shortly on the [SME definition website of the European Commission](#)

2.1. Better regulation and burden reduction

An adequate setting of framework conditions and rules are required for the well-functioning of the economy. Otherwise there is a danger that rules risk stifling economic activity rather than enabling it. SMEs are particularly concerned by that. In fact, SMEs have identified regulatory obstacles and administrative burden as their biggest problems (55%)³. Better regulation and burden reduction is therefore one of the Network's priorities. The Commission's SME Strategy from 2020 recognised that and reinforced the role of the SME Envoy Network.

The work of the SME Envoy Network can be divided into three broad strands:

Firstly, for the development of new initiatives, the Envoys need to signal to the Commission those that merit close attention from an SME perspective. This is done via the SME filter.

Secondly, also related to new initiatives, the EU SME Envoy⁴ has to raise awareness on SME-related aspects in a regular dialogue with the Regulatory Scrutiny Board, to ensure that the scrutiny process works well for SMEs.

Thirdly, it is necessary to fix what is already in place and not working well enough. For this purpose, both the EU SME Envoy and the Network have been given a specific role in the Fit for Future Platform, which prepares opinions on existing legislation.

In addition to these three strands, the Envoy Network contributes to the work of the Commission's Single Market Enforcement Task Force to address issues such as gold-plating in the transposition process with a view to keeping the regulatory burden on SMEs to a minimum.

With this in mind, the Network held also two ad-hoc meetings on the draft Single Market Emergency Instrument and the draft proposal for a Regulation on effectively banning products produced, extracted or harvested with forced labour.

2.1.1. Single Market Enforcement Taskforce - SMET

As foreseen in the SME Strategy, the EU SME Envoy and the Network are contributing to the work of the SMET. The SMET started its work towards the end of the second quarter of 2020. Representatives of the SME Envoy Network attended SMET meetings. For more details on SMET meetings please check out the dedicated webpage of the Taskforce⁵

2.1.2. Fit for Future platform – F4F

The EU SME Envoy and the Network are contributing to the work of the Fit for Future (F4F) platform. The platform has been operational since the end of 2020. For more details on the Platform and its meetings please check out the dedicated webpage⁶.

³ [Flash Eurobarometer 486: SMEs, start-ups, scale-ups and entrepreneurship, February-May 2020, ISBN 978-92-76-20792-4](#)

⁴ At the moment of issuing this report, the EU SME Envoy remains to be nominated. The Network regrets this.

⁵ [The Single Market Enforcement Taskforce \[europa.eu\]](#)

⁶ [Fit for Future Platform \(F4F\) | European Commission \[europa.eu\]](#)

The platform helps the Commission simplify EU laws and reduce related unnecessary costs. F4F examines whether existing laws can achieve their objectives efficiently. The Commission takes into account the platform's opinions to ensure EU laws help people and business, in particular small and medium-sized enterprises. The platform also supports the Commission in ensuring that Union policies are forward-looking and relevant in light of new challenges, such as greening and digitalisation.

The platform issues opinions on the topics listed in its annual work programme. The platform draws up the programme in agreement with the Commission, based on information on burdensome pieces of EU legislation from Member States, the SME Envoy Network, the Committee of the Regions, in particular through RegHub, and the European Economic and Social Committee. The Platform should work closely with the SME Envoy Network, represented by the EU SME Envoy. The EU SME Envoy will provide input to and advice on the proposed annual work programme in particular in relation to regulatory burdens and complexity of legislation affecting small and medium-sized enterprises.

The 2022 work programme includes 11 topics⁷. Topics of importance for SMEs include:

- VAT in the digital age
- A business-friendly VAT system
- Facilitating small and medium sized enterprises' access to capital
- REACH Regulation
- Biosolutions
- And a cross-cutting opinion, unrelated to a specific EU law, about how to favour interconnectivity between the digital and the green transition, including through simplification.

The 2023 work programme will include an opinion on SME test. In view of its pivotal role to watch over the interests of Europe's SMEs, in particular regarding better regulation, the SME Envoy Network will contribute to this opinion.

2.1.3. Evaluation of European legislative initiatives (SME filter and SME Test)

SMEs are affected by costs created by legislation, because of their limited human and financial resources. The 2020 SME strategy stated that 'To ensure that new legislation is SME-friendly, the EU SME Envoy will filter EU initiatives, in collaboration with SME stakeholders, to signal to the Commission those that merit close attention from an SME perspective. In this context, the EU SME Envoy will also bring in the national expertise of the SME Envoys network. It is the Commission's ambition that all future legislation, at European and national levels, should be made with the end user in mind, by identifying potential barriers and mitigating them early in the process, for example using digital tools.

The Envoys have contributed to the development of the filter and have held first discussions about how it should work in practice.

In February 2022, the Envoy Network started to filter the legislative initiatives published on the Have Your Say portal since 1 January 2022. After a testing period to fine-tune the internal

⁷ [F4F work programme for 2022](#)

process, the first version of the SME filter⁸ was published in April 2022 and has been updated every 2 weeks (if new SME relevant initiatives were announced).

Over a timespan of 8 months, the network has filtered 67 announced legislative initiatives and found 78% of them to be (at least) relevant for SMEs (a total of 52 legislative initiatives). 70% of those initiatives are planned for adoption in 2022.

A little more than 30% of initiatives found relevant for SMEs are planned for adoption within less than 9 months from the date of the publication of the call for evidence (meaning they have been announced in 2022 Q1 or Q2 for adoption in Q3 or Q4).

2.2. Russian aggression against Ukraine and sanctions

At its meeting end of March, the Network decided to look into the effects on SMEs of the sanctions against the Russian Federation. Torsten Andersen, SME Envoy for Denmark, and his team produced in a very short time a comprehensive report⁹

Impact on SMEs

The Russian aggression against Ukraine has a significant impact on SMEs given the cascading consequences – such as higher costs and longer waiting time for inputs - through the value chains even if SMEs don't have intensive trade relations with Russia, Ukraine and Belarus. There is a clear risk that these developments will be disproportionately harmful for SMEs in comparison with larger enterprises. SMEs often lack the resources and global reach to seek out alternative suppliers and diversify their inputs in response to higher prices and longer waiting times. Larger companies may also have larger stockpiles. In addition, SMEs have less bargaining power and risk bearing a larger part of the burden of higher input prices which are often passed on to them by larger companies throughout value chains. Moreover, suppliers could decide to prioritize deliveries to large companies over SME customers or even renege on contracts with SMEs citing force majeure. Late payments and credit tightening conditions for SMEs are also worrying developments.

Recommendations made by the SME Envoys

In order to help European SMEs to emerge stronger from the current turmoil, the SME Envoys have a number of recommendations, such as:

- **Intensifying trade promotion activities** – e.g. through diplomatic representations and overseas offices of European business federations - to help SMEs find new export markets as well as to diversify their supply chains. Trade promotion and support activities have traditionally focused on helping exports, but close attention should also be paid to imports to help SMEs reorganise their supply chains and find alternative sources of imports;
- **Ensuring economic conditions conducive to growth** within the EU, notably through removing remaining barriers in the Single Market and stepping up efforts to implement the EU better regulation agenda. The SME Filter must be implemented in a strong manner, and public procurement must remain open to SME participation;

⁸ [EU SME Envoy – SME Filter](#)

⁹ <https://ec.europa.eu/transparency/expert-groups-register/core/api/front/expertGroupAdditionalInfo/44803/download>

- **Providing guidance on sanctions for SMEs** - as sanctions are often seen as complex and difficult to understand - at both EU and national level (e.g. one-stop-shops for sanctions-related questions could be envisaged, more guidance in the consolidated versions of sanctions related documents, and dedicated training);
- **Further developing the EU analytical approach to dependencies and providing strategic foresight** and early warnings on adverse developments to SMEs;
- **Addressing skills mismatches and ensuring upskilling**, with a particular focus on the skills needed for digital and green transition; and
- **Addressing liquidity and payment issues for SMEs**. Only 40% of businesses in the EU are paid on time, and these delays are reportedly the cause of ¼ of all SME bankruptcies. The public sector can play an important role by ensuring that public contracts affected by the developments in relation to the Russian invasion of Ukraine are handled with fairness and reasonable flexibility when SMEs – through no fault of their own – find themselves unable to fulfil e.g. strict project deadlines. The same can be said as regards the relationship between SMEs and large corporations, who should also show flexibility in a context of rapidly changing market conditions.

In addition, late payments are particularly problematic in an inflationary environment where the value of outstanding payments are eroded faster, and the constraints on liquidity due to outstanding payments will also be more serious in a context where growth prospects are weakening. Another factor affecting SMEs is the banks response to the sanctions and tightening credit conditions for SMEs.

2.3. Energy situation

At the same March meeting, the Envoys also decided to investigate the influence of high energy prices on SMEs. María Muñoz Martínez, SME Envoy for Spain, and Caroline Mischler, SME Envoy for France, and their respective teams started to work on a report.

Energy prices had already been high before Russia started its unprovoked and unjustified invasion of Ukraine, since then they have soared. The impact on companies in general depends obviously on the energy-intensiveness of their production respectively service provision, their ability to pass prices on to customers and consumers and, ultimately, on their financial situation. The situation is very fast evolving; this is why the Envoy Network continues the work on the energy situation beyond this Annual Report. At the cut-off point, the following types of measures have been taken by Member States, many of them authorised or coordinated at European level¹⁰:

- soft loans and guarantees to have access to finance for energy efficiency projects or diversification on energy production or consumption;
- temporary regulatory measures, mainly on reduced taxation on electricity and gas, VAT and excise duties;
- long term measures towards a carbon-neutral economy, promotion of new or alternative energy sources;
- energy audits, projects to develop skills for the deployment of renewable energy,

¹⁰ See Commission Communication '[Tackling rising energy prices: a toolbox for action and support](#)' from 13 October

In the 12 months since October 2021 the European Commission has presented several packages around 3 main objectives:

1. Security of supply and diversification of imports
2. Addressing the high prices in the EU
3. Fostering renewables

The last proposal, presented on 18 October 2022^{11,12}, includes measures about joint gas purchasing, a price correction mechanism and a collar or bandwidth for short term intervention. The proposal foresees also solidarity measures between Member States.

The Envoy Network will continue to monitor the situation; reports and updates will be published depending on the development of the situation.

2.4. 2022 SME Assembly

The 2022 SME Assembly, held in Prag together with the Czech Presidency of the Council from 28 to 30 November, was organised under the motto 'Europe's enterprises of tomorrow: Sustainable. Resilient. Digital'.

It brought together 450 delegates from all over Europe who discussed the future direction of SME policy for the coming years.

A point of specific interest was the putting together of suggestions for measures to be added to the 'SME Relief Package', as announced by President von der Leyen in her 2022 State of the Union speech. Important elements of this package will be the revision of the Late Payment Directive, the BEFIT initiative for easing tax returns, support for IPOs and a further reduction of administrative burden

3. CONCLUSION AND OUTLOOK TO 2023 AND BEYOND

2022 was a year of heightened activity of the Network which had to take a close look at the situation created by the Russian aggression against Ukraine, high energy cost and inflation. These themes will remain at the centre of the attention of the SME Envoy Network. The Network will in particular contribute to finding possible solutions for the impact of heightened inflation on SMEs. A report with policy conclusions is planned for 2023.

Another key objective of the Network for 2023 will be the contribution to the development of the SME Relief Package as announced by President von der Leyen in her State of the Union speech in September 2022.

The key **priority areas** for the SME Envoys will be

- strengthening the resilience of SMEs,
- supporting SMEs in relation to high inflation and energy prices,
- mainstreaming SME interests and needs in all policy areas and instruments

¹¹ [Regulation proposal: Enhancing solidarity through better coordination of gas COM\(2022\)549 and annex \(europa.eu\)](#)

¹² [Communication: Preparing, purchasing and protecting the EU together \(europa.eu\)](#)

- contributing to the revision of the Late Payment Directive,
- making sure that SME's needs an options are taken into consideration on the path to sustainability,
- supporting SMEs in their digitalisation endeavours,
- improving skills, also with respect to the upcoming European Year of Skills, especially with regards to greening and digitalisation, and further
- reducing administrative burden and making better regulation,
- improving access to finance,
- Entrepreneurship and Innovation, and
- improving access to markets, mainly by completing the Single Market
- facilitating the contribution by the Recovery and Resilience Fund to support businesses and especially SMEs, including cooperatives.

The EU SME Strategy provides the blueprint to modernise SME policy. The SME Envoy Network welcomes the progress made on the implementation of the SME Strategy and will continue to closely look at Commission's initiatives with a particular impact on SMEs. In 2023 the SME Envoys will in particular:

- Provide input to the SME Relief Package to put SMEs at the centre of the digital and green transition;
- Push the double transition towards a more digital and sustainable European economy further;
- Intensify the dialogue on SME policy and the exchange of good practices for SMEs, in particular related to the economic situation following the Russian aggression against Ukraine;
- Continue their support for any initiative intended to further complete the Single Market, access to finance and access to markets as well as strengthen start- and scale-ups. This includes following new developments related to advances in technology such as artificial intelligence, blockchain, new business models and their impact on SMEs;
- Discuss and give input to future initiatives from all the Commission's branches with significance for SME's in all industrial ecosystems to make sure that SMEs interests are well taken care of;
- Contribute to making EU legislation work better for SMEs by identifying administrative burden through the SME filter and addressing it in collaboration with the Fit for Future platform and the Regulatory Scrutiny Board.

The SME Envoy Network invites Ministers to

- take note of this report;

- provide guidance to the SME Envoy Network on the suggested priorities for 2023.