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COMPET 120
IND 37
MI 78
CLIMA 61
CONSOM 60
DIGIT 18
ECOFIN 186
EDUC 99

EMPL 124
ENER 87
ENV 176
ESPACE 11
PI 21
POLMIL 28
RC 4
RECH 102

COVER NOTE

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signed by Mr Jordi AYET PUIGARNAU, Director

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An SME Strategy for a sustainable and digital Europe

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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

An SME Strategy for a sustainable and digital Europe

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
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An SME Strategy for a sustainable and digital Europe

1. Introduction

Europe's 25 million small and medium enterprises (SMEs) are the backbone of the EU economy. They employ around 100 million people, account for more than half of Europe's GDP and play a key role in adding value in every sector of the economy. SMEs bring innovative solutions to challenges like climate change, resource efficiency and social cohesion and help spread this innovation throughout Europe's regions. They are therefore central to the EU's twin transitions to a sustainable and digital economy. They are essential to Europe's competitiveness and prosperity, economic and technological sovereignty, and resilience to external shocks. As such, they are a core part of the achievement of the EU's industrial strategy.

SMEs are deeply woven into Europe's economic and social fabric. They provide two out of three jobs, bring training opportunities across regions and sectors, including for low-skilled workers, and support society's welfare, including in remote and rural areas. Every European citizen knows someone who is an entrepreneur or works for one. The daily challenges of European SMEs to comply with rules and access information, markets and finance are thus challenges for the whole of Europe.

SMEs are very diverse in terms of business models, size, age, and entrepreneurs' profiles, and draw on a diverse talent pool of women and men. They range from liberal professions and microenterprises in the services sector to middle-range industrial companies, from traditional crafts to high-tech start-ups. This strategy recognises their different needs, helping companies not just to grow and scale up, but also to be competitive, resilient, and sustainable. It therefore sets out an ambitious, comprehensive and cross-cutting approach, based on horizontal measures helping all kinds of SMEs as well as actions targeting specific needs.

The strategy puts forward actions based on the following **three pillars**:

- **Capacity-building and support for the transition to sustainability and digitalisation;**
- **Reducing regulatory burden and improving market access;** and
- **Improving access to financing.**

The objective is to unleash the power of Europe's SMEs of all kinds to lead the twin transitions. It aims to considerably increase the number of SMEs engaging in sustainable business practices as well as the number of SMEs employing digital technologies. Ultimately, the goal is that Europe becomes the most attractive place to start a small business, make it grow and scale up in the single market.

To bring results, the strategy must be driven jointly by EU-level actions and strong commitment by Member States. The active involvement of the SME community and companies themselves will be key. The Strategy will therefore be underpinned by a robust **partnership for delivery** between the EU and Member States, including regional and local authorities. Entrepreneurs should also seize the opportunity of EU investment programmes to make their business more digital and sustainable, as well as to grow in the single market and beyond.

The strategy builds on the very strong foundations of the EU's existing SME policy framework and support programmes, notably the 2008 Small Business Act, the 2016 Start-up and Scale-up Initiative, the Competitiveness for Small and Medium Enterprises (COSME) Programme, and SME support actions funded under the Horizon 2020 programme and the European Structural Investment Funds¹. It will be instrumental to implementing inter alia the European Green Deal, the Circular Economy Action Plan, the European Strategy for Data, and the European Social Pillar.

The strategy is part of the industry package that includes the Communication and its accompanying Report on Identifying and addressing barriers to the Single Market (the "Single Market Barriers Communication")², the Long term action plan for better implementation and enforcement of single market rules (the "Enforcement Action Plan")³ and the New industrial strategy for Europe (the "Industrial strategy")⁴. It builds on many findings from the Single Market Barriers Communication as regards obstacles faced by SMEs willing to operate cross-border. Proper transposition, application and enforcement of EU legislation are key to facilitate SME growth within the single market. The Enforcement Action Plan sets out various initiatives to address these issues. The Industrial strategy stresses the role of SMEs for a competitive and innovative European industry.

2. **Capacity-building and support for the transition to sustainability and digitalisation**

Competitive sustainability is Europe's guiding principle for the future. **Achieving a climate neutral, resource efficient and agile digital economy requires the full mobilisation of SMEs.** This transition to a more economically, environmentally and socially sustainable Europe must go hand in hand with the transition to digitalisation. For this, tailor-made measures are a prerequisite to develop a thriving SME layer of economy as well as to give opportunities for growth to those SMEs that wish to scale up. EU-wide investment is needed in order to create the appropriate business and innovation infrastructure for SMEs.

SMEs driving the sustainable transition

Many SMEs are well equipped, being flexible, high-tech, innovative and committed to the values driving sustainability and the circular economy. Almost a quarter⁵ of **SMEs in Europe already enable the transition** by offering green products or services and many SMEs

¹ The European Regional Development Fund (ERDF) and European Social Fund (ESF) has reached out to over 900.000 and 500.000 SMEs in Europe respectively.

² COM(2020)93 final, 10.03.2020

³ COM(2020)94 final, 10.03.2020

⁴ COM(2020)102 final, 10.03.2020

⁵ 2017 Eurobarometer on SMEs, resource efficiency and green markets

(including social economy enterprises) are already doing a lot for the communities where they are based. There are also major challenges. Some SMEs struggle with the transition towards more sustainable business models. A third of SMEs report that they face complex administrative and legal procedures when trying to make their business more resource-efficient. Yet, as awareness of risks related to climate and other environmental pressures increases and consumer preferences change, this transition to sustainable business practices and conduct is key for SMEs' continued competitiveness and growth. It is essential to support SMEs in this process and equip them with instruments to understand environmental risks and mitigate those covering specific sectors, including construction, plastics, electronics and agro-food.

The over 600 members of the Enterprise Europe Network (EEN) offer tailored services to SMEs. Many EEN members are already helping SMEs to make the transition to sustainability. Building on this, the EEN will provide **dedicated Sustainability Advisors** and other sustainability services. They will assess the needs of SMEs and provide advice on investment in more resource-efficient and circular processes and infrastructure, finding relevant commercial partners, and encouraging peer-to-peer collaboration. Furthermore, the European Resource Efficiency Knowledge Centre (EREK) will continue to help SMEs save energy, material and water costs. Solutions offered by the energy service companies (ESCOs) having the know-how together with technical and financing solutions could benefit SMEs.

Europe is the birthplace of the green tech and its leadership will depend on SMEs to spearhead the innovations in the green sector. This will be supported through the European Green Deal Investment Plan⁶. As part of the wider piloting of the **European Innovation Council** (EIC) to promote disruptive innovation especially by SMEs, the Commission will allocate at least EUR 300 million in 2020 alone to high potential start-ups and SMEs for them to deliver breakthrough Green Deal innovation. The **European Institute of Innovation and Technology** (EIT) will ensure that its Knowledge and Innovation Communities (KICs) are more open to SMEs and will increase their opportunity to participate in local innovation ecosystems in particular in regions that lag behind in terms of innovation. This will be implemented through a dedicated outreach instrument (regional innovation scheme) that will strengthen ecosystems where it matters the most.

Empowering SMEs to reap the benefits of the digital transition

Only a thriving community of SMEs using digital technologies and data can position Europe as a world leader in shaping the digital economy. Digitalisation can provide great opportunities for SMEs to improve the efficiency of production processes and ability to innovate products and business models. Using advanced disruptive technologies, such as blockchain and Artificial Intelligence (AI), Cloud and High Performance Computing (HPC) can dramatically boost their competitiveness.

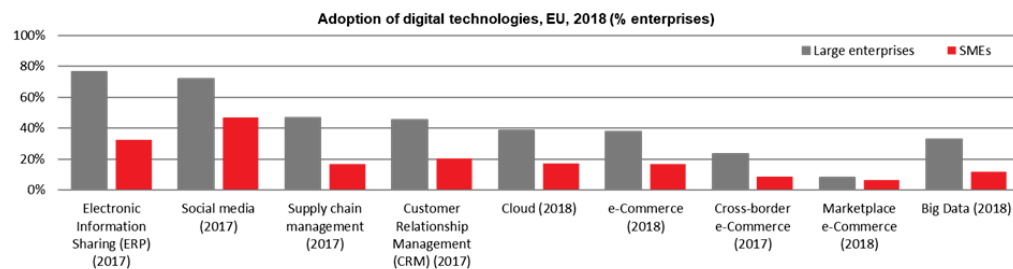
But SMEs do not yet fully benefit from data, the lifeblood of the digital economy. Many are not aware of the value of the data they create, and are not sufficiently protected or prepared for the upcoming data-agile economy. Only 17% of SMEs have successfully integrated digital technologies into their businesses, compared to 54% of large companies⁷.

⁶ COM(2020)21 final, 14.1.2020

⁷ 2018 report by Digital Innovation Hubs Working Group

https://ec.europa.eu/futurium/en/system/files/ged/dihs_access_to_finance_report_final.pdf

Traditional SMEs are often uncertain in their choice of digital business strategy, have problems tapping large repositories of data available to larger companies and shy away from advanced AI-based tools and applications. At the same time, they are very vulnerable to cyber threats.



Source: Eurostat/DESI 2019

Such SMEs will be supported by a network of up to 240 **Digital Innovation Hubs (DIH)**, in each region of Europe, underpinned by investment from the Digital Europe Programme and from Structural Funds.

The ambition is not only to deliver user-friendly and targeted advice on sustainability and digitalisation, but also to connect support structures so that **every SME has advice nearby**. The EEN will work closely with DIHs, Startup Europe⁸, and others to ensure a seamless support and advice service, including with national, regional and local authorities and support structures. The transfer of best practices, know-how and skills can also happen directly from digital SMEs to SMEs from other fields.

As announced in the **European Strategy for Data**⁹, the Commission will work on the wider accessibility of data and enabling data flows between businesses and governments by establishing common European data spaces for trusted and secure sharing of data. Fair access for all companies, especially SMEs, will be ensured. The Commission will also examine potential issues with usage rights for co-generated data, in particular from the industrial Internet-of-Things, to avoid possible disadvantages for SMEs. Furthermore, it will address cloud computing uptake by SMEs, for example through a dedicated marketplace for cloud services ensuring fair contractual conditions.

Leveraging talent and intellectual property

SMEs can also find it hard to develop **intellectual property (IP)** strategies to protect their R&D investments and raise growth capital, even though these are crucial in the twin transitions. Only 9% of SMEs protect their IP, as they are unaware of EU and national IP initiatives or fear the complexity and expense of acquiring and enforcing them. The upcoming **Intellectual Property Action Plan** will propose measures to make the IP system more effective for SMEs, through actions to simplify IP registration procedures (e.g. reforming the EU legislation on industrial designs), to improve access to strategic IP advice (e.g. by making such advice standard in all EU-level R&D funding), and to facilitate the use of IP as a lever to gain access to finance.

⁸ Startup Europe is an EU initiative to connect local hubs of start-ups across Europe: <https://ec.europa.eu/digital-single-market/en/startup-europe>

⁹ COM(2020)66 final, 19.02.2020

In both the digital and sustainability transitions, start-ups and established SMEs alike are challenged by a lack of skilled employees. They often do not have the same resources as large companies to invest in the training of their employees. Over 70% of firms report access to talent as obstacle to new investment across the EU¹⁰. Availability of skilled staff or experienced managers remains the most important problem for a quarter of EU SMEs¹¹. The skills shortage is particularly acute for digitalisation and new technologies, as 35% of the labour force have low or no digital skills.

Member States and social partners have a key role to play and the EU can further help address these challenges, facilitating access to training, and helping match the demand for talents from SMEs with labour market supply. Entrepreneurial education and training that enhances business knowledge and skills play a key role in making SMEs fit for the single market. Educational and upskilling activities are essential for all SME managers and employees, with a particular focus on empowering women and girls to be founders and improving the gender balance among those creating and managing businesses¹².

With the support of the Digital Europe Programme, the Commission will develop **Digital Crash Courses** for SME employees to become proficient in areas such as AI, cybersecurity or blockchain, building on the experiences of the Digital Skills and Jobs Coalition platform. DIHs will act as intermediaries between SMEs and universities/training providers at the local level. Incubating activities will assist SMEs in becoming part of data-driven ecosystems.

The Commission will also launch a programme for “**digital volunteers**” to allow young skilled people and experienced seniors to share their digital competence with traditional businesses. It will also support and interlink SME intermediaries such as clusters, EEN and EREK to help upskill staff of SMEs in the area of sustainability.

The Commission will update the Skills Agenda for Europe, including by launching a Pact for Skills. It will include a **dedicated component for SMEs**. Vocational education and training (VET) is particularly relevant for SMEs to make sure that their workforce has the skills needed on the labour market. Furthermore, Member States and regions will be encouraged to make use of the future European Social Fund Plus and of the new possibilities to invest European Regional Development Funds in developing skills for smart specialisation, industrial transition and entrepreneurship.

The collaborative economy creates opportunities in areas such as mobility and accommodation for innovative SME platforms intermediating between service providers and recipients and for SME service providers who gain access to wider circles of customers. Following its 2016 Communication on the collaborative economy¹³, the Commission will continue to explore a possible initiative focusing on short-term accommodation rental services (the largest collaborative economy sector) to promote the balanced and responsible development of the collaborative economy across the single market in full respect of public interests.

KEY ACTIONS

¹⁰ EIB Investment report 2018/2019

¹¹ SAFE survey 2019

¹² Gender Equality Strategy 2020 – 2025 COM(2020)152 final, 04.03.2020

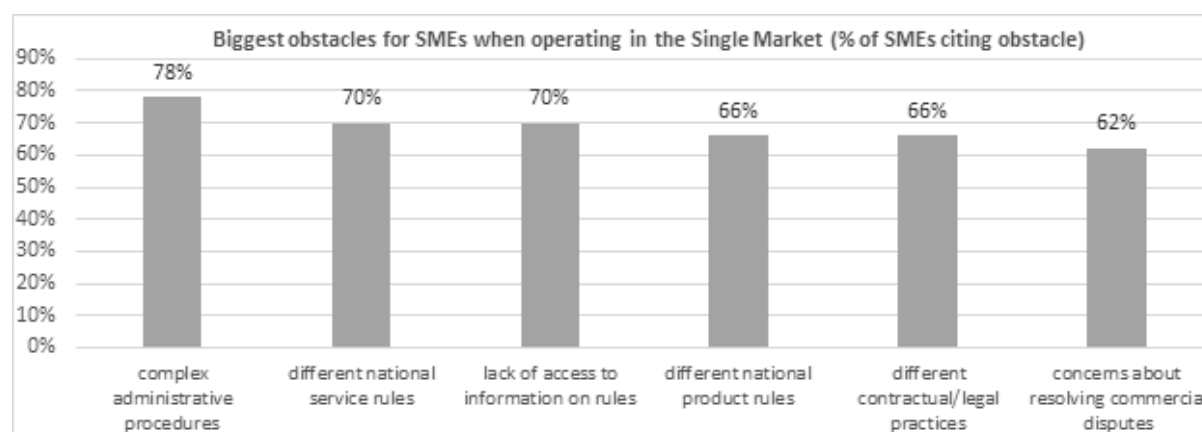
¹³ COM(2016)356 final, 02.06.2016

- The Commission will upgrade the **Enterprise Europe Network** including with dedicated **Sustainability Advisors** and other sustainability services.
- The Commission will develop **Digital Crash Courses** for SME employees to become proficient in areas such as AI, cybersecurity or blockchain.
- The Commission will launch a “**digital volunteers**” programme to allow young skilled people and experienced seniors to share their digital competence with traditional businesses.
- The Commission will update the **Skills Agenda for Europe**, including a Pact for Skills with a dedicated component for SMEs, and will propose a Council Recommendation aimed at modernising vocational education and training.
- The Commission will expand **Digital Innovation Hubs** in connection with Startup Europe and the EEN and provide a seamless service within local and regional ecosystems.
- The Commission will allocate at least EUR 300 million to encourage breakthrough Green Deal innovations under the **EIC**.
- For the SMEs which focus their activities on short-term accommodation rental services, the Commission will continue to explore a possible **collaborative economy initiative**.

3. Reducing regulatory burden and improving market access

The single market is the go-to market for European SMEs. It accounts for 70% of the value of SME goods exports, and 80% of all exporting SMEs sell to other Member States¹⁴. Nevertheless, the number of SMEs exporting to other Member States could be much higher: for example, only 17% of all manufacturing sector SMEs export within the single market¹⁵. The Single Market Barriers Communication shows that those most affected by continuing barriers, are SMEs.

Complying with **regulations, standards, labels and administrative formalities** affects SMEs more than bigger companies due to their limited financial and human resources. For example, in the sector of business services, costs incurred by SMEs when complying with administrative formalities can reach EUR 10,000¹⁶. Despite progress since the adoption of the Small Business Act, the cumulative impact of regulation remains a major problem for SMEs.



¹⁴ Annual Report on European SMEs – SMEs growing beyond borders

¹⁵ [EU-28 Small Business Act factsheet](#)

¹⁶ Ecorys, “Administrative formalities and costs involved in accessing markets cross-border for provisions of accountancy, engineering and architecture services”, 2017

European SMEs experience legislation as complex and burdensome, especially due to the different procedures in Member States. These barriers deter many from doing cross-border business and scaling-up. If they do, they often use large platforms as intermediaries, leading to uneven levels of bargaining power.

Tackling these barriers is a joint responsibility of the EU and Member States. Much of the burden comes from national legislation and it is important to assess the impact of “gold-plating measures” on SMEs¹⁷. Together with the Commission, Member States have to continue a rigorous application of the “Think Small First”¹⁸, “once only”¹⁹ and “digital by default”²⁰ principles.

From its part, the Commission is committed to reduce the burden on SMEs and to give them a stronger voice along the Better Regulation cycle. Under the regulatory fitness and performance programme (REFIT), the Commission systematically screens **existing EU legislation** with the aim to reducing burdens and simplifying legislation. The Commission will make more systematic use of fitness checks to look at ways to digitalise, simplify and achieve the objectives at the lowest cost to the benefits of SMEs. Furthermore, the new “Fit for Future Platform”²¹ will screen the existing EU legislation to identify potential for simplification and administrative burden reduction.

For **new legislation**, the REFIT programme will be complemented and reinforced by introducing the “one-in, one-out” (OI-OO) principle. The purpose is to make sure that EU legislation produces benefits without imposing unnecessary burdens on citizens and businesses. The SME Test is already part of the regular assessment and will continue to be applied for all relevant Commission proposals.

SMEs are in particular affected by costs created by legislation, given their limited human and financial resources. To ensure that new legislation is SME-friendly, **the EU SME Envoy**²² 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. The ambition is that all future legislation, at European and national levels, is made with the end user in mind, by identifying potential barriers and mitigating them early on in the process, for example by the use of digital tools. The EU SME Envoy will also have a specific role in the new “Fit for Future Platform” providing the SME perspective in identifying the existing legislation that is particularly burdensome for SMEs. The EU SME Envoy will suggest to the Commission user-friendly solutions which could be taken into account for complying with the legislation.

¹⁷ EU legislation may leave flexibility in the level of harmonisation and/or Member States’ practice (“gold plating”) COM (2020)93 final, 10.03.2020.

¹⁸ The “Think Small First” principle recalls that SME interests need to be taken into account in policy making, at EU as well as national level.

¹⁹ Under the “once only” principle, citizens and businesses supply diverse data only once to a public administration.

²⁰ The “digital by default” principle seeks to reduce the administrative burden by making digital delivery of services the default choice of public administrations.

²¹ A new high-level group replacing the REFIT Platform to be set up.

²² The EU SME Envoy ensures the link between SME policy making at EU level and the national SME envoys/bodies in charge of SME policy and chairs the network of national SME envoys.

Ensuring compliance with single market rules is of particular importance for SMEs, as they are often affected disproportionately by cross-border restrictions. The Enforcement Action Plan sets out a list of initiatives that aim at addressing these issues, including the Single Market Enforcement Task Force with a contribution from the EU SME Envoy and national Envoys' network. The Commission will monitor - and work with - Member States, and will not hesitate to take strong enforcement action where necessary to ensure that the single market benefits SMEs. SMEs face proportionally higher tax compliance costs than larger enterprises²³ and the lack of tax harmonisation remains one of the main obstacles faced by business when operating cross-border.

Furthermore, rigorous enforcement of EU competition rules ensures that all companies active in the single market, in particular SMEs, can compete and innovate on their merits, preventing the abuse of market power and the concentration of wealth by a few big businesses.

Lifting the barriers through partnerships and policy experimentation

A key challenge in Europe is a relative shortage of successful scale-ups. In the United States, there are three times more scale-ups than in Europe²⁴. European start-ups and scale-ups face several challenges 'on the ground' as they attract and retain talent, secure market opportunities and increase revenues. Many Member States successfully addressed these challenges and many good practices are already in place. Multiplying these across the EU would provide a major boost to start-up development and SME growth.

In light of this, the Commission, in close cooperation with Member States and stakeholders, such as the EIC Forum, will promote best practices and launch a new political initiative, an **EU Start-up Nations Standard**, inviting Member States to implement such practices at local, regional and national levels. The ambition is to make Europe the **most attractive Start-up and Scale-up continent**. The initiative will focus on making it easier to start-up and expand across borders, streamline the implementation of the rules on procedures for visa applications and residence permits for third country talent, make granting of employee stock options more attractive, promote venture-building and tech transfer from universities, increase access to finance for scaling-up, and promote cross-border digital tools and platforms. To complement this, the Commission will consult and assess the need for additional company law measures to facilitate cross-border expansion and scale-up by SMEs.

Some very innovative solutions fail to see the light of day because of regulations which might be outdated or poorly adapted for fast evolving technologies. One way to address this is through **regulatory sandboxes**. This enables innovative solutions not already foreseen in regulations or guidelines to be live-tested with supervisors and regulators, provided that the appropriate conditions are in place, for example to ensure equal treatment. Regulatory sandboxes provide up-to-date information to regulators and supervisors on, and experience with, new tech, while enabling policy experimentation. Some Member States have already experimented with such sandboxes for innovative financial services.

The Services Directive is a key instrument against market barriers. **Partnerships among border regions**, which aim to enhance cooperation between regional authorities, can help

²³ European Commission Study on Tax Compliance Costs for SMEs, 2018

²⁴ Mind the Bridge: Tech Scale-up Europe, 2019 Report

SMEs overcome market barriers in the provision of services. A call should lead to three such pilot areas by the end of 2020, in which partner regions jointly improve, align or coordinate the rules and procedures on the cross-border provision of services, for example, on posting of workers and using digital tools.

The Commission will complement these efforts by encouraging Member States to implement the **Single Digital Gateway**²⁵ in an SME friendly way. Member States should aim to provide SMEs with easy online access to information, procedures and assistance services regarding all their queries linked to doing business across borders, including advice on public procurement and sources of funding. Member States should inter-link their services in a **one-stop-shop** in order to provide SMEs with a coordinated reply to all such queries.

Up to 71% of SMEs who tried the existing mutual recognition system for non-harmonised goods²⁶ met with a market access denial decision²⁷. The Commission, after discussing with the Member States expert group on mutual recognition, will work to promote ‘**mutual recognition alliances**’ among Member States in sectors such as food supplements and jewellery.

In the diverse industrial landscape, the **space and defence** sectors are key for the EU’s strategic and technological sovereignty and offer great potential for European SMEs. However, the defence sector supply chains have been predominantly built on a national basis. The Commission will thus boost cross-border cooperation and entry of new players by maximising the potential of the European Defence Fund. In particular this will include calls for proposals targeted at SMEs, the dedicated SME bonus and award criterion, and connecting SMEs with the wider defence community. The Fund will help to open up the defence supply chains, linking the large system integrators with the entire defence SMEs ecosystem across the Union. The Commission will also map the strengths of relevant Research and Technology Organisations (RTOs) and universities which can support innovative start-ups and SMEs in the sector.

The Commission also aims to increase the number of successful start-ups and scale-ups in the **space sector**, which are commercialising EU space technologies. It will promote, through the EU Space Programme, the emergence of a European New Space eco-system to foster entrepreneurship. The new Space Entrepreneurship Initiative “CASSINI” will regroup services such as acceleration, business incubation, seed-funding and pre-commercial procurement.

Public procurement also offers untapped opportunities within the single market for SMEs, including start-ups, who find it hard to successfully compete in public tenders. There are two types of challenges. On the one hand, the public sector is relatively risk-averse, and frequently lacks the skill set to procure innovation. On the other hand, many economic operators, and SMEs in particular, find public tendering complex or unsuitable for them.

²⁵ Regulation (EU) 2018/1724 establishes a single digital gateway to provide information, procedures, assistance and problem solving services for users in their own countries and across borders.

²⁶ Goods that are not harmonised by EU legislation, such as textile, footwear, childcare articles, jewellery, tableware or furniture

²⁷ COM(2020)93 final, 10.03.2020

To address this, the Commission calls on Member States and their contracting authorities to use the **flexibility offered by the EU's new procurement framework**. This entails dividing larger contracts into smaller lots, expanding strategic procurement, in particular innovation procurement, leaving IPR - where appropriate - with SMEs so that they can commercialise it, and completing the digitalisation of their procurement processes. The Commission will also encourage Member States to use digital platforms to stimulate innovative solutions from SMEs and start-ups and their cross-border access to public procurement contracts. The Commission will also launch the **Big Buyers and Networks Initiative** to facilitate joint purchases of innovation and sustainable products; promote matchmaking between buyers and suppliers of innovation and track progress through national benchmarking. Furthermore, it will launch a label for display by public buyers, who adhere to “**SME-friendly**” procurement practices and work with its international trading partners to spread adoption of its procurement-relevant standards, such as e-invoicing. SMEs providing innovative green products and services can be supported by an increased uptake of Green Public Procurement²⁸.

Buying an existing company is often a more advantageous alternative to starting a business. It is estimated that every year, around 450,000 SMEs change ownership affecting more than two million employees. However, in a third of cases the transfer is not successful and, as a result, Europe loses around 150,000 enterprises and 600,000 jobs²⁹. The reasons are often lack of early preparation, difficulty in finding a successor, and unfavourable tax and regulatory measures.

The Commission will continue its work on facilitating **business transfers** and will support Member States in their efforts of establishing a transfer-friendly business environment³⁰. The recently adopted Directive on preventive restructuring frameworks and second chance³¹ addressed many concerns of companies in distress and the Commission will now support all Member States in transposing its provisions into their national laws so that companies in financial difficulties have access to adequate support services helping them avoiding bankruptcy.

Enhancing fairness in B2B relations

SMEs play an essential role in an increasingly dense networks of corporates, start-ups and SMEs alike who work together across sectors and value chains to create the products and services of the future. It is important that SMEs and start-ups are included in the EU's strategic value chains and have their specific needs addressed, to help them collaborate and scale-up across the single market and globally.

Due to increased concentration and vertical integration in supply chains, the main customers of SMEs are often much larger organisations. This leads to asymmetries in bargaining power and increases the risk of small businesses being subject to unfair business practices and conditions³², including **late payments** and access to data.

²⁸ COM(2020)98 final, 11.03.2020

²⁹ Extrapolation based on Business Dynamics: Start-ups, Business transfer and Bankruptcy, Final report 2011, p. 10, <http://ec.europa.eu/DocsRoom/documents/10448/attachments/1/translations>

³⁰ Directive on cross border conversions, mergers and divisions (EU) 2019/2121 adopted 27 November 2019

³¹ Directive 2019/1023 adopted in June 2019

³² 2018 EU publication “A comparative analysis of legal measures vs. soft-law instruments for improving payment behaviour”

Whilst the Late Payment Directive has reduced delays for both business-to-business and business-to-platform transactions, only 40% of businesses in the EU are paid on time³³. Moreover, late payment accounts for one out of four bankruptcies among SMEs in the EU. There needs to be a decisive shift towards a new business culture in which prompt payment is the norm. To this end, the Commission will support the implementation of the Late Payment Directive by equipping it with strong monitoring and enforcement tools. These could include a virtual observatory for monitoring payment delays, clarifying unfair payment practices, and exploring the feasibility of alternative resolution/mediation mechanisms for SMEs for a fast resolution of payment disputes in commercial transactions.

Harnessing benefits of global markets

Global markets are an important source of growth for SMEs. However, only 600,000 SMEs employing roughly 6 million people export goods outside the EU. In multilateral and bilateral dialogues, the Commission will promote an SME-friendly environment in third countries through the exchange of good practices with its partners. It will also launch **a new information portal** to raise awareness of SMEs on trade policies and provide detailed information on customs procedures and formalities for exporting to third countries.

SMEs benefit more from rule-based trade opening than large companies, which have more resources for overcoming trade barriers. To simplify access to international markets by SMEs, the Commission is continuously negotiating new trade and investment agreements and challenging trade barriers that disproportionately affect SMEs. The Commission will continue to include dedicated SME chapters in all its trade agreements together with dedicated measures to enable SMEs to tap the benefits, such as connecting SMEs through international industry clusters, the EEN, the EU SME Centre³⁴, and actions supporting European SMEs to participate in public procurement outside the EU.

EU Delegations in countries with which the EU concluded an FTA will provide support by addressing queries on practical difficulties of SMEs linked to the implementation of FTAs.

The EU stands firm against unfair trade practices through trade defence instruments (TDIs) when EU companies, including SMEs, are harmed by dumped or subsidised imports. The Commission is increasing its dedicated support to SMEs to facilitate their access to TDI and cooperation with the Commission during investigations³⁵.

The newly created function of Chief Trade Enforcement Officer will, amongst others, monitor and improve the compliance with our trade agreements. This will further enhance the work on the elimination of barriers to trade which in particular impact SMEs. Furthermore, the EU will actively engage in a dedicated economic outreach and diplomacy for SMEs to support their access to third country markets. Opportunities for European entrepreneurs will be expanded through the Erasmus for Young Entrepreneurs Global scheme to gain new experiences in third country markets.

³³2018 EU publication “A comparative analysis of legal measures vs. soft-law instruments for improving payment behaviour”

³⁴ The EU SME Centre in Beijing provides a first line of assistance to European SMEs wishing to develop their presence in the Chinese market www.eusmecentre.org.cn

³⁵ Regulation (EU) 2018/825 adopted on 30 May 2018

KEY ACTIONS

- The EU SME Envoy and the network of national SME Envoys will contribute to the work of the Commission's Single Market Enforcement Task Force, to be set up as a result of the Enforcement Action Plan, to address among others **gold-plating** in the transposition process with a view to keep the regulatory burden on SMEs to a minimum.
- The Commission will encourage Member States to implement the Single Digital Gateway in an SME-friendly way. Member States should link their services in a **one-stop-shop**.
- The EU SME Envoy will **filter** EU initiatives to signal to the Commission those that merit close attention from an SME perspective and have a specific role in the new Fit for Future Platform.
- The Commission will mobilise Member States behind an **EU Start-up Nations Standard** to share and adopt best practices to accelerate the growth of high-tech SMEs and start-ups.
- The Commission calls on Member States and their contracting authorities to use the flexibility offered by the EU's new **procurement framework** to enhance opportunities for SMEs including through the use of digital tools and platforms to step up cross border procurement. The Commission will issue **guidance and support to contracting authorities**.
- The Commission will encourage Member States to develop proposals for **regulatory sandboxes** by launching a pilot.
- The Commission will launch a call for **pioneer partnerships among border regions** to enhance cooperation in enforcing the single market and removal of administrative barriers.
- The Commission will support the Member States in enforcing the **Late Payment Directive** by setting up monitoring and better enforcement tools and exploring the feasibility of alternative resolution/mediation mechanisms for SMEs.
- The Commission will facilitate cross-border cooperation with and among SMEs under the **European Defence Fund and map strengths** in its research and innovation eco-system.
- The Commission will launch a **Space Entrepreneurship Initiative 'CASSINI'**.
- The Commission will support Member States in transposing the recently adopted Directive on **preventive restructuring frameworks and second chance**, by helping them set up early warning mechanisms for companies in financial difficulties to avoid bankruptcy.
- The Commission will explore with Member States possible measures to create a supportive environment for **transfer of SMEs**.
- The Commission will continue to **enhance SMEs access to third country markets** including through dedicated SME chapters, use of dialogues to exchange good practices with trade partners and a new information portal. The Commission will facilitate SME access to trade defence instruments.
- EU Delegations will provide support by addressing queries of SMEs linked to the FTAs.
- The Commission will extend the **Erasmus for Young Entrepreneurs Global** scheme.

4. Improving access to financing

Access to finance is essential for SMEs to finance the investment needs for the transition. However, at all stages of development, small businesses struggle more than large enterprises to get finance. In the case of young entrepreneurs and start-ups, this can be for many reasons: such as not having a proven financial track record, lacking collateral or investors lacking information to assess their credit-risk or value their intangible assets. Improving access to finance requires an approach that combines a conducive regulatory environment, sufficient and aligned EU and national funding as well as access to networks of companies and investors.

SMEs face a major finance gap in Europe of EUR 20-35 billion despite substantial support programmes at EU and national level³⁶, and in some Member States, access to finance remains one of the key problems they face³⁷. In 2019, 18% of SMEs in the EU did not obtain the full bank loan they had planned for. This puts SMEs at a disadvantage as bank-based finance accounts for roughly 90% of their financing needs. EU banking regulation must provide the foundation for a stable banking system that delivers adequate finance to all businesses. The EU banking package maintained the SME supporting factor and extended it to all loans provided to SMEs. The Commission will ensure that any future financial market legislation takes account of the interests of European SMEs and supports their uninterrupted access to a wide array of financing options.

Diversifying sources of funding and making more SMEs investment ready

Nevertheless, there is a need to **diversify sources of finance**. Venture capital invested in European companies increased by 13% to EUR 8 billion in 2018 and the share of equity fundraising from outside Europe increased from 7% to 20% in 2018³⁸. However, only 10% of businesses in Europe used capital market finance compared to over 25% in the US. European venture capital investments are roughly eight times smaller than in the US and therefore not deep enough to finance the growth of European businesses³⁹.

Innovative, fast-growing SMEs and start-ups with important capital needs often move abroad to find risk capital⁴⁰. This is not only a risk for Europe's technological sovereignty, growth and jobs, but it also has a downstream impact on its wider fleet of SMEs.

Furthermore, European investors can be reluctant to invest in start-ups due to challenges in assessing the market potential and/or IP underpinning an SME's new tech service or product. This makes it harder to assess the valuation of the start-up itself. **'Tech due diligence'** services can address this and have been successful in other regions, but are not yet readily available in Europe. They ultimately benefit all parties involved: the SME, potential investors and the wider innovation ecosystem. An EU pilot would allow for more precise valuation of

³⁶ Debt financing gap per year during 2014-2018; see SWD(2018) 320 final of 7.6.2018

³⁷ European Commission and European Central Bank, "Survey on the Access to Finance of Enterprises", 11.2019

³⁸ Invest Europe (2019)20

³⁹ Afme Capital Markets Union Performance Indicators Report 2019

⁴⁰ Financing the Deep Tech Revolution (EC-EIB study, 2018)

high-tech start-ups and later stage tech SMEs on the basis of their technology and IP portfolio⁴¹.

More private investment needs to be unleashed in Europe. The Commission will deploy new ways of risk-sharing with the private sector, such as the ESCALAR initiative to boost the size of venture capital funds, step up its investment efforts and work towards a revamped Capital Markets Union Action Plan. The Capital Markets Union aims to diversify sources of funding for companies at all stages of their development.

Laying the ground work for an SME IPO Fund

SMEs in Europe find limited possibilities for growth financing, such as listing on capital markets through an Initial Public Offering (IPO). Capital markets are an important source of funding for SMEs growing into mid-caps and ultimately large companies. However, the number of SME IPOs declined sharply in the aftermath of the financial crisis and has not recovered since. In 2019, the value and number of European IPOs continued to fall by 40% and 47%, respectively, relative to 2018⁴². Many institutional investors do not engage sufficiently in SME financing.

To address this, public funding could act as an anchor investment to attract more private investors in high-growth, innovative SMEs at the stage of public listing. An **SME IPO Fund** would support SMEs through and beyond the listing process. It will build on the analysis of the EU IPO market and testing with investors and stakeholders.

Creating a more conducive and inclusive environment for access to finance

In recent years, there has been a considerable decline in SME investment research. The review of the Markets in Financial Instrument Directive that the Commission will carry out in 2020 will look at how to stimulate research coverage on SMEs.

Fintech innovation based on distributed-ledger technology ("**blockchain**") can open new pathways for SMEs to directly engage with investors, either via trustworthy intermediaries or decentralised by themselves. It can enable SMEs to issue crypto assets and digital tokens, for instance in the form of bonds. These are attractive for investors because they can be immediately traded. This is a way to offer faster, more efficient and cost-effective financing for SMEs. The Commission will facilitate the use of crypto assets and the uptake of digital tokens by SMEs, investors and intermediaries, in alignment with the EU's upcoming Digital Finance Strategy.

State aid rules have enabled significant national support for SMEs and risk capital⁴³. The Commission is streamlining and reviewing relevant EU state aid rules by the end of 2021 to ensure they are still fit for purpose. In the review the Commission will look to ensure that the rules encourage participation of SMEs in Important Projects of Common European Interest (IPCEI).

⁴¹ Leveraging intelligence from <https://www.innoradar.eu>

⁴² <https://www.pwc.co.uk/audit-assurance/assets/pdf/ipo-watch-q4-2019-annual-review.pdf>

⁴³ Expenditure for 2018 amounted to EUR 216 million for the objective 'Risk capital' and EUR 501 million for the objective 'SMEs'.

In addition, lack of diversity among those receiving investment reduces the talent pool and innovation. Women launched one third of companies in Europe, but their companies are underrepresented when it comes to raising risk capital. In 2019, more than 92% of venture capital raised by European tech companies went to all-male founding teams⁴⁴. InvestEU – EU future investment funding - could help stimulate investment in and with women and provide targeted support to extend the pipeline of investible female-led companies and funds **under a gender-smart financing initiative**. Furthermore, the number of women-led SMEs benefiting from the fully-fledged EIC will be tripled.

Mobilising EU, national and private financing for SMEs through InvestEU

In 2014-2018, EU financial instruments helped mobilise EUR 100 billion of financing, notably for SMEs, in the form of debt and equity finance. The EU Investment Plan is expected to support over 1 million SMEs. However, there needs to be continued EU and national support to narrow the SME financing gap.

Under the SME window of InvestEU, the Commission will build on the positive experiences with the existing EU SME guarantee schemes⁴⁵. It will create a single integrated guarantee facility targeting SMEs perceived as high risk or having insufficient collateral, including innovative, those from the cultural and creative sectors, the SMEs transitioning from resource and energy intensive models towards more sustainable ones, and those adopting digital business practices. The SME window of InvestEU will support equity financing for SMEs and small midcaps in areas of special EU policy interest such as space and defence, sustainability, digitalisation, innovation, **gender-smart financing**, deep and **green tech**. For example, the funding will be pooled from the EU, Member States and the private sector to increase access to equity finance for innovative SMEs and start-ups that develop and adopt green tech solutions. InvestEU will allow financing along all development stages from start-up to scale-up, and IPO. It will help leverage private funding from investors such as business angels, family offices, venture capital funds, pension funds, and insurance companies.

The Commission will work closely with Member States to pool funding and address geographical imbalances in investments and access to finance, in particular through the Digital Innovation and Scaleup initiative⁴⁶. In addition, the Social Investment and Skills window of InvestEU will improve access to microfinance, financing to social enterprises, social and impact investment and skills.

KEY ACTIONS:

- The Commission will **support Initial Public Offerings (IPOs) of SMEs** with investments channelled through a new private-public fund, to be developed under the InvestEU programme starting 2021 under the Capital Markets Union.
- The Commission will introduce a first-of-a-kind risk/reward mechanism to boost the size of venture capital funds and crowd in private investments for scaling up through the **ESCALAR initiative**.

⁴⁴ “2019 State of European Tech report” <https://2019.stateofeuropeantech.com/chart/103-1338/>

⁴⁵ Available under COSME, Horizon 2020, the Creative Europe programme and EU cohesion policy funds

⁴⁶ <https://ec.europa.eu/digital-single-market/en/news/launch-digital-innovation-and-scale-initiative-central-eastern-and-south-eastern-europe>

- The Commission will launch a **gender-smart financing** initiative to stimulate funding for women-led companies and funds and to empower female entrepreneurship.
- The Commission will launch a **green tech investment initiative** to pool funding from the EU, Member States and the private sector to increase access to equity finance for innovative SMEs and start-ups that develop and adopt green tech solutions.
- The Commission will launch a **blockchain-based initiative** enabling issuance and trading of SME bonds across Europe, using the European Blockchain Services Infrastructure.
- The Commission will co-fund **tech due diligence services** under an EU pilot project to enable more precise valuations high tech start-ups and prepare their investment readiness.
- The Commission will further **simplify the existing state aid rules** on combinations of national funds with InvestEU and Horizon funds. This will make it easier for SMEs to benefit from pooled resources to help them with the twin transitions. Furthermore, as part of its ongoing review of state aid rules, the Commission will **revise state aid rules for risk finance and the IPCEI communication**, to further support SME involvement, ensure crowding-in of private investment while avoiding distortions of the level playing field.

5. Governance: an EU-Member State partnership for delivery

The SME Strategy must be driven by commitment and actions at both EU and Member State level. As many SMEs are deeply rooted in regional and local ecosystems where they provide jobs, training, tax revenues and social welfare, this commitment must extend to regional authorities. The strategy's implementation will be underpinned by a strong partnership of all actors who share responsibility for delivery - EU, national, regional and local authorities, SMEs and investors. It will involve regular political stocktaking of progress, measurement and monitoring.

The SME Envoys network is an important tool to ensure this EU-Member State partnership. It represents Member States' national authorities in charge of SME policy, and provides an organic link between these authorities, the local business communities and the EU. With the renewal of its mandate in 2020, the network's role will be reinforced and its interaction with regional bodies and authorities strengthened.

The Commission will appoint a dedicated **high level EU SME Envoy** who will drive the work of the network to ensure the implementation of strategy and the application of the Think Small First principle in all EU policies. The EU SME Envoy will also track the implementation in the individual Member States. In order to facilitate the mainstreaming of the SME strategy across all policy areas, the EU SME Envoy will be closely involved in the European Semester process. The EU SME Envoy will raise awareness on SME-related aspects in the Commission's Better Regulation agenda in a regular dialogue with the Regulatory Scrutiny Board and also within the Fit for Future platform.

To complement the activities of the (public sector) SME Envoys network, the Commission will also work closely with **Strategic Entrepreneurship Ambassadors**, a new advisory group of entrepreneurs from across Europe which will play the role of a sounding board.

The new strategy will be subject to a **regular review**. The Commission will continue to publish annually an enhanced **SME Performance Review**. This review will also monitor national start-up friendly policies ("Europe Startup Nations" index), the engagement of SMEs in sustainable business practices, as well as the digitalisation of SMEs⁴⁷ (DESI index). This review will be presented and discussed at yearly SME Assembly to provide an opportunity for local stakeholders and the wider SME community to get actively involved.

The SME Envoys network and other EU institutions will be involved in the monitoring of the implementation of the strategy, for instance, through the Envoys' annual report to the Competitiveness Council and a regular dialogue with the European Parliament. To prepare this report, the EU SME Envoy – together with national SME Envoys - will meet SME policymakers and other stakeholders in Member States to also discuss SME-relevant issues identified in the European Semester process. Based on analysis derived from these evaluation mechanisms, the EU SME Envoy will coordinate with the national SME Envoys to develop national implementation plans for this SME strategy in cooperation with local business stakeholders.

The EU **SME Definition** is a key tool making sure that this strategy targets the right population, i.e. that it delivers support and benefits to the enterprises most in need. The Commission regularly monitors whether it is fit for that purpose. According to a recent public consultation⁴⁸, studies and surveys the definition works well and is easy to use for the overwhelming majority of EU SMEs that are small and autonomous. The Commission will further assess and report on specific issues raised, as regards, for example, complex ownership structures or possible “lock-in effects”.

KEY ACTIONS:

- The Commission will appoint a **high level EU SME Envoy**.
- The Commission will reinforce the **SME Envoys Network** to strengthen the link between the EU and national level on SME policy.
- The Commission will launch a group of **Strategic Entrepreneurship Ambassadors**.
- The **EU SME Envoy** will raise awareness on SME-related aspects in a **regular dialogue with the Regulatory Scrutiny Board**.

⁴⁷ <https://ec.europa.eu/digital-single-market/en/integration-digital-technology>

⁴⁸ Open public consultation on the SME Definition: https://ec.europa.eu/info/consultations/public-consultation-review-sme-definition_en