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**NOTE**

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From: General Secretariat of the Council  
To: Council

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Subject: Report of the SME Envoy Network  
*Presentation by the Commission*

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Delegations will find attached the 2019 Report of the SME Envoy Network to the Competitiveness Council with a view to its meeting on 28 November 2019.

SME ENVOY NETWORK

2019 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 sixth 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 2019 on the following priorities: access to finance, public procurement as well as the Call of the SME Envoy Network for a vigorous and forward-looking EU policy for small businesses concerning the future of SME policy. The report also contains an outline for the activities in 2020 and beyond.

## 2. SMEs IN EUROPE – HOW ARE THEY DOING?

In 2018, there were slightly more than 25 million SMEs in the EU-28, of which 93% were micro-SMEs. SMEs accounted for 99.8% of all enterprises in the EU-28 non-financial business sector (NFBS), generating 56.4% of value added and 66.6% of employment in the NFBS.

Based on a Spring 2019 forecast, EU SME value added is predicted to grow by 4.1% in 2019 and 4.2% in 2020, while EU SME employment is expected to grow by 1.6% in 2019 and 1.4% in 2020. However, the economic outlook has weakened since this forecast, so this growth may have to be revised downwards.

### Key Findings

***SMEs account for the majority of the increase in value added (60%).***

Micro SMEs generated 28.5% of this increase, while small and medium-sized SMEs accounted for 16.9% and 14.1%, respectively.

***SMEs have made a much stronger contribution to the growth in value added in recent years*** (i.e. from 2016 to 2018) compared to the longer period of 2013 to 2018. The increase in the SME contribution is almost entirely due to micro SMEs. The contribution of medium-sized SMEs has declined during this period.

***Most of the increase in EU-28 SME value added and employment was generated in less knowledge-intensive industries.***

***Labour productivity has grown, largely due to the growth in the value added.*** The performance of EU SMEs was significantly stronger than that of their Japanese and US peers in terms of growth in employment and the number of enterprises.

***SME value added and employment grew in all Member States in 2018*** for the first time in years. Overall, in 2018, EU-28 SME value added grew by 4.1% and EU-28 SME employment by 1.8%. Micro SMEs have driven this recovery - they recorded by far the strongest value added and employment growth of all SME size classes.

***Trends in SMEs innovation activities vary substantially between Member States***

Almost 50% of EU SMEs undertook some innovation activity over the period 2014-16, the last years for which such data are available. Some of these SMEs developed disruptive innovation or breakthrough innovation, while others have focused on more incremental innovation. The participation of SMEs in innovation activities varies greatly across the EU-28,

with the share of innovating SMEs in the total SME population ranging from 10% in Romania to 66% in Portugal. For the EU-28, the share of innovation was broadly stable from 2004 to 2016.

This EU-wide stability masks considerable differences between Member States. The proportion of innovative SMEs increased in Austria, Belgium, Croatia, Estonia, Greece, France, Hungary, Lithuania, Latvia, Portugal and the United Kingdom, while it fell in Cyprus, Czechia, Germany, Finland, Malta, Romania, Slovakia, Slovenia, Spain and Sweden. The divergences between Member States are partly explained by differing industry trends.

***Eight of the top 30 start-up ecosystems in the world are in the EU.*** Although start-ups are present in all Member States, a number of smaller Member States (Cyprus, Estonia, Lithuania, Latvia and Malta) stand out as having the highest start-up intensities in the EU. The recently released *European Startup Monitor 2019* provides more detailed information on the EU start-up population.

#### **Policies to stimulate innovation by SMEs**

The analysis in the annual SME Performance Review (SPR) suggests that a two-pronged policy approach - by the EU as part of a new SME Strategy, and by Member States as part of their innovation and SME strategies - would be most conducive to stimulating innovation..

Improvements in the overall innovation environment (such as improving the quality of the domestic research systems) would have important spill-over effects and stimulate innovation by SMEs, especially in those Member States which rank less highly in the EU Innovation Scoreboard.

Such broader policies would need to be complemented by policies directly targeting innovative SMEs and those that are currently do not plan innovation activities, such as providing funding (grants, vouchers, tax credits), helping SMEs access the skills required for their innovation activities, and providing mentoring, advice and networking opportunities. Public funding of some of the SMEs' innovation activities would be particularly valuable in Member States where such funding has declined in recent years.

Based on this overall strategic approach, the SPR highlights a number of specific policy conclusions:

1. There is a need to increase the in-house R&D activities of the SMEs. This could be achieved by increasing grant and non-grant support via the European Regional Development Fund (ERDF) operational programmes under the next long-term EU Budget. In the longer term, to incentivise SMEs to carry out in-house R&D, their cooperation with larger innovative enterprises and research and technology organisations should also be considered.

Adopting an open innovation mindset and business model could also help SMEs to overcome some of the barriers and challenges they face. However, for a culture of open innovation to be successful, it is essential that SMEs engaging in open innovation have the absorptive capacity to do so. Open innovation could also be supported through IT-based platforms such as the platform of the Lombardy region co-funded by the ERDF and which seamlessly integrates with the internationalisation services of the Enterprise Europe Network.

2. There is ample evidence to confirm that skills shortages represent a major barrier to innovation. EU level actions hand in hand with national/regional measures should help increase the innovation management capacity of SMEs. EU-level programmes could particularly support the cross-border access of SMEs to skills to allow them to engage in innovation.
3. As a higher share of university graduates in science, manufacturing, engineering and construction correlates with a higher share of innovative SMEs in the EU-28. Member States should continue to reinforce their support for their education systems so that more graduates from the STEM-disciplines (Science, Technology, Engineering and Mathematics) are available on labour markets.
4. Further barriers include a lack of internal and external funds, especially for innovative SMEs with regard to scaling up their innovations. European level programmes such as the future Horizon Europe plan to address market gaps in scale up financing through the European Innovation Council (EIC) and the future InvestEU programme plans to provide support for the financing of innovative SMEs at all stages of their development.
5. For innovative SMEs, it is still important to receive support in finding collaboration partners. The Enterprise Europe Network as an EU-level action of the COSME programme should play an important role in connecting not only SMEs but also different competencies (e.g. Key Enabling Technology centres, digital innovation hubs, testing laboratories, and investors) that are needed to implement innovation projects.
6. The support of incremental innovation should receive as much attention as those of a break-through or disruptive nature.

At EU-level, with the incoming Commission and the start of a new long-term EU budget, there will be a further improvement in the synergies between the various innovation policy tools.

### 3. ACTIVITIES OF THE SME ENVOYS IN 2019

The SME Envoy Network ensures that the '*think small first*' principle is integrated into policy-making and regulatory proposals of the European Commission and also applied throughout the Member States. The work of the Envoys contributes to the Commission's policy priorities and supports the implementation of the flagship initiatives, in particular the Start-up and Scale-up Initiative as well as the Single Market Strategy and the renewed Industrial Policy Strategy. The SME Envoys met four times in 2019 and dedicated its work especially on the future of SME policy.

The Network launched in July 2019 a *Call for a vigorous and forward-looking EU policy for small businesses* - a timely initiative to stress the importance of a strong SME policy as part of the new mandate of the European Commission.

The '*Call for a vigorous and forward-looking EU policy for small businesses*' asks for a new enabling policy framework for small businesses in the EU that should

- focus on a systematic and consistent implementation of the "think small first principle",
- constitute an integrated, coherent and future oriented approach,

- understand EU policy for small businesses as a cross-cutting issue and task for all policy areas and all policy-makers.

The *Call* pools together their strong expertise and vision on the needs of the small businesses at the brink of a new Commission and before the beginning of a new Multiannual Financial Framework in 2021. It builds on the work, experience and dialogue of the SME Envoys and the contributions from business organisations who are participating in the network meetings as observers. It is used as a basis for developing concrete policy actions for SMEs and will support the preparation of a dedicated SME strategy as announced in the President U. von der Leyen's guidelines.

The call is attached to this report and forms an integral part of it. The *Call* served also as a basis for the discussions of the delegates to the 2019 SME Assembly which was held from 25 to 27 November in Helsinki and organised in cooperation with the Finnish Presidency of the Council.

### 3.1. The future of SME policy

The key priority areas for the SME Envoys are:

- "Think Small First" principle and Better Regulation;
- Entrepreneurship and Innovation;
- Skills and digitalisation;
- Access to finance for small Businesses;
- Access to markets – Single Market and Internalisation

The Network of SME Envoys highly welcomes the announced SME Strategy and will continue to address the Commission's initiatives with a particular impact on SMEs. For 2020 the SME Envoys will in particular:

- Contribute to the discussions on the announced SME Strategy and the strategy's contribution to the green transition of the European economy;
- Intensify the dialogue on SME policy and the exchange of good practices for SMEs, in particular related to the implementation of the SME Envoys' European SME Action Programme which focuses on digitalisation, training & skills, access to finance and access to markets;
- Continue its 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 and their impact on SMEs;
- Follow-up its work on defence-related issues and public procurement;
- Discuss and give input to future initiatives from all the Commission's branches with significance for SME's.
- Accompany and underline the importance of the process related to the revision of the SME definition;
- Work in particular on issues related to sustainability and a greener economy;

- Intensify its work for 'Ideas from Europe', by further developing the value tracks for businesses and sectors 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.

### 3.2. Access to finance

Despite considerable efforts by all players, be it on the national or European level, and although SME access to bank finance largely recovered after the financial crisis, market failures and structural challenges remain, including information asymmetries, high transaction costs in servicing SMEs, and lack of financial skills/ knowledge among small business owners. Under the guidance of *rapporteur* Pieter Waasdorp, the SME Envoy for The Netherlands, a dedicated ad-hoc working group prepared an overview of the situation with the following key messages:

- **Financing gaps** differ widely across Member States with challenges like high transaction costs and information asymmetries
- The report highlights that, in the majority of EU countries, access to bank finance is showing fewer constraints than in the aftermath of the crisis, **however major gaps still exist especially for start-ups and smaller companies who lack proper collateral**. Alternatives to bank finance are developing, especially in some Member States. Among those, venture capital seems to be maturing in many countries; crowdfunding is still in its developing phase, while some other traditional tools like factoring and leasing are widely used in many countries. On the other hand, bond issuances, access to debt funds and IPOs are less a relevant option for SMEs in most of EU Member States.
- There is a regulatory need regarding **alternative forms of finance** to supplement traditional bank finance which will remain the main source of SME financing
- The **knowledge, skills and awareness** of SMEs and intermediaries on various forms of finance forms is still limited
- The alternative finance market is **still not mature**

#### The SME Envoys encourage Member States to:

- Continue fosters new forms of finance as well as encouraging banks to offer traditional loans to SMEs, giving special attention to innovative smaller and younger enterprises.
- Strengthen financial literacy, in particular regarding owners of small businesses.

#### The Network of SME Envoys will:

- Continue to work with its ad-hoc working group to monitor the situation and suggest concrete actions.

### 3.3. Public procurement

Public procurement is a huge market for the European economy but SMEs are still underrepresented. The SME Envoy for Belgium, Didier Kinet, accepted to be *rapporteur* for this subject. He presented his report in 2019.

The EU adopted in 2014 a new public procurement package, with the aim to simplify procedures, increase social and environmental consideration and encourage SMEs to take part in public procurement. These Directives on Public Procurement were due to be transposed into national legislations by April 2016. A survey carried out to assess the effects of the new rules on SMEs revealed that around two thirds of EU Member States monitor the participation of SMEs in public procurement. The type of monitoring varies, depending on different parameters such as threshold, size of tenderer, sector etc. Yet, an efficient monitoring is useful to analyse the degree of SME participation in public procurement and the obstacles they face.

It might be helpful for certain countries to strengthen their monitoring of public procurement on a centralised level. This would allow to have a more complete view of the situation at national level, as well as to develop a global national strategy to promote SMEs' access to procurement.

Directive 2014/24/EU introduced electronic means as the standard way of communication and information exchange in procurement and led to the development of the electronic European Single Procurement Document (e-ESPD). This will reduce the administrative burden for both contracting authorities and economic operators, particularly SMEs, and increase the transparency of the procurement process. On the downside appear the limited user-friendliness and flexibility of e-procurement platforms, the length and complexity of the ESPD document, and the risk to discriminate SMEs which have no access to digital means.

Directive 2014/24/EU encourages authorities to include social and environmental award criteria in the public procurement procedure. Most authorities make use of this possibility, but only half of them are convinced that this really benefits SMEs. Authorities can take several measures to facilitate the participation of SMEs in public procurement. One measure, which is encouraged by the EU directives, is the division of public contracts into lots. Although authorities and businesses are both convinced that the division of a contract into lots can be an effective means to involve SMEs in public procurement, the survey reveals that not all authorities use this means, at least not in a systematic way.

Some Member States have put in place national measures to support SMEs, such as lowering the threshold for the division into lots, establishing additional rules for contracts below the threshold and the obligation for contracting authorities to justify whenever they decide not to subdivide contracts into lots. They also foresee a reinforced interaction between authorities and SMEs, which would allow clarifying the requirements and procedures. Some Member States have also adopted a charter setting out all legal options to help SMEs' access to procurement. Some countries also reduced the requirements regarding experience, i.e. length of commercial activity or age of the company and the performance guarantee for tenders below a specific amount. Finally, they request the full documentary evidence only from the winning bidder and adopted other similar measures to reduce the burden on SMEs.

According to about half of the business respondents to the survey, timely payment of invoices by authorities should be improved. By contrast, authorities generally had the impression that their payments were timely, despite heavy internal administrative procedures. An automatic system to pay interests and compensations in case of late payment of invoices could be useful, since companies might be afraid to ask for it for fear of not being retained at the next procurement. In cases when public procurement involves subcontractors, late payments to them could become less frequent if contracts would foresee direct payments from the procuring authority to the subcontractors or contain provisions obliging the main contractor to pay timely.

**The SME Envoys encourage Member States to:**



- Increase their support to SMEs' participation in public procurement and to monitor this participation.
- Make sure that conditions of public procurement like financial terms and requirements to potential bidders are SME-friendly
- Create respectively improve the necessary framework that enables the strategic use of innovation procurement.

**The Network of SME Envoys will:**

- Continue to monitor the situation in close cooperation with the Commission.
- Work with the Commission to find means to further improve 'payment morale' of both contracting authorities and main contractors towards subcontractors.

**4. CONCLUSION**

The SME Envoys call on 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.