



Small and medium-sized enterprises Our commitment to Europe's SMEs

Abstract:

Europe's Small and Medium Sized Enterprises are everywhere around us: there are some 24 million of them, together representing around 99% of all companies in the EU. They have been responsible for the vast majority of new jobs over the years, and our societies rely on them massively. The importance of our SMEs has always been recognised - yet Covid-19 has made us realise just how vital they are, especially as the crisis has placed huge numbers of SMEs in a precarious financial position: many have had to close their doors and millions of jobs continue to be at risk. If improving SMEs access to finance was essential prior to the crisis, it has now become crucial for their very survival.

renew europe.

About Renew Europe Group

The Renew Europe Group is a coalition of progressives, liberals, democrats and reformists, that make up the largest centrist group in the history of the European Parliament. Brought to you from the European Liberal Forum, this new reference series aims to disseminate Renew Europe Group positions to the wider liberal family, policymakers and industry stakeholders, civil society and the general public. While, at the same time, the position papers will raise awareness on a number of issues and policy sectors, from sustainability and climate change, to democracy and the rule of law, human rights and fair competition.

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Introduction

Europe's **Small and Medium Sized Enterprises** are everywhere around us: there are some 24 million of them, together representing around 99% of all companies in the EU. They have been responsible for the vast majority of new jobs over the years, and our societies rely on them massively. The importance of our SMEs has always been recognised - yet Covid-19 has made us realise just how vital they are, especially as the crisis has placed huge numbers of SMEs in a precarious financial position: many have had to close their doors and millions of jobs continue to be at risk. If improving SMEs **access to finance** was essential prior to the crisis, it has now become **crucial for their very survival**.

The challenges that our SMEs are facing are so grave that the recovery calls for an unprecedented team effort, where no stone is left unturned. Much of the **focus will be on Member States' various national schemes and support programmes**, but the **EU has an important role** to play. We will need the EU recovery instrument(s) and the various MFF programmes to complement national schemes and **reach as many SMEs as possible**, especially in those sectors that have suffered the most. We need **SME related actions to be visibly at the core of the EU's recovery plans and initiatives** that follow. The **EU Single Market is critical for SMEs and it is crucial that we restore its full functionality**, strengthen it further with the aim of completing it, and seek ways to help SMEs think of future opportunities across Europe.

We must not forget either that **SMEs are at the centre of the twin transition to a green and digital Europe**, and a vital source of **creativity and innovation** - in other words, contributing to Europe's sustainable future growth. Furthermore, Renew Europe believes that **entrepreneurship and industry** are important parts of the European SME fabric: while companies can scale up and grow, no company was born big, and therefore we need to promote entrepreneurship. Many **SMEs and entrepreneurs have been able to respond to the crisis**, demonstrating how quickly they can adapt and innovate. SMEs should also be at the core of the long-term strategy for European industrial recovery. After all, SMEs are at the heart of industrial value chains and ecosystems.

The crisis has hit all parts of the world, but Europe does not need to look outside for advice. We should rather build upon our unique qualities and our diversity, learning from those entrepreneurs and SMEs that have shown **resilience**, supporting others that have struggled, and re-build the future around our **skilled workforce**. If we manage to make bold choices now, we have an opportunity to emerge as a global leader even in sectors in which we have been lagging. One thing is for sure: **our start-ups, entrepreneurs and SMEs will be at the heart of the recovery**.

This paper outlines **Renew Europe's views on SMEs** and includes **actions that we believe should be taken at European level - actions that our Group will be prioritising and promoting** in our daily policy work in months and years ahead. There is much work ahead of us.

1. Renew Europe calls for an SME friendly legislative environment

- We need a strict application of the 'SME test', which helps implement the important 'Think Small Principle'. While these ideas have been part of the Commission's regular impact assessments for some time, they have not been applied consistently in legislative proposals, nor have they been monitored carefully. This needs to change.
- We welcome new better regulation tools, but instead of working with a 'one in, one out principle' for example (which maintains the status quo) we want to be even more ambitious: simplification can only happen by aiming for a 'one in, two out' type of an approach in legislation.
- In addition, we need to streamline and implement the 'once only' and 'digital by default' principles at EU and at Member State levels, as standardisation and digitalisation of procedures and forms will help SMEs in the long-term.
- The EU SME definition is referred to in over 100 EU legal acts covering a wide range of EU policies; we welcome the Commission's REFIT initiative to see if the SME definition is still fit for purpose. Clarity is needed also on how entrepreneurs, self-employed workers, start-ups, cooperative businesses and mid-caps that face similar challenges to SMEs are handled.
- We welcome that the Commission plans to appoint a dedicated EU SME envoy to bring more visibility to SME related concerns.

2. SMEs need the Single Market

- The **EU single market is crucial for our SMEs**, and as confinement rules are being relaxed, we need to work quickly towards **restoring the free movement of goods, services and people**. Even in times of crisis, we need strong coordination to minimise disruptions, while taking safety and health aspects always into consideration.

- SMEs value a stable and predictable regulatory environment as this increases investment certainty and planning security generally.
- We will work towards completing the Single Market, taking down barriers, reducing red tape and introducing legislation where needed.
- EU's SMEs will benefit hugely from the better implementation of existing legislation - we must therefore strengthen enforcement measures.
- The digital transition provides huge opportunities for SMEs and an ambitious timetable is needed to harmonise digital aspects of the single market and foster e-Government solutions.
- We need to give special attention to growth-oriented sectors in the Single Market, such as the sharing economy, which attract innovative start-ups (and future unicorns). In addition, we must allow creative business models to thrive, and use regulatory sandboxes at EU level to reduce the cost of innovation for start-ups and work on ways to eliminate barriers to market entry itself.
- We welcome that the Commission plans to enhance opportunities for SMEs to take part in public procurement contracts. In addition, we believe that procurement tendering processes should be simplified and digital tools increasingly used to expand cross border procurement.
- We welcome the EU's Single Market Programme and its focus on boosting the competitiveness of our SMEs.
- The rigorous and effective enforcement of competition policy ensures that SMEs have the opportunity to compete on a fair basis, including in fostering SMEs to scale up. It is important that SMEs compete on a level playing field in terms of the amount of State Aid granted by Member States in order to avoid distortions in the Single Market.

3. SMEs are in desperate need of direct economic support as well as access to finance

- There is an immediate need for SMEs to access finance in order to kick-start the European economy. The support measures put in place by the Member States to help SMEs and large industrial companies to cope with the crisis will weigh

on their level of indebtedness. The recovery plan must prevent companies' indebtedness from becoming unsustainable. We should explore measures such as commercial tax reliefs, value added tax suspensions, rental and utilities deferrals, debt moratoriums, and suspension of public rates liabilities.

- New Start-ups that established their businesses prior to the Covid-19 crisis should not be excluded from accessing finance even if they do not fulfil the eligibility requirements imposed by some Member States (including the requirement to provide accounts for the previous year as some may have been trading for less than a year).
- We should also increase the threshold of the De-minimis regulation exemption of small aid amounts from notification. This would give additional flexibility to European companies in need.
- Profitable companies pre-COVID-19 could benefit from a tax refund (calculated on the basis of their tax paid in previous years) in order to ensure their solvency.
- Further measures are needed by European Supervisory Authorities (ESAs) and the European Central Bank to incentivise lending to SMEs. Banks and other providers of finance for SMEs have a key role to play, and it is important that SMEs, banks and governments work together to ensure that the rollout of liquidity to SMEs is as smooth as possible. The EU and Member States should also ensure that alternative financing options, such as credit unions and private equity investors, remain open to SMEs and are given the necessary incentives to continue to support SMEs.
- Supporting SMEs to scale up is essential to create European success stories, through job creation, innovation and improving the long-term competitiveness of the EU. EU initiatives on facilitating access to finance should aim to scale-up promising European SMEs within Europe and through European and global investment with due consideration for European autonomy. Family and Community based businesses should also be stimulated to develop local or regional markets, since they account for an important part of European private employment and they represent natural incubators of an entrepreneurial culture.
- We welcome the enhanced role that InvestEU will play in the recovery plan, which demonstrates an understanding of the urgent need to invest in SMEs. The newly created Strategic European Investment window will invest in strengthening the strategic autonomy of the EU industry across key technologies and value chains. The SME window in the InvestEU programme should serve as the main financial tool to consolidate SMEs' business models, and to help them invest into corporate governance practices, skills and projects that boost competitiveness and market-based innovation.
- Deepening the Capital Markets Union (CMU) is a unique opportunity to increase investments in SMEs across the EU. SMEs should be at the heart of every action

in the CMU project to increase equity funding for SMEs. In this regard, Renew Europe welcomes the Commission's commitment to include in each CMU impact assessment an 'SME test'. Necessary measures include facilitating investment research on SMEs, rebalancing debt-equity bias in taxation and easing issuance requirements for SMEs. To overcome the crisis, European companies, particularly SMEs, would benefit from equity.

- Late payments pose a very real risk and have a significant impact on the financial success of SMEs that have been hit by the crisis and are suffering even more due to their dependency on insolvent debtors. We call on Member States to properly enforce the Late Payments Directive and the Commission to examine the need for a revision of this Directive. Transparency of information on payment behaviour, an operational monitoring system, fast solutions for payment disputes and the introduction of shorter payment deadlines across all sectors are essential to combat late payments.
- We welcome the Solvency Support Instrument that the Commission presented as part of its Next Generation EU package, which could provide much needed support for the solvency of SMEs and all businesses facing similar challenges in the post-COVID recovery. This instrument should be very practical, ensuring that SMEs receive support with efficient processes and should be operational as soon as possible to complement actions by Member States.
- Renew Europe advocates a pan-European credit referral system, which SMEs can voluntarily subscribe to when a bank loan request has been rejected. Such a scheme could then identify possible alternative market-based finance sources appropriate to the risk profile, including for example venture capital and crowdfunding. EU projects such as VentureEU must be expanded in the long-term to attract private investment. Equally, and in order to strengthen economic incentives for investors and business angels to invest in new or recently created SMEs and start-ups, the Commission should encourage Member States to enhance tax deductibility corresponding to certain strict criteria both in terms of size and length of investment. The Commission should examine best practices around the Union in order to promote a common framework with clear recommendations.
- We welcome the new VAT scheme for small businesses, which should reduce red tape and administrative burdens for SMEs and create a level playing field for businesses. Calls on Member States to consider a swifter implementation of the new rules.
- We welcome the CRR quick fix (the regulation that sets prudential requirements for the banking sector), which aims to mitigate the impact of COVID-19 by temporarily providing banks with further flexibility, thus aiming to maintain adequate funding for SMEs.
- If this crisis is an unprecedented shock, entrepreneurship shall be confronted with a solid legal framework for a "real second chance". We call on the Commission to have an active role in supporting Member States in transposing the Directive

on preventive restructuring, helping companies in financial difficulties to receive adequate support services to help them to avoid bankruptcy.

- We welcome the Commission's new SURE initiative aiming at covering the costs of national short-time work schemes, allowing SMEs to safeguard jobs and maintain cash reserves.
- SMEs whose main objective is having a positive social, societal or economic impact for the general interest while being economically viable and competitive have enormous potential for the development of innovative solutions that lead to sustainable growth. For that purpose, the EU must foster the creation, scaling up and access to the single market of social economy SMEs. This requires increasing and facilitating their access to finance, overcoming regulatory barriers and promoting their visibility.

4. SMEs will drive EU Research and Innovation (R&I)

- R&I will not only help us overcome the pandemic, but it will help lift Europe out of the crisis - and SMEs will be central to our innovation efforts. We thus call for Member States to renew their commitment to spending 3 percent of EU GDP in R&I, and also come forward with a substantial overall budget (of at least €120 billion) for our next flagship R&I programme, Horizon Europe. Synergies and alignment should be created between the EU, national and regional R&I programmes and strategies.
- We call for excellent multi-disciplinary, collaborative and applied research and innovation to be prioritised in Pillar II of Horizon Europe, and strong support for strategic European Partnerships through the programme. We need to also help the most promising and innovative SMEs to scale-up via the European Innovation Council (EIC).
- Innovation in SMEs is often the outcome of collaborative efforts in which businesses interact and exchange knowledge and information with other partners as part of broader innovation systems. Investments in innovation ecosystems that are inclusive of SMEs and that strengthen co-creation, maturation and transfer of excellent technology to industry as well as new technology's uptake and scale up needs to be encouraged with a view to taking innovative products and services to the market. The European Institute of Innovation and Technology (EIT) will be important in this regard.

- Grants are typically more likely than tax credits to reach SMEs, as they can be directly targeted at small enterprises or activities in which small enterprises are more likely to be involved (e.g. collaborative innovation). Equity and loan-based funding should be reserved to SMEs involved in 'close-to-market' activities and projects in the higher Technology Readiness Levels.
- Whenever possible, R&I instruments (e.g. EIC Accelerator) should offer fast-track opportunities to start-ups that are developing innovative technologies that can support, for example, the testing, treating or monitoring of the COVID-19 outbreak.
- We welcome the participation of SMEs in the European Space Programme, including in the development of many downstream services and applications. SMEs also play a key role in defence supply chains in Europe, contributing to R&I. In this area, the European Defence Fund offers new opportunities for SMEs.

5. SMEs are at the centre of the digital transition

- According to the Commission, only 17 percent of SMEs have successfully integrated digital technologies into their businesses! Digitalisation offers huge opportunities for SMEs both in terms of productivity gains and competitiveness. Covid-19 has further highlighted the need to invest in the digitalisation efforts of SMEs, and accelerated take up of digital solutions.
- Renew Europe calls the EU to support the digital transition by investing in reskilling and upskilling initiatives to foster SMEs' digital literacy as well as take up of Advanced Digital Skills . The Digital Europe Programme and the network of Digital Innovation Hubs, together with relevant national and regional initiatives, should boost efforts to connect with both digital as well as traditional SMEs. Hubs can support SMEs by helping them connect with industrial ecosystems, providing a range of relevant help along the way: access to technology, infrastructure, training, funding & IP related advisory, etc. They should be strongly rooted in regions they serve and look for robust synergies with Union, national and regional SME and entrepreneurship initiatives.
- It is important not only to support SMEs in adopting digital technologies which can professionalise business management, but also encourage SMEs to explore new opportunities that the ongoing digital revolution offers, in areas such as cloud computing, AI, and data analytics. The current reality is that most SMEs

have neither access to data nor do they understand the value of data they create and the opportunities that data presents, although the availability of data is a pre-requisite for SMEs to reap the benefits of the digital economy. Thus, Renew Europe welcomes the European Data Strategy and stresses the need to create a genuine single market for data, with the aim, inter alia, to facilitate access and use of data by SMEs.

- Europe must promote SMEs that are developing innovative, breakthrough technologies, as these will contribute to future growth. Innovative SMEs specialising in, for example, AI, Big Data, VR/AR, sustainable transport, robotics, block chain, digital health solutions, 3D printing, energy storage, innovative food production or recycling are key to our future - but many rely on outside revenues to survive, especially in times of recession. EU programmes like EIC, EIT, InvestEU and Digital Europe programme play a central role and we must ensure that substantial budget resources are allocated for these growth oriented investment initiatives. Similar programmes need to be backed at Member State level also, to maximise the growth and development opportunities of SMEs.
- There is a need to strengthen the cybersecurity of European SMEs: authorities and administrative bodies dealing with cybersecurity should collaborate with the private sector to develop one-stop-shop type of platforms, which would provide guidelines and advice that translates cybersecurity standards into easily implementable actions. Support should also be offered to SMEs in cybersecurity literacy and skills.

6. SMEs are at the centre of the green transition

- The green transition to a climate neutral economy offers both opportunities and challenges to Europe's many SMEs. We therefore welcome the Commission's plans to provide Enterprise Europe Networks with dedicated Sustainability Advisors and have them offer various climate related services.
- The green transition will benefit from already mentioned EU initiatives in R&I. For example, digital innovations are crucial for the success of the European Green Deal as they will help us move to more sustainable, resource-efficient, circular and climate-neutral solutions.

- We need sustainable finance to plug the current investment gap and to reinforce the leading role that European SMEs already play in developing innovations that address the aims of the Green Deal and the Just Transition Fund (JTF). Funds from the JTF should be used, for example, for upskilling and reskilling workers from SMEs, which make up 97% of the construction and renovation sectors in order to create new and sustainable jobs, while bringing down emissions.
- We are in favour of launching a European Renovation Wave, which could support and reinvigorate struggling SMEs across Europe, boosting the construction sector and the energy sector and providing benefits for local businesses and spurring local renewable energy sources. In order to do so, we need to prioritise investments and European Funds in European SMEs through renovation and retrofit projects and develop financial and fiscal incentives.
- We should also prioritise energy efficiency funding in buildings within the post-2020 Structural Funds Partnership Agreements and implement the specific operational programmes of the Energy Performance of Buildings Directive, which would enable the financing of measures outlined in the long-term renovation strategies, both on the supply and demand side, helping to support struggling SMEs.
- SMEs should be specifically targeted in the upcoming Energy Sector Integration Strategy. Their role in building a smart, digital and resilient energy infrastructure is essential and should be encouraged. We call for future PCIs to prioritise projects, which include SME applicants.

7. SMEs and entrepreneurship are at the centre of (future) industrial ecosystems

- SMEs are vital for the development and resilience of European industrial value chains. Many of our SMEs contribute significantly to local, regional or national economies and we need more horizontal and vertical integration of SMEs into industrial value chains as this can increase competitiveness, innovation, and production efficiency. We are in favour of consolidating networks, connecting clusters and hubs that support SMEs across the EU; special attention should be paid to ecosystems most affected by the crisis.
- European industries rely on entrepreneurship & discovery and we need investments

in start-ups and SMEs that will reinforce smart specialization and provide ambition for business growth and expansion. Keeping in mind that several regions in the EU still witness low SME density and a low survival rate of newly established companies, developing entrepreneurial skills remains important.

- We need to support the next generation of entrepreneurs to acquire skills and knowledge to manage their businesses. We call for schemes that enable new or aspiring entrepreneurs to gain business experience and encourage them to follow their ambition, as this will ensure the emergence of new innovative start-ups and unicorns, as well as more growth focused SMEs.

8. Renew Europe will focus on European SMEs in our short-term as well as long-term policy work

This Renew Europe Policy Paper has touched upon many policy fields and different sectors of our economy, highlighting numerous ideas, initiatives, actions, funding programmes and regulations that we need to develop, implement, monitor, and work on - both in the short-term as well as the long-term. In most cases, we need both short-term action and long-term consistency. It is important to recall also that **Europe's SMEs are hugely diverse** and therefore a one-size-fits-all approach will not do.

Our goal has not been to ensure that every possible issue is mentioned in this paper; rather we want to state an **overall commitment to entrepreneurship, to reward business and job creation, and to foster talent and innovation. Therefore, we commit to looking at EU initiatives and legislation always through an "SME lens"** - and there will never be a more important a time to start this than now.

As we are working to exit the crisis and have a recession ahead of us, we will have to make long-standing budgetary and recovery-related decisions, and we need to place our SMEs visibly at the centre of our plans. **Renew Europe thus calls for the Commission to come forward with a "State of the SME Union" type of review and debate, to be held annually in the Parliament's Plenary sitting.** This review could be based on the largely forgotten Small Business Act and related *SME Performance Review*, and the recent *SME Strategy for a Sustainable and Digital*

Europe (which the Commission should revise so that the strategy corresponds to the Covid-19 related economic reality that SMEs are facing). Additionally, we call for a more **concrete roadmap of implementable SME initiatives together with clear timelines and targets**.

We are still in the middle of the crisis and must furthermore **ensure that SMEs are aware of their rights and the various support possibilities** that are available. We call for the **strengthening of SME focused information exchange** between Member States, not least in order to share initiatives that are proving successful and having an impact on the largest number of SMEs possible. At EU level, we also need to promote equality, work-life balance, inclusive hiring and equal pay as these will enable gender equality in SMEs.

Finally, while our policy focus during the Covid pandemic has been on Europe, we must not forget that **European SMEs play an increasingly important role internationally**. EU trade policy has to provide support and accompanying measures for SMEs, and the EU must negotiate and include SME-specific chapters and provisions in the trade agreements. Furthermore, we must continue to show global leadership, set standards and promote rules-based trade. As we start to move towards recovery, we need to enable our SMEs to trade internationally, simplify their access to international markets, facilitate exports, and develop promotional programmes.

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