



**European Committee
of the Regions**

ECON-VI/046

136th plenary session, 7-9 October 2019

OPINION

Contribution from cities and regions towards a new EU policy framework for SMEs

THE EUROPEAN COMMITTEE OF THE REGIONS

- recognises that the competitiveness of European economies is based on the entrepreneurial and innovative potential of SMEs;
- stresses the role and responsibility of the Member States' and regions in developing and implementing EU policy tools for SMEs, which should be specifically geared towards supporting the development of skills of SME employees and SMEs themselves, including in the area of digitalisation, which will help these enterprises grow in the long term;
- recognises the importance of start-ups within the framework of SMEs, since they are responsible for many disruptive innovations, but points to the need to also support existing businesses to scale up and innovate in an incremental way;
- notes that the proposed framework of common rules for the European Structural and Investment Funds must be flexible in order to enable requesting regions to focus their operational programmes on SMEs and micro-entrepreneurship;
- expects regional representatives to be involved in the management of the EU's SME policy and for them to cooperate more closely with SME Envoys;
- points to the important idea of a one-stop shop for SMEs and, to this end, stresses the need to consolidate SMEs' support networks on a European scale;
- highlights the importance of supporting the cooperation of groups of specialised small and medium enterprises (clusters);
- draws attention to the issue of SMEs' access to public procurement, while also welcoming the inclusion of this category of enterprises in the reform of the public procurement directive and calls for further measures to support SMEs;

Reference documents

./.

Opinion of the European Committee of the Regions — Contribution from cities and regions towards a new EU policy framework for SMEs

I. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS

Introduction

1. notes that some EU Member States are experiencing a slowdown. This problem is most visible at the regional level and is reflected in decreased in labour productivity and production efficiency, weakening trade trends, a steadily low level of public and private investment into transport, energy and digital infrastructure as well as a persistent – and relatively high – level of economic and social inequality. This, together with global developments such as the next industrial revolution, demography and the changing nature of work, requires innovative policy responses;
2. recognises that the competitiveness of European economies is based on the entrepreneurial and innovative potential of SMEs and therefore welcomes the calls by the European Commission and the Council to further develop the EU's overarching economic strategy, taking into account the specific role of that sector;
3. stresses the impact of the Small Business Act (SBA) on the development of SMEs a decade after its launch, but at the same time underlines the need for a horizontal approach to supporting SMEs and for the effects of the programme's implementation to be monitored more effectively;
4. notes the necessity of creating specific support pillars for SMEs within European Commission programmes, taking into account the heterogeneity of the SME sector and pointing to the need for a more flexible approach based on effectiveness and enabling businesses to overcome the next stages of development. The Committee expects the European Commission to take actions in line with the recommendations of the CoR's study: EU policy framework on SMEs: state of play and challenges¹. New tools should mainly target small businesses carrying out risky projects;
5. stresses the role and responsibility of the Member States' and regions in developing and implementing EU policy tools for SMEs, which should be specifically geared towards supporting the development of skills of SME employees and SMEs themselves, including in the area of digitalisation, which will help these enterprises grow in the long term;
6. points to the strong need to focus on supporting the development of SMEs outside metropolitan areas, particularly through the EU Member States' operational programmes;

¹ <https://cor.europa.eu/en/engage/studies/Documents/EU-SMEs/EU-policy-SMEs.pdf>

7. recognises the importance of start-ups within the framework of SMEs², since they are responsible for many disruptive innovations, but points to the need to also support existing businesses to scale up and innovate in an incremental way — European policy should be characterised by a broader approach to business support — from the moment they enter the local market to when they join the global market;
8. is of the opinion that EU policy should support the process of integrating SMEs into international value chains across all European territories; notes that the internationalisation of the economic activities of selected SMEs beyond the EU can ensure dissemination of the best solutions, benefiting European SMEs and thus bringing about improvements in their productivity, mainly through transfer of knowledge and know-how;
9. recognises the importance of the SME Envoys Network, which should play a major role in identifying problems and opportunities for European entrepreneurs;
10. stresses the need to promote and implement fewer time-consuming administrative procedures and to reduce the amount of red tape at all levels of European and national administration, which has a significant impact on the way SMEs work, including the financial aspects of their activities;
11. draws attention to the need to support new sources of funding for SMEs and to make it easier for them to access traditional methods of financing. These would be available to the broadest possible range of SMEs operating in different EU territories;
12. supports the call for a revision of the definition of "SMEs" currently in use at EU level in order to take account of the fact that medium-sized enterprises ("mid-caps", with up to 500 employees) are structurally very comparable with SMEs (< 250 employees and an annual turnover of ≤ EUR 50 million or a balance sheet of ≤ EUR 43 million) and yet do not get preferential treatment over large enterprises;
13. points to the important idea of a one-stop shop for SMEs and, to this end, stresses the need to consolidate SMEs' support networks on a European scale; proposes using the existing Enterprise Europe Network (EEN). By combining different forms of SME support into a single network and through its cooperation with the SME Envoys Network, the synergies expected by SMEs and the European Commission should be achieved;

Risks and challenges to the further development of SMEs

14. notes that SMEs in the European Union are facing challenges which stem from such factors as growing global competition, the emergence of new business models, the digitalisation and deployment of new technologies, both in industry and in services, the development of the circular economy and the collaborative economy, and continued sustainable development;

² European Committee of the Regions, *Boosting start-ups and scale-ups in Europe: regional and local perspective*, ECON-VI/021, rapporteur: Tadeusz Truskolaski, COR-2017-00032-00-01, July 2017.

15. highlights the importance of supporting the cooperation of groups of specialised small and medium enterprises (clusters). Calls for continuous development of existing EU instruments in this area, such as the EU Cluster Portal, The European Cluster Observatory and the European Cluster Excellence Initiative;
16. confirms the growing role of corporate social responsibility in society and the environment;
17. notes the discrepancy in the speed and strength of economic development between SMEs and larger businesses, which, because of the characteristics of less developed regions, results in the economic polarisation of EU regions;
18. stresses that the increasing number and complexity of administrative regulations reduces the growth potential of SMEs, especially micro-enterprises, which do not have adequate administrative and financial support to overcome these barriers, therefore calls for reducing administrative complexity for businesses in the EU, in particular for cross border operations;
19. notes that, with the emergence of a growing number of innovative solutions in the market, combined with their limited financial availability to SMEs, a new approach is required which calls for the creation and development of so-called "open innovations";
20. welcomes, while stressing that Horizon and COSME will gain importance for SMEs, that the ERDF will remain the most important source of finance for local and regional policies supporting SMEs in the new programming period 2021-2027, and particular in relation to access to finance, support for R&D and innovation, skills development as well as access to markets and internationalization. Reiterates however its objection to the proposal that the ERDF thematic concentration would focus on the national level as a centralised allocation mechanism would go against a place-based approach and the multilevel governance principle, which are key for an efficient and effective support of SMEs;
21. draws attention to the differences between EU sectoral policies, including in the area of public procurement, bankruptcy law and environmental protection, as well as differences in support for clusters and the approach to competitiveness, which has a strong impact on SMEs and their further expansion;
22. recognises that the single market is a success story for the EU, but also requires further improvement including, for example, breaking down barriers to the free movement of goods and services, which is one of the causes of the difficulties SMEs face when scaling up business activity and benefiting from internationalisation;
23. draws attention to the transformation of the economy through digitalisation, with the need for SMEs to invest more in purchasing and/or developing technology and know-how;
24. calls on the European Commission to develop measures to support the digital transformation of SMEs in EU regions, drawing on the successes of existing initiatives such as the Digital Cities Challenge;

25. believes that digitalisation is an opportunity to move SMEs' products and services to a wider, pan-European and non-European market, enabling cross-border trade to grow;
26. stresses that the challenge for the EU is to further increase productivity and competitiveness (including cost-related) in industrial value chains while maintaining ambitious environmental policy objectives;

SMEs' expectations for future growth and development policies

27. stresses the potential benefits for SMEs and entrepreneurs of EU level investment in integrating regional entrepreneurship ecosystems; at the same time, encourages the European Commission to further develop the project to link up Europe's "Silicon Valleys", which is currently being carried out together with European Entrepreneurial Regions (EER);
28. draws attention to the difficulties many SMEs face with acquiring and retaining skilled employees. SMEs face a strong competition for talented workforce from large companies which have larger resources at their disposal and are able to offer higher wages. This is despite the fact that SMEs are the backbone of Europe's economy representing 99% of all EU businesses;
29. notes that SMEs' representatives, including bodies that support and bring together SMEs, should be able to play a more active role in shaping and coordinating the implementation of EU policies that are directly relevant to this category of entrepreneurs;
30. expects regional representatives to be involved in the management of the EU's SME policy and for them to cooperate more closely with SME Envoys;
31. maintains that EU industrial policy should be geared to innovation in the wider sense, key enabling technologies, as well as important projects of common European interest (IPCEI), digitalisation and SMEs;
32. supports the European Commission's idea of streamlining administrative procedures for obtaining funding and reporting, which are particularly burdensome for micro and small enterprises with limited human resources. Proposals such as simplified cost options (flat rates, lump sum and unit costs) will make it easier to establish project budgets and account for them, helping to increase the proportion of SMEs that receive support;
33. supports an approach that prioritises local and regional thinking, with a national and international focus coming at a later stage. Testing ideas on a smaller scale, as well as supporting incremental innovation, enables new technological solutions to be developed more quickly and implemented in a financial framework available to SMEs;
34. notes that the proposed framework of common rules for the European Structural and Investment Funds must be flexible in order to enable requesting regions to focus their operational programmes on SMEs and micro-entrepreneurship;

35. calls for programmes supporting SME capacity-building to be set up, for instance regarding the use of modern financial instruments, measures to raise awareness of the importance of exchanging information and cooperation as well as the possibility of, and need for, long-term growth strategies and plans;
36. draws attention to the growing importance of the integration of clusters, particularly smart specialisation platforms where local authorities play a central role in creating integrated value chains at European level, thereby helping SMEs to grow at international level;
37. expects the strong regional and local dimension of EEN points to be maintained. These could take on new roles in the future;
38. draws attention to the need to extend the services offered by the EEN, including with regard to the scaling-up of SMEs, information on national and European rules, funding opportunities in individual EU Member States, building partnerships with other stakeholders from the sector/actors involved in the production process, etc.;
39. points out the need to strengthen regional representations for SMEs, which could regularly contribute, through REFIT platforms for example, to the discussion on proposed legislative changes and take part in the process of monitoring, checking and evaluating the impact of changes on SMEs;
40. stresses the importance of diversifying sources of finance for SMEs, and addressing the problem of existing funding gaps for specific sectors or types of activities should be one of the priorities;
41. welcomes the agreements reached on the Capital Markets Union, making it easier for SMEs to access public markets and introducing measures to streamline and reduce costs and regulatory burdens;
42. welcomes the launch of initiatives by some Member States to increase the participation of SMEs in public procurement procedures;
43. draws attention to the issue of SMEs' access to public procurement, while also welcoming the inclusion of this category of enterprises in the reform of the public procurement directive and calls for further measures to support SMEs;
44. stresses that delayed payments, SMEs' lack of awareness on key aspects of public procurement and the high potential costs of legal action remain the main obstacles to increasing their involvement in this area and seizing the opportunity to grow in scale;

Final reflections

45. notes that, due to their high degree of structural flexibility and production profile, SMEs are able to respond quickly to dynamic socio-economic changes. The financial resources needed for these adjustments have proven to be a barrier, meaning that further proposals for support in this area need to be adapted to the needs of SMEs;

46. stresses that, in view of their impact on the labour market, but also on consumers, SMEs are an important stakeholder which is jointly responsible for introducing the circular economy. This should be reflected in tax breaks or access to European funds;
47. recognises that the European Commission should draw on the experience of the SBA and the Entrepreneurship 2020 Action Plan. The aim is to improve and simplify, not to make radical changes or abandon existing achievements by seeking entirely new solutions;
48. points out that the number of initiatives for greater interregional and cross-border cooperation is still insufficient;
49. reiterates its call for a new horizontal strategy, the content of which should highlight the importance of innovation – particularly disruptive and incremental – and support key enabling technologies and important projects of common European interest, including with regard to digitalisation and SMEs;
50. calls on the European Commission to look for solutions that would make it easier for SMEs to take part in public tenders, for example by means of a bonus for local/regional origin, as the changes made so far have been insufficient;
51. draws attention to the fact that despite the European Commission's extensive and multifaceted actions, which should be welcomed, support for SMEs will not be effective across the EU if some Member States have a tendency to introduce complicated national rules;
52. stresses that local and regional authorities should play an important role in shaping a business-friendly environment and be equipped with tools to adapt actions to the changing needs of SMEs; it would be advisable to involve local and regional authorities more closely in the process of shaping future EU industrial policy, including support for SMEs;
53. agrees with the position of the European Parliament which calls for an increase in the overall EU budget for the 2021-2027 Single Market Programme, with a view to making SMEs more competitive at international level, expanding into non-EU markets and absorbing innovation;
54. is convinced that the announcement to include all financial instruments available to SMEs under the new Multiannual Financial Framework in the single InvestEU programme will lead to the anticipated simplification of procedures;
55. calls on the EU institutions and the Member States to intensify their effort in improving the functioning of the Single Market to unlock its full potential;
56. calls on the European Commission and the European Parliament to work on instruments and mechanisms that will ensure a level playing field for European SMEs in European and global competition, not least for technologies that are strategically important to Europe.

Brussels, 8 October 2019

The President
of the European Committee of the Regions

Karl-Heinz Lambertz

The Secretary- General ad interim
of the European Committee of the Regions

Pedro Cervilla

II. PROCEDURE

Title	Contribution from cities and regions towards a new EU policy framework for SMEs
Reference documents	-
Legal basis	Article 307 TFEU
Procedural basis	Rule 41(b)(ii)
Date of Council/EP referral/ Date of Commission letter	
Date of Bureau/President's decision	10 and 11 April 2019
Commission responsible	ECON
Rapporteur	Tadeusz Truskolaski (PL/EA)
Analysis	
Discussed in commission	
Date adopted by commission	9 July 2019
Result of the vote in commission (majority, unanimity)	Unanimous
Date adopted in plenary	8 October 2019
Previous Committee opinions	<ul style="list-style-type: none"> – <i>The future of COSME beyond 2020</i>, ref. CdR 3215/2017 (ECON-VI-027), rapporteur: Robert Sorin Negoită (RO/PES); – <i>Boosting start-ups and scale-ups in Europe: regional and local perspective</i>, ref. CdR 32/2017 (ECON-VI/021), rapporteur: Tadeusz Truskolaski (PL/EA); – <i>Smart Regulation for SMEs</i>, ref. CdR 5387/2016 (ECON-VI/020), rapporteur: Christian Buchmann (AT/EPP); – <i>Upgrading the Single Market</i>, ref. CdR 6628/2015 (ECON-VI/010), rapporteur: Alessandro Pastacci (IT/PES); – <i>Measures to support the creation of high-tech start-up ecosystems</i>, ref. CdR 672/2014 (EDUC-V-80), rapporteur Markku Markkula (FI/EPP); – <i>Entrepreneurship 2020 Action Plan</i>, ref. CdR 244/2013 (ECOS-V-043), rapporteur: Paweł Adamowicz (PL/EPP); – <i>Programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (2014-2020)</i>, ref. CdR 98/2012 (ECOS-V-027), rapporteur: Witold Krochmal (PL/EA); – <i>Review of the "Small Business Act" for Europe</i>, ref. CdR 151/2011 (ECOS-V-017), rapporteur: Constance Hanniffy (IE/EPP).
Date of subsidiarity monitoring consultation	