



OPINION

European Economic and Social Committee

Sustainable and social objectives/micro, small and medium-sized enterprises

Reconciling ambitious sustainable and social objectives with an enabling environment for
micro, small and medium-sized enterprises
(own-initiative opinion)

INT/944

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Section responsible	Single Market, Production and Consumption
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Outcome of vote (for/against/abstentions)	227/0/9

1. **Conclusions and recommendations**

- 1.1 Micro, small and medium-sized enterprises make up 99.8% of all European companies, employing 82.4 million people: they are the linchpin of the economic recovery and key to achieving the EU's social and environmental objectives. The nature of these businesses – their small scale and local presence – makes it natural for them to take on these challenges, and they perform well here, even during periods of crisis.
- 1.2 To achieve this, micro, small and medium-sized enterprises need a regulatory framework that accommodates their particular needs. The European Economic and Social Committee (EESC) calls for the Small Business Act, the "Think small first" principle and the SME Strategy to be properly deployed to help SMEs. Red tape, e.g. in relation to transparency and reporting, must be strictly limited because any constraint involves costs.
- 1.3 The EESC supports the Better Law-making approach and recommends systematic involvement of the social partners, professional associations and chambers of commerce at every legislative stage (holding of public hearings, impact assessments, amendments). The Committee urges the Commission to take the findings of impact assessments on board. The "one in, one out" principle must be applied swiftly, effectively and evenly in order to achieve ambitious environmental legislation. Finally, the EESC suggests that the coordination of SME envoys be increased at both national and EU level.
- 1.4 The EESC calls on the European institutions to take a methodical look at alternatives to transparency and reporting requirements where they give rise to too heavy a burden.
- 1.5 National and regional social dialogue initiatives in microenterprises, the craft sector and the professions facilitate commitment to social issues, dialogue between business owners and employees, and conflict prevention, and they should be encouraged.
- 1.6 The EESC believes that the potential of branches of the professions and professional associations, as well as that of chambers, should be better used for promoting innovation in relation to social and environmental matters and governance, and that micro, small and medium-sized enterprises should be better supported. The Committee recommends that the Commission and the Member States rely on their expertise and networks rather than devising new onerous and restrictive rules.
- 1.7 The EESC would like access to lifelong learning to be guaranteed for entrepreneurs from the moment they take up their position or take over a business, enabling them to acquire the skills needed for good management, for the establishment of social dialogue and for the green and digital transitions.

2. **Background and general comments**

- 2.1 Micro, small and medium-sized enterprises lie at the heart of Europe's economy and, given their presence across the EU, play a key role in supporting local communities with shaky economies and boost the resilience of the system as a whole.

- 2.2 Economic recovery is the only way of avoiding depopulation; it allows the employment rate to be kept up and wealth to be redistributed, especially since in Europe this is based on sustainability objectives.
- 2.3 Micro, small and medium-sized enterprises are being mobilised towards the green and digital economies. The circular economy, sustainable development and social dialogue are part of the DNA of microenterprises, the craft sector and the professions. The EESC calls on the European institutions to have faith in these entities' ability to evolve and to support their role as drivers of the green and digital transitions (through targeted funding, technical and planning programmes and appropriate policies). It is important not to hinder their growth.
- 2.4 The EESC notes that many businesses and public authorities are innovating to help micro, small and medium-sized enterprises integrate the circular economy into their business models (eliminating waste and unsold goods and promoting repair, re-use and recycling) in keeping with the EU's objectives.
- 2.5 Despite the Small Business Act of 2008, the last thirteen years have shown that legislators, instead of adopting texts that respect the administrative and financial capacity of micro, small and medium-sized enterprises, usually opt for rules applicable to all businesses and then adapt them to the smallest enterprises, placing new burdens on them and undermining their competitiveness, capacity for innovation and ability to create jobs. There is room for improvement in the way the results of the SME Test are taken into account. Generating more and more transparency and disclosure measures could be harmful. Thus, the GDPR¹ has put in place unclear procedures that oblige micro, small and medium-sized enterprises to refer to guidelines or to use external experts, which entails costs. The Machinery Regulation lays down similar obligations, by requesting evaluation procedures through certification by external bodies. The Money Laundering Directive² introduces an obligation to report beneficial owners for all businesses, which has to be paid for in several Member States.
- 2.6 The 2020 report of the Regulatory Scrutiny Board shows that the impact of legislative proposals on SMEs is not adequately assessed.
- 2.7 The EESC welcomed the SME strategy published by the Commission in 2020. It supports Parliament's resolution³ stating that good administrative, regulatory and technical conditions must be put in place to help micro, small and medium-sized enterprises improve their performance, especially from an environmental perspective, and that excessive administrative and regulatory burdens are hindering their ability to thrive.

¹ Regulation (EC) No 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data.

² Directive (EU) 2018/843 of 30 May 2018 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.
European Parliament Resolution of 16 December 2020 on a new strategy for European SMEs (2020/2131(INI)).

- 2.8 The EESC welcomed the communication on Better Regulation, which emphasises that better regulation is the key to sustainable development. This cannot be based on economic growth alone, but also requires a balance between the economic, sustainability and social dimensions.
- 2.9 Despite this, several legislative proposals and debates point to new reporting obligations for micro, small and medium-sized enterprises (corporate sustainability reporting⁴, pay transparency⁵ and due diligence). These obligations may apply to micro, small and medium-sized enterprises directly or indirectly, as a result of requests from large companies in the value chain; they also represent a cost for these enterprises, since they do not have the human and financial resources to meet the obligations, putting their business, business model and thus their very survival at risk, above all during periods of crisis.
- 2.10 Yet micro, small and medium-sized enterprises are achieving encouraging results that are even better than national averages, and are doing so without any constraints. The EESC calls for legislation to be conceived for the 21 million enterprises of this type in Europe, rather than designing it for the 0.2% of businesses that are larger and then trying to apply those principles to the smaller ones. The aim should be to meet the needs not just of business owners but also of their many employees. The EESC would also like alternatives to reporting to be systematically put forward.

3. **Costs and benefits of reporting measures**

- 3.1 The Commission's estimation of the costs and administrative burdens often lacks transparency and penalises micro, small and medium-sized enterprises. There are, in addition, the indirect effects of value chain obligations, which the Commission struggles to quantify. As stated in the Communication on Better Regulation, the amendments tabled by Parliament and the Council are only rarely subject to SME Tests. Finally, the transposition of measures into national law is sometimes accompanied by additional costs.
- 3.2 In order to meet these growing obligations, entrepreneurs can only either respond themselves, using the time set aside for their business activity, or call on external expertise. Both methods affect the operations of a business and entail additional costs. Costs are proportionally higher in microenterprises than in large companies. On top of this, the EESC warns that the proliferation of reporting measures, though they seem minor when taken individually, have a considerable impact once combined.
- 3.3 Yet in areas where there are no reporting obligations, good results are obtained: many micro, small and medium-sized enterprises, encouraged by their professional association or chambers of commerce, invest in the circular economy, as they see a benefit for their growth and reputation⁶; the human size of micro, small and medium-sized enterprises facilitates exchanges between

⁴ Proposal for a directive on corporate sustainability reporting [2021/0104(COD)].

⁵ Proposal for a directive to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms [2021/0050(COD)].

⁶ An example of a craft business that has put in place circular economy measures without any transparency obligation in the Netherlands: <https://www.deb.nl/ondernemersverhalen/slagerij-van-koppen-dacht-na-over-duurzaamheid/>.

employers and employees, which makes gender pay gaps often smaller than the national average⁷, etc. Countries that have put in place thresholds for SMEs for some social legislation report a low number of formal complaints, which suggests that the latter can be models without having burdensome measures imposed on them. The definition of an SME should be addressed, as recommended in EESC opinions⁸.

- 3.4 Micro, small and medium-sized enterprises, including social enterprises, play a full part in the circular economy, offering community-based services which strengthen social ties, creating non-relocatable jobs and wealth in areas without industry and certain public services, and providing business opportunities and employment for socially vulnerable groups. More than half of dual-learning apprentices are trained in micro, small and medium-sized enterprises, enabling such entities to play an active role in youth employment. Their business model and human scale promotes the implementation of artificial intelligence where humans remain in control, and focuses on quality of life at work and participatory governance.
- 3.5 The addition of reporting measures is often seen as an unfair burden, which impacts negatively on their business activity and risks denying them access to public procurement or funding, while failing to deliver significant progress on policies that they have often initiated themselves. This accumulation feeds resentment towards a Europe that is considered overly bureaucratic and disconnected from the grassroots level.
- 3.6 Furthermore, the EESC considers that social and environmental objectives will only be achieved by targeting the causes of imbalances, not by increasing binding requirements.
- 3.7 In order to foster an SME-friendly environment, particular attention must be paid to demographic change, which is significantly reducing both the availability of qualified workers and SMEs' productivity. Vocational education and training, apprenticeships and skills development should be priorities, including those relating to green and digital skills.

4. **Better Regulation**

- 4.1 Better regulation requires striking the right balance between the economic, sustainability and social dimensions. The EESC recommends that the European Commission rely more on the social partners, professional associations and chambers of commerce at the European, national, regional and local levels when assessing the impact of any legislation.
- 4.2 Each transparency measure has a cost. The EESC draws the Commission's attention to the need to apply the Small Business Act and the "Think small first" principle, as it has pledged to do. Further to the Better Regulation communication, the EESC calls for any new direct or indirect administrative burden to be kept to the strict minimum.

⁷ *Les entreprises de proximité au féminin*, March 2019: https://u2p-france.fr/sites/default/files/etude_les_entreprises_de_proximite_au_feminin.pdf.
OJ C 345, 13.10.2017, p. 15 and OJ C 81, 2.3.2018, p. 1.

- 4.3 The EESC asks the Commission to consult it when designing surveys so as to take better account of the particularities of SMEs by asking questions that are unbiased and apply to all types of enterprise. The Committee emphasises the need to prioritise short surveys in all the EU official languages so as to make them more useful.
- 4.4 The EESC urges the Commission to strengthen the network of SME Envoys and their coordination, nationally and in their exchanges with the Commission.
- 4.5 The EESC takes note of the "one in, one out" principle" which the Commission has committed to apply. Cutting red tape must be explored with the social partners in order to lighten it without compromising policy objectives or lowering the EU's high economic, social and environmental standards. To this end the EESC calls on the Commission to provide operational and methodological information enabling unnecessary red tape to be identified. The time frame for applying this principle does not seem to fit with the Commission's work programme, under which several key documents will be published over the next few months. The EESC calls on the Commission to identify without delay those administrative burdens that can be scrapped. Furthermore, the EESC calls on the Commission, whenever such a burden is withdrawn, to monitor its reduction in national legislation in order to ensure the effectiveness of the principle of equal treatment.
- 4.6 The EESC calls for any new proposal, especially one that entails direct or indirect reporting and transparency measures, to be subject to proper impact assessment. The SME Test must be applied by all the institutions, it must include an economic and legal analysis, and its sources must be published. The Test must be carried out whenever there is a new version of a text, both when it is proposed and during negotiations. The EESC recommends that the social partners, including employers' organisations, be consulted in each impact assessment in order to contribute to the analysis of provisions with regard to micro, small and medium-sized enterprises. The results of impact assessments must be duly taken into account by the Commission when identifying a preferred policy option. In line with the Communication on Better Regulation, the EESC calls on MEPs and the Council to document the impact of their amendments on micro, small and medium-sized enterprises.
- 4.7 The report of the Regulatory Scrutiny Board shows that the proportion of proposals containing provisions for SMEs has decreased substantially (from 22% in the period 2017-2019 to 15% in 2020). If transparency rules are adopted, the EESC calls on the institutions to provide for thresholds to mitigate the burden on micro, small and medium-sized enterprises. The EESC calls for implementation of the Single Digital Gateway, scheduled for 2023, to be speeded up.

5. **Alternatives to publishing information**

- 5.1 To avoid rolling out measures that might be considered punitive, the EESC encourages the Commission to incorporate alternatives to reporting obligations for micro, small and medium-sized enterprises in each proposal.
- 5.2 Many Member States have special consultative bodies within which the social partners can discuss social and economic measures and their specific application. Many national SME

organisations can represent their interests. The EESC would advise the Commission to refer more to SME associations, the social partners, professional associations, and chambers of commerce at European, national, regional and local level. Their experience, expertise and active networks makes them the best placed bodies to support and encourage micro, small and medium-sized enterprises, and to develop mechanisms for attaining social and environmental objectives. It is important to give these bodies the financial and human resources they need to develop support measures.

- 5.3 The EESC notes that the Commission has devised a number of instruments that could be useful for micro, small and medium-sized enterprises, but which are not reaching those they were intended for. The Committee recommends stepping up the mobilisation of SME Envoys so that these instruments can be adapted to the needs of micro, small and medium-sized enterprises and to promote awareness and adoption of them.
- 5.4 The EESC proposes promoting and building on national and regional measures facilitating social dialogue in microenterprises, crafts and the liberal professions⁹, by giving employees and employers comprehensive information/advice on the legal or contractual provisions applicable to them, discussing and issuing useful opinions on issues specific to businesses and their employees, and contributing to conflict prevention based on information and recommendations to employees and employers.
- 5.5 The EESC encourages the Member States to support professional associations in the training, advice and support they offer micro, small and medium-sized enterprises in order to meet social and environmental rules. Such initiatives should be prioritised over restrictive provisions.
- 5.6 In line with the Committee's own-initiative opinion *Towards circular public procurement*¹⁰, the EESC calls on public authorities to support micro, small and medium-sized enterprises to gain an understanding of more sustainable public procurement, particularly local public procurement, while ensuring that specifications respect a balance between qualitative and quantitative criteria.
- 5.7 The training of entrepreneurs in micro, small and medium-sized enterprises must be accessible to them on a lifelong basis, in the same way as for employees, including when a business is being set up from scratch or is being taken over. In order to build a pool of entrepreneurs and new owners of existing businesses who are capable of addressing social, environmental and economic challenges, the EESC considers it essential to propose and encourage participation in training cycles tailored to the new skills.
- 5.8 The EESC proposes that incentives to reduce the carbon impact of micro, small and medium-sized enterprises be supported through financial assistance, without this being either a constraint on business development or an additional burden.

⁹ Joint regional cross-industry craft committees (*Commissions paritaires régionales interprofessionnelles de l'artisanat*, CPRIA: <https://cpria.proximeo-france.fr/>) and joint regional committees for the liberal professions (*commissions paritaires régionales pour les professions libérales*, CPR-PL).

¹⁰ [OJ C 341, 24.8.2021, p. 16.](#)

5.9 The EESC recommends encouraging voluntary enterprise labelling schemes that are free of charge in which a third party is involved to provide credibility¹¹, while ensuring that such systems are not a barrier to market access and avoiding their proliferation so as not to create confusion for consumers.

Brussels, 20 October 2021

Christa SCHWENG

The president of the European Economic and Social Committee

¹¹ Example of *Répar'acteurs*:
<https://www.artisanat.fr/reparacteurs#:~:text=Le%20label%20%C2%AB%20R%C3%A9par'acteurs%20%C2%BB.de%20la%20r%C3%A9duction%20des%20d%C3%A9chets.>