



European Economic
and Social Committee

Section for the Single Market, Consumption and Production

***Strengthening SMEs: Way Forward to a Dedicated SME Strategy
Position Paper***

1. From “Think Small First” to Action

- 1.1 The European Economic and Social Committee has been calling for an inclusive, coherent, effective horizontal European SME policy which also takes into account the needs of all the different SME sub-groups, e.g. value-generating companies, micro, small, family and traditional companies as well as those operating in remote areas, the self-employed and crafts, and considers it essential to have a definition for each and every one of them. Therefore, welcomes the stated by the President von der Leyen necessity of “*strengthening SMEs*” and looking forward the announced plan of the European Commission to “*put forward a dedicated SME strategy to ensure they can thrive by reducing red tape and improving their access to the market.*”
- 1.2 The European Commission shall make the Small Business Act and its principles legally binding. This must be accompanied by swift, carefully-designed, coordinated joint actions by European Union, the Member States– including at regional and local levels – and business associations, aimed at improving the situation for SMEs in real terms. All actors must be committed to implementing what they have jointly agreed and must shoulder their responsibility in the context of societal development and economic progress. The "once only" principle and the SME test should be more thoroughly and systematically applied by the relevant services of the European Commission and be made legally binding, because currently their application in practice is extremely limited as it is left to the good will of the Member States.
- 1.3 The European Economic and Social Committee regrets that progress in the real application of the "think small first" principle remains fragmented and far from being complete. This implementation delay is very dangerous because SMEs are currently facing more challenges than ever – harsh competition, shortage of skilled labour, new forms of work and of consumption, an increasingly complex and intense flow of information, limited resources for innovation, constant downgrading of the entrepreneur’s role, volatile financial markets, complicated access to finance and high dependence on the external environment, limited bargaining power. The SME situation is further aggravated by an overly complex process of technical standardisation, intellectual property and general data protection rules, market abuses by global actors, and impeded participation in EU/national public contracts and in global value chains. Closer involvement of social partners and representative SME organisations in the European Semester is needed, including consistent reporting and monitoring of the implementation and results of Member States’ partnership agreements. The EESC invites the European Commission and the Council to include implementation of the Small Business Act as a permanent scrutiny exercise in the Semester and Annual Growth Survey, in close cooperation with the representative SME organisations.

1.4 European Economic and Social Committee considers that providing innovative, highly-specialised products and services with well-recognised and certified key characteristics that cater to customers' needs, as well as to social and environmental sustainability requirements, can become the essence and focus of modern European competitiveness. Given the global developments that restore use-value to the forefront of contemporary competition, European Economic and Social Committee believes that beside their well-documented socioeconomic impact, European SMEs can become an important factor in redefining Europe's position in the contemporary distribution of labour, responding to the demand for variety worldwide.

2. Better Policy-Making, More Effective Delivery

2.1 The European Economic and Social Committee sees the SME definition not as the answer to all SME problems, but as an instrument to provide for better access to support measures. Any revision of the definition should be based on an evaluation of the effects of the proposed changes on the European Union's SME policies and programmes and especially on their contribution to growth and job creation. The update must take into consideration the key recommendation based on the results of the consultations and the decision of the EU Court of Justice. The European Economic and Social Committee calls for further work to explore the possibility for the revision to include at least: flexibility for SMEs to choose which two of the three criteria of Article 2 of the Annex to the Recommendation to meet, instead of imposing the "staff headcount criterion" as the only major criterion; measures to update, whenever necessary, the thresholds of Article 2, including by aligning them with the most up-to-date approach as set out in Directive 2013/34/EU and reassessing and revising the restrictive rules in Article 3. Should the SME definition be revised, the Commission must do so in close cooperation with the SME organisations at European, national and regional level.

2.2 A more detailed, differentiated approach to devising SME support measures should be applied, taking into consideration the heterogeneity and diversity of SMEs and the different market failures that they face. The specific needs of different sub-groups that have the potential to add value to the process of economic development, with their various different legal forms and models of operation should be explored, in order to design and effectively deliver an adequate portfolio of policy measures to promote their growth, including by providing a definition for each and every one of them. Effective marketing should be used and objective studies including quantitative analyses of the promotion and support measures in the MS should be monitored and assessed under the European Semester at European level every year.

Suggestion Box. SME Financing

Debt financing	Making the Most of the EU funds	Equity financing
<ul style="list-style-type: none"> • The Member States under EU coordination to create and development of a network of "credit ombudsman", and promote collection and dissemination of good practices; • The Commission to request and analyse qualitative data on how the financial instruments are used by the intermediary banks to reach the SMEs that most need financial resources and what the reasons are for credit not being granted to them, 	<ul style="list-style-type: none"> • Update, simplification and more tailored approach of state aid rules to remove any uncertainties for SMEs, especially those related to the physical persons connection, state and municipal ownership, holding structures and other limitations that are very difficult to trace; • EU level support measures and programmes should include criteria that will guarantee a reasonable geographical balance; • EC and the Member States to implement the Partnership Principle in a more effective way when 	<ul style="list-style-type: none"> • The SMEs need more information and mentoring as to overcome their hesitant behaviouristic attitudes regarding equity financing, to broaden the scope of their strategic vision and to improve their ability to use equity financing. This ideally should be provided by the SMEs organisations, who shall be supported and incentivised; • In spite of the substantial progress

<p>in line with the principles of the feedback from banks. One solution may be a company credit card that keeps the credit history and allows for an increase in the credit limit on the basis of a prudent record (As the Hungarian "Széchenyi card") and wider use of credit guarantee systems;</p> <ul style="list-style-type: none"> • Creation of innovative platforms for peer-to-peer lending have great potential as an alternative source of funding for SMEs, making possible non-bank forms of financial mediation; • The European Banking Authority to include EESC representation in the Banking Stakeholder Group as well as in other relevant technical fora. 	<p>setting the framework for the next Multiannual Financial Framework;</p> <ul style="list-style-type: none"> • Support for SMEs has mostly been geared towards increasing research and innovation and towards start-ups. Without questioning the importance of these policies, the EESC wants to emphasise that a very limited fraction of all SMEs will benefit from them and therefore calls for more diversified support instruments, targeting all types of enterprises and covering all phases of their life cycle; • The EESC believes it is important that small family and traditional businesses be recognised as a specific subgroup since they typically suffer the most from market failures and recommends designing tailor-made support policies which target them; • Grants should be more market driven and better tailored to specific SME sub-groups and their needs. 	<p>made in providing innovative non-lending financing channels such as private equity, venture capital, etc., they remain relatively underdeveloped in the majority of the Member States. Endeavouring for a SME friendly Capital Market Union, with proportionate listing and disclosure requirements for SMEs, adoption of specific incentives and the creation of specialised SME capital markets at member States level can help this changed.</p>
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3. Evidence-Based, Practical Actions to Support SMEs

3.1 In spite of its potential usefulness, regrettably the network of SME envoys has failed to prove its real added value in some countries and it is very difficult to track the result of its work. If the excellent idea of such a network is to be revived, it needs to be given a more important role, including closer and immediate contact with the national and local SME organisations, and the exchange of good practices and reports. The European Economic and Social Committee recommends that the national SME envoy be mirrored by one appointed by SME organisations. The envoys to participate in the Annual SME Performance Review and to have general guidelines from the European Commission for more systematic and structured cooperation with SME organisations.

3.2 The SME Assembly is promoted as "the general assembly of the SMEs", and the EESC fully endorses the idea of a forum where SMEs can meet, identify pressing issues and search for solutions. In order to upgrade the SME Assembly to a more effective level and to strengthen its role as a discussion and consultation platform, the European Economic and Social Committee strongly recommends that:

- SMEs organisations be involved more closely in the annual preparation and follow-up of the Assembly, and to have a real advisory role on the programme and scope of issues to be discussed;
- The Assembly shall provide more analytical material with important facts, trends, expectations; good examples and successful benchmarking; tangible results based on the discussions and work of the Assembly – e.g. takeaways, to-do-lists, report on how the previous year's decisions have been implemented, etc.;
- A transparent and inclusive procedure for calls for participation be adopted, guaranteeing a proper mix of entrepreneurs, SME organisations, intermediaries, academic and research institutions and policymakers from all the Member States.

3.3 More efficient and convenient for SME communication:

- European Commission's information web portals and public consultations, which are important for SMEs, to be translated into all European languages;
- Existing support networks to be coordinated in a common one-stop-shop system respecting the situation in each Member States;

- Support measures for the SME organisations in implementing the SME policies and in disseminating relevant information to SMEs, including by providing financial support to them.
4. **Tackling Human Resources Shortages and Skills Gaps.** Skilled labour shortages, especially digital economy-related skills, and skills mismatch, are serious problem. To tackle this, SMEs need assistance in:
- Identifying, attracting, training and retaining human resources, by support and promote advisory services and programmes for improving the HR and overall management;
 - Providing for health and safety training and healthcare services for workers – e.g. by offering such services to a cluster or group of SMEs, as to reduce the costs and technical formalities;
 - Providing off-season and tailor-made training programmes to qualify SME workforce, since small companies suffer from high quit ratios;
 - Making VET a first-class choice as one of the best means to meet the labour market needs;
 - Increasing the number of apprenticeships, as well as to devise special programmes for mentoring and tutoring, in order to cope with the problems of youth unemployment;
 - Networking and clustering also applies when it comes to developing the required skills among employees. CEDEFOP has stressed the need for more cooperation, especially on work-based learning, between VET institutions, universities, research centres and companies. Horizontal skills should be strengthened through initial and also life-long learning processes in order to create more flexible manufacturing processes and boost creativity and innovation, including in relation to the digital transformation, etc.
5. **Encouraging a Stronger Culture of Entrepreneurship in Europe:**
- Update the Entrepreneurship Action Plan, elevate it to an Action Plan for Entrepreneurial Mind-Set Education and accelerate its implementation;
 - Promote the value of entrepreneurs and companies and their crucial role in creating employment and growth, including by devising a special Pillar of Entrepreneurs' Rights, which should cover all special forms of entrepreneurs, and declaring a Year of Entrepreneurs.
6. **Access to Markets.** The European Economic and Social Committee calls for the internal market, both for products and services, to be deepened, for regulatory barriers and administrative burdens to be reduced, and for instruments to support SMEs' expansion within the internal market to be created, through:
- The European Economic and Social Committee invites the Commission to evaluate which SME instruments in the different sectors could help SMEs to be more active and involved in participating in trade agreement and trade defence negotiations, and to make an effort to further promote the most effective instruments, putting the "think small first" principle at the heart of European trade policy;
 - Swift action to increase SMEs internationalisation, enabling them to take advantage of the opportunities that foreign markets provide;
 - European Commission to ensure better and more effective operation of the SME centres intended to help SMEs enter important markets – e.g. China, Japan, etc. It invites the EC to ensure better and more effective cooperation between SMEs representative organisations and standardisation authorities with respect to existing and new European technical standards;
 - Making standards and IPRs more attractive to SMEs by communicating better their benefits, decrease costs, and simplify the rules;
 - Increase small firms' share of government contracts obtained from public procurement.

7. Looking Forward - SMEs Digitalise and Go Sustainable

- 7.1 Digitalisation and the technological developments it entails, including e-commerce, present not only valuable opportunities for SMEs but also pose important challenges, prompting them to change their culture, activities and business models. Actions have to be designed for improving SMEs “business intelligence”, meaning their ability to efficiently manage and utilize any relevant data and information in order to (i) identify possible failures and plan for predictive maintenance and repairs, extending thereby the lifespan of products; (ii) open up ways of creatively engaging with customers, establishing thereby more efficient procedures for recognizing and responding to personalized, specific needs. Data access and data management ability is the next area for policy intervention. Nevertheless, ensuring both digital sovereignty and the privacy of natural and legal persons may be a technically and legally difficult task.
- 7.2 Europe, where significant sociocultural, geological and climatic diversity occurs, should be aiming for highly-specialised products and services: for the sake of competitiveness, production processes should also be in line with policies for social and environmental sustainability. To that end, the European Economic and Social Committee recommends policy interventions in the following directions: (i) national and EU governance should apply a use-value oriented policy mix, spatially adjusted according to local characteristics and needs; (ii) developing a similarly ambitious industrial policy for Europe and promoting clustering and cooperatism of (semi-) autonomous producers, whereby preserving variety matches scale benefits in specific segments of the product life cycle; (iii) generalising industrial symbiosis in order to promote the circular economy; (iv) improving access to financial resources by implementing the capital markets union action plan and its promotion of microfinancing tools, as well as through green and use-value-related banking approaches.
- 7.3 Producers shall be encouraged to collaborate and share resources efficiently. Useful tool is to create eco-industrial parks and districts, where a community of manufacturing and service providers can enhance environmental and economic performance by collaborating on managing environmental and resource issues, including energy, water and materials. This spatial "symbiosis" fosters the sharing of resources between entities in the same sector or even across different sectors. Together with the environmental benefits, there are also direct, economic advantages: reducing the cost of raw materials, maximising the use of underutilised resources and facilities, spreading the cost of new infrastructure, developing of innovations that add value to "useless" or "non-exploitable" resources and open up new business opportunities, while enabling compliance with regulations and eliminating the risk of incurring financial penalties. These factors can serve as the basis for a recognisable global certification of final output with a view to further highlighting the total quality of European products and services.