Brussels, XXX
[...](2020) XXX draft


An SME Strategy for a sustainable and digital Europe
1. Introduction

Europe's 25 million SMEs are the backbone of the EU economy. They employ around 100 million people\(^1\), account for more than half of Europe's GDP and play key roles adding value in every sector of the economy. SMEs bring innovative solutions to challenges like climate change, resource efficiency and social cohesion and help spread this innovation throughout the economy across Europe's regions. They are therefore central to the EU's twin transition to a sustainable and digital economy. Without SMEs, Europe will never be economically and technologically sovereign nor stay resilient to external shocks. Nor will its industry prosper and be competitive. They are thus central to the achievement of the EU's Industrial strategy as set out in [Link to New Industrial Strategy.]

SMEs are deeply woven into the economic and social fabric of Europe. They employ 2 out of every 3 employees in Europe, creating jobs and training opportunities across geographies and sectors, including for low-skilled workers. They also help support their employees' access to health care and social services. They are a key element of Europe's heritage and identity. Every European citizen knows someone who is an entrepreneur or works for one. The daily challenges of European SMEs to comply with the rules, access information, markets and finance, are thus challenges of all Europe.

SMEs are also very diverse in terms of business models, size, age, and entrepreneurs' profiles. They range from microenterprises in the services sector to middle-range industrial companies, from traditional crafts to high-tech start-ups. This strategy recognises their different needs and leaves no one behind, helping companies not just to grow and scale up, but also to be competitive, resilient, and sustainable. It therefore sets out an ambitious, comprehensive and cross-cutting approach, based on horizontal measures helping all kinds of SMEs as well as actions targeted to the specific needs.

The strategy puts forward concrete actions along the following three pillars:

- **Capacity-building and support for the transition to sustainability and digitalisation**;
- **Reducing the regulatory burden and improving market access**; and
- **Improving the access to financing**.

\(^1\) SMEs represent 90.8% of all companies in the non-financial business sector, 54.5% of Europe's GDP, and two-thirds of jobs, 2019 SME Performance Review
This strategy's key objective is to not only unleash the power of Europe's SMEs to transition, but for them to embrace this transition and be visible leaders of this transition. It aims to considerably increase the number of SMEs engaging in sustainable business practices as well as the number of SMEs employing digital technologies. Ultimately the goal is that Europe becomes the heart of global small business and the most attractive place to start, grow and scale in a sustainable and digitally sophisticated way.

To bring real results, the strategy must be driven jointly by EU-level actions and strong commitment by Member States, as well as the active involvement of the SME community and companies themselves. The new SME Strategy will therefore be underpinned by a robust governance framework between the EU and Member States, including regional and local authorities. Entrepreneurs should also seize the opportunity to devise individual strategies for making their business more digital and sustainable, as well as on expanding beyond their regions and across the EU.

The strategy builds on the very strong foundations of the EU's existing SME policy framework and support programmes, notably the 2008 Small Business Act, the 2016 Start-up and Scale-up Initiative, the flagship programme Competitiveness for Small and Medium Enterprises (COSME), and SME support actions funded under the Horizon 2020 programme, the European Social Fund (ESF) and the European Regional Development Fund (ERDF). It will be instrumental to implementing the European Green Deal, the new EU Industrial strategy, the Circular Economy Action Plan and the European Social Pillar, among others.

2. Capacity-building and support for the transition to sustainability and digitalisation

The transition to a more economically, environmentally and socially sustainable Europe must go hand in hand with the transition to a new digitalised economy and society.

Development of new technologies by SMEs and diffusion/uptake of existing/new technologies...

The transition to a sustainable Europe is a major opportunity for Europe's SMEs. Many are well equipped, being flexible, high-tech, and innovative and committed to the values behind sustainability. Almost a

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* Source: Eurostat's DESI
* Europe's next leaders: the Start-up and Scale-up Initiative COM/2016/0733
* between 2016 and 2018 this has reached out to over 500,000 SMEs in Europe
* Sustainable as in the UN Sustainable Development Goals: development that meets the needs of present generations without compromising the ability of future generations to meet their needs. This encompasses many aspects from social and gender equality to environmental sustainability and addressing climate change.
quarter of SMEs in Europe offer green products or services and many SMEs including social economy enterprises are already doing a lot for the communities where they are based. But for many SMEs, especially the more traditional ones, these opportunities come with major challenges. Many find the scope of the UN Sustainable Development Goals hard to deal with, and some find are ill-prepared for the transition towards more sustainable business models challenging. In a recent survey of Enterprise Europe Network (EEN) members, over 60% said that they had received questions from SMEs on sustainable aspects of doing business. Yet, this transition to sustainable business practices and conduct is essential for SMEs continued survival, competitiveness and growth.

The Enterprise Europe Network - the world’s largest support network for SMEs with international ambitions offers tailored services to businesses. Many EEN members representatives across Europe are already helping client-SMEs to make the transition to sustainability. The Commission has already been working with EEN members to enhance its effectiveness and coverage. Building on this, together with other sustainability services, the EEN will provide dedicated Sustainability Advisors who will assess the needs of SMEs and provide advice on environmental and social sustainability aspects including raising finance to invest in more resource-efficient processes and infrastructure, finding relevant partners including in not-for-profit organisations, and encouraging peer-to-peer collaboration.

A third of SMEs report complex administrative and legal procedures when setting up resource efficiency actions. Relying on external support in such situations becomes more and more costly. It is essential to equip all SMEs with instruments to understand environmental risks and mitigate them covering specific sectors, including construction, plastics, electronics and agro food. The Commission will also ensure that they make use of existing support measures. For example, the European Resource Efficiency Knowledge Centre (EREK) will continue to help European companies, especially SMEs, save energy, material and water costs by providing tools, information and business opportunities demonstrating new and better ways to be resource efficient and benefit from circular economy business models.

Digitalisation can provide great opportunities for SMEs to compete in a sustainable way. It can improve the efficiency of production processes and ability to innovate products and business models. SMEs do not yet use all the opportunities offered by data, either generated by them to improve their production processes and services, or accessing data pools allowing them to innovate on tap. Many SMEs are not even conscious of the value of the data they create, and are therefore ill protected and prepared to thrive in the upcoming data-agile economy. Moreover, digital technologies can enable SMEs to inform customers about the environmental footprint of their products and to meet sustainability requirements along the whole value chain. Using advanced disruptive technologies, such as blockchain and Artificial Intelligence (AI), Cloud and High Performance Computing (HPC) can dramatically boost their competitiveness. However, only 17% of SMEs have successfully integrated digital technologies into their

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5 The most common resource efficiency actions being undertaken by SMEs are minimising waste (85%), saving energy (63%), saving materials (57%), saving water (47%), and recycling by reusing material or waste within their company (42%); for 43% of SMEs, resource efficiency actions reduced production costs.
businesses, compared to 54% of large companies that are highly digitalised. Traditional SMEs are often uncertain in their choice of digital business strategy, have problems tapping large repositories of data available to larger companies and shy away from advanced AI-based tools and applications.

![Graph showing adoption of digital technologies in the EU, 2018 (in percentage)](image)

**Source:** Eurostat/DESI 2019

SMEs in need of technological support, updated, financing advice, market intelligence and networking opportunities will be supported by a dense network of up to 150 Digital Innovation Hubs (DIHs), situated in each region of Europe, supported by the investment which should come from Digital Europe Programme.

The ambition is not only to deliver the user-friendly and targeted advice on sustainability and digitalisation, but also to connect the support structures so that every SME gets advice it needs as close to home as possible. The Digital Innovation Hubs and Enterprise Europe Network partners will work closely together to ensure a seamless support and advice service, including with national and local support structures.

SME Strategy should help SMEs scale up and expand, navigate through or be the agents of change in the digitisation and sustainability transitions. Europe has many innovative SMEs with the knowledge to carry out path breaking and disruptive innovations, especially on sustainability and digitalisation. However, too many are held back by the risk of losing their investments if the innovation does not pay off and lead to marketable assets. To encourage such breakthrough innovations delivering Green Deal objectives, the Commission will allocate specific funding under the European Innovation Council for SMEs delivering Green Deal objectives. This will start in 2020 on a pilot basis, with at least 300 million Euros allocated. The Commission will also triple the number of women-led SMEs benefiting from the EIC as a whole.

SMEs can also find it hard to develop Intellectual property (IP) strategies to protect their R&D investments and raise growth capital, even though these are crucial in the twin transition. Only 3% of SMEs protect their Intellectual property. Many SMEs are unaware of EU and national IP initiatives or have a negative perception of its usefulness, fearing the complexity and expense of acquiring and enforcing them. In its upcoming Intellectual property action plan, the Commission will propose measures to...

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6 Source: 2018 report by Digital Innovation Hubs Working Group


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4 Source: Eurostat/DESI 2019

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strengthen SMEs' capacity to benefit from their IP. This will make the IP system more effective, by ensuring better access to information and strategic advice, and by facilitating the use of IP as a lever to gain access to finance.

In both the digital and sustainability transitions, start-ups and established SMEs alike are challenged by a lack of skilled employees: 78% of firms report access to talent as the most important obstacle to new investment across the EU10. At present, availability of skilled staff or experienced managers remains the most important problem for a quarter of EU SMEs11. The skills shortage is particularly acute for digitalisation and new technologies, as 35% of the labour force have low or no digital skills.

Training is delivered locally and requires an effective and connected local ecosystem of companies, training providers and local authorities. Member States and social partners have a key role to play and the EU can further help address these challenges, facilitating access to training, and helping match the demand for talents from SMEs with labour market supply. This should have a particular focus on empowering women and girls to be founders through educational and upskilling activities.

With the support of the Digital Europe Programme, and with the active involvement of Member States, the Commission will develop Digital Crash Courses for SMEs' employees to become proficient in areas like AI, cybersecurity or blockchain. DIHs will act as intermediaries between SMEs and universities/training providers at the local level. The Commission will also launch an EU-wide programme for "digital volunteers" to allow young skilled people and experienced seniors to share their digital competence with traditional businesses, and the Commission will create networks to help upskill SME staff for sustainability with the help of intermediaries such as clusters.

The 2020 Skills Agenda for Europe details a number of actions to boost upskilling and reskilling of the EU’s workforce, such as Centres of Vocational Excellence. The Pact for Skills foreseen under the Agenda will include a dedicated component targeting SMEs and eco-systems in strategic areas through bringing together larger and smaller companies, as well as clusters, the EEN, DIH and regions. These partnerships will be built on concrete commitments and adopt knowledge sharing mechanisms to develop tailored upskilling paths for SMEs. A first wave of partnerships will be launched in November 2020 in strategic sectors and value chains of common European interest.

New and emerging business models bring opportunities for SMEs, but they require legal certainty to develop. To promote the opportunities the collaborative economy offers for SMEs, the Commission will launch an initiative with a focus on the largest sector of short-term accommodation rental services. This could, on the one hand, clarify the differentiation between "peers" and professional services providers to provide legal clarity (including on the application of national rules that are linked to either qualification), and on the other hand, explore registration systems to ensure supportive and proactive enforcement of

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10 EIB Investment report 2018/2019
11 SAFE survey 2019
these rules. Overall, Europe needs to promote the balanced development of the collaborative economy, also taking account of wider public interests, such as the availability of housing.

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<th>KEY ACTIONS</th>
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<tr>
<td>- The Commission will enhance and upgrade the Enterprise Europe Network including with dedicated Sustainability Advisors and other sustainability services to provide SMEs with the necessary support in the twin transition.</td>
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<td>- The Commission will develop Digital Crash Courses for SME employees to become proficient in areas like AI, cybersecurity or biotechnology. (still to be checked with GROW against consistency with Skills Pact)</td>
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<td>- The Commission will launch a &quot;skilled volunteers&quot; programme to allow young skilled people and experienced seniors to share their digital competence with traditional businesses, under targeted action under the Skills Pact and a focus on the transition of SMEs to strategic value chains in relation with the industrial strategy.</td>
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<td>- The Commission will expand geographical coverage of as well as services provided by Digital Innovation Hubs.</td>
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3. Reducing regulatory burden and improving market access

The Single Market is the go-to market for European SMEs. It accounts for 70% of the value of SME exports of goods, and 80% of all exporting SMEs sell to other Member States. Still, the number of SMEs exporting to other Member States could be much higher in the manufacturing sector, for example, only 6.5% of

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13 Annual Report on European SMEs – SMEs growing beyond borders

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all SMEs expect within the Single Market\textsuperscript{13} (pending: information on service sector from SPR team). SMEs experience legislation in the EU – much of it national legislation - as complex and burdensome\textsuperscript{14}. The burden is even higher when crossing borders because of different procedures in Member States. Together, these barriers deter many small and medium-sized enterprises from doing business across borders in the EU and therefore from taking their most natural direction for growing. Or if they do, they usually have to intermediate through large platforms, creating dependencies and uneven level of bargaining power. This means that the Single Market is not yet delivering for European SMEs and hinders high tech start-ups from scaling-up in Europe.

Complying with regulations, standards, labels and administrative formalities affects SMEs more than bigger companies due to their limited financial and human resources. For example, in the sector of business services, costs incurred by SMEs when complying with administrative formalities can reach EUR 10,000\textsuperscript{15}. Despite progress since the adoption of the Small Business Act, the cumulative impact of regulation remains a major problem for SMEs.\textsuperscript{16}

These barriers have to be reduced at EU, national and local levels to unlock the potential of SMEs, facilitating their creation and promoting growth. Much of the burden comes from national legislation and it is important to assess the impact of “gold-plating measures” on SMEs. The Commission is committed to reduce the burden on SMEs, through Better Regulation and also the new “one-in-one out” approach. The Commission and EU Member States have to continue to work on ensuring a rigorous application of the “Think Small First”, “once only” and “digital by default” principles\textsuperscript{17}. The SME test is already part of the regular assessment. This will continue to be the rule for all proposals presented by this Commission, including the Green Deal.

This effort will be strengthened by giving a stronger voice to SMEs along the Better Regulation cycle. To ensure that new legislation is SME proof, the EU SME Envoy\textsuperscript{18} will introduce an “SME filter” where, in collaboration with SME stakeholders, he/she will signal to the Commission and to European and national legislators proposals that are potentially burdensome for SMEs and therefore require close attention. The ambition is that all future legislation is made with the end user in mind, mapping the process in such a way that most burdensome proposals are identified early on and mitigated, for example by the use of digital tools. Digitalisation is a key driver of administrative efficiency and cost reduction.

\begin{footnotesize}
\textsuperscript{13} EU-28 Small Business Act factsheet
\textsuperscript{14} For example, the Flash Eurobarometer 451 of March 2017, suggests that legislation in the EU is found to increase the amount of paperwork (70\% of companies) and the cost of administrative processes (67\% of companies).
\textsuperscript{15} ECRYS, “Administrative formalities and costs involved in accessing markets cross-border for provisions of accountancy, engineering and architecture services”, 2017
\textsuperscript{16} According to European and national laws and Industrial regulations (2019 Survey on Access to Finance SAFE) It is the third most pressing problem for SMEs in the EU-28 and the single most acute problem for 12\% of them
\textsuperscript{17} Add explanation
\textsuperscript{18} Introduced for the first time: need to explain
\end{footnotesize}
The benefits of the true Single Market can only be achieved if the rules are implemented and enforced which is the objective sought by the Enforcement and Implementation Action Plan. Ensuring compliance with single market rules is of particular importance for SMEs as they are the ones often affected disproportionately by cross border restrictions. Compliance with Single Market rules is thus at the heart of the SME strategy: a large domestic home market is one of the main asset enjoyed by overseas big businesses. Europe’s SMEs deserve to have the same. The Commission is committed to intervene strongly to remove regulatory barriers and obstacles on the way of European SMEs to become global leaders. The Commission will monitor closely, will work with Member States, and will not hesitate to take strong and effective enforcement action wherever necessary to ensure that the Single Market can deliver the benefits for SMEs.

Furthermore, vigorous enforcement of EU competition rules ensures that all companies active in the Single Market, and in particular SMEs, can compete and innovate on their merits. It serves to curb anti-competitive conduct by private operators, and prevent the abuse of market power and the concentration of wealth in the hands of a few big businesses. For example, merger control ensures that goods and services remain competitively priced for SMEs in the Single Market. Likewise, cartel enforcement and sanctions often concern collusion significantly raising the price of Industrial inputs and thus help make SMEs more competitive both at home and abroad.

[The single market gives access for SMEs to the European value chains which operate on a global scale – to be developed on access to strategic: value chains here or in the first pillar/ cross ref to IS ]

A key challenge in Europe is a relative shortage of successful scale-ups. For example, in the US, there are three times more scale-ups than in Europe. European start-ups and scale-ups face several challenges ‘on the ground’ as they pursue their ambitions of securing market opportunities and growing revenues. For example, company formation is slow and expensive process in many member states, hampering the ambitions of entrepreneurs at the very first stage of creating a venture. There are also challenges in

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29 Mind the Bridge: Tech Scaleup Europe, 2019 Report
attracting and retaining talent (such as slow visa processes for third country talent and unfavourable treatment of stock options that can make it difficult to hire and retain talented staff).

Many of the challenges and barriers SMEs and start-ups are facing fall under the competency of member states. On the positive side, many good policies and practices already exist in all Member States. If these could be multiplied and generalised, this would provide a major boost to start-up development and SME growth. In light of this, the Commission, in close cooperation with Member States and stakeholders, will collect all best practices and EU will launch a political initiative calling for Ministers' member state commitments to implement such practices across the board to make Europe the most attractive Start-up and Scale-up continent globally. The initiative will focus in particular on making it easier to start-up and expand across borders, streamline visa applications for third country talent, make granting of employee stock options more attractive, promote venture-building and tech transfer from universities, and increase access to finance for scaling-up.

Also, some very innovative solutions struggle to come to life because of existing regulation which might be outdated or ill-suited for the fast changing reality. One way to address it and support the development of innovative technologies and business models is to introduce a regulatory sandbox framework which enables innovative solutions to be live-tested with supervisors and regulators if they are not already foreseen in regulation or guidelines. They provide up to date information on, and experience with, new technologies to regulators and supervisors, and enable policy experimentation. For example, some Member States have already experimented with innovation hubs and regulatory sandboxes for financial technology (or FinTech) firms.20

More generally, partnerships among border regions, which aim to enhance cooperation between regional authorities, can help SMEs overcome market barriers in the provision of services. Mutual trust relationships are likely to be stronger on a regional, "closer" level, rather than between capitals, which constitutes a precondition for closer cooperation. A call should lead to three such pilot areas by the end of 2020, where partner regions jointly improve, align or coordinate the rules and procedures on cross-border provision of services, for example, on posting of workers and using digital tools.

The Commission will complement these efforts to facilitate cross border business by mobilising Member States to establish national "one-stop-shops" for SMEs, providing overview of which rules/procedures need to be complied with, which authorities to contact, advice on public procurement, and where to obtain funding etc.. The Commission will also work to promote "mutual recognition alliances" among Member States, aiming to guarantee the free movement of goods which are not harmonized within the Single Market and to make sure EU countries accept products lawfully sold in another EU country unless there are conditions related to public safety, health, the environment etc. The Commission, after discussing with the Member State expert group on mutual recognition, will decide on the sectors the

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20 A specific example is Japan where any company, including overseas companies, can apply to conduct demonstrations under such a framework and test the possibilities of innovative technologies such as AI, IoT or blockchain for future business, especially if they cannot start new businesses using these technologies due to the existing regulations.
alliances would cover. Potential candidate sectors are food supplements, jewellery, and construction material.

Cross-border opportunities for SMEs remain particularly limited in the defence sector where supply chains have been predominantly built on a national basis. There are also strong obstacles to new entrants even though SMEs in the defence sector have an important role to play in ensuring European technological sovereignty. The Commission will thus boost cross-border cooperation and entry of new players by maximising the potential of the European Defence Fund to support SMEs in particular through calls for proposals targeted at SMEs and SME consortia, and through match-making connecting SMEs with the wider defence community. One of the objectives of the European Defence Fund is to precisely open up the defence supply chain, in order to develop real European defence supply chains, linking the large primes, with the entire defence SMEs ecosystem in Europe. It will also map the strengths of relevant EU-27 Research and Technology Organisations (RTOs) and universities that can support innovative start-ups and SMEs in the sector. These activities will be complemented by access to finance actions under InvestEU.

The Commission also aims to increase the number of successful start-ups and scale-ups in the space sector, which are innovating and commercialising EU space technologies and thus contribute to the EU’s technological sovereignty. The Commission will promote, through the EU Space Programme, the emergence of a European New space, to foster entrepreneurial spirit and innovative financing. It will therefore boost the development, incubation and upscaling of businesses based on innovative EU space technologies (i.e. expand a ‘space ecosystem’) through measures such as mentoring, acceleration, incubation, a seed-funding instrument and pre-commercial procurement across the EU-27. These measures will be funded by the upcoming Space Entrepreneurship Initiative “CASSINI”.

Public procurement also offers untapped opportunities within the Single Market for SMEs, including start-ups, who find it hard to successfully compete in public tenders. There are two types of challenges. On one hand the public sector can be risk-averse or lack ambition, and frequently lacks the skill set to procure innovation. On the other hand the economic operators, and SMEs in particular, perceive public tendering as complex or unsuitable for them. Building on the EU’s modern procurement framework, and as announced in the Industrial strategy, the Commission will work closely with public buyers to capitalise on their combined market power to drive demand side innovation.

Notably to enhance opportunities for SMEs, the Commission calls on Member States and their contracting authorities to use the flexibility offered by the new EU’s procurement framework. This entails, for example, dividing larger contracts into smaller lots, expanding Innovation procurement, leaving IFIs where appropriate with SMEs so that they can commercialise it, and completing the decentralisation of their procurement processes to reduce administrative burdens and increase transparency. The Commission will also launch the Big Buyers and Networks Initiative to facilitate joint purchases of innovation and sustainable products; promote actions such as innovation broker and track progress through national benchmarking. Furthermore, it will launch a label for display by public buyers, who adhere to “SME-friendly” procurement practices and work with its international trading partners to spread adoption of its procurement-relevant standards, such as e-invoicing.
Due to increased concentration and vertical integration in supply chains, the main customers of SMEs are often much larger organisations. This leads to asymmetries in bargaining power and increases the risk of small businesses being subject to unfair business practices and conditions\textsuperscript{22}, including late payments and access to data. Whilst the Late Payment Directive has reduced delays for both business-to-business and business-to-platform transactions, only 40% of businesses in the EU are paid on time\textsuperscript{23}. Moreover, late payment accounts for one out of four bankruptcies among SMEs in the EU. The Commission aims for a decisive shift towards a new business culture in which prompt payment is the norm, and to this end, will reinforce the Late Payment Directive by equipping it with strong monitoring and enforcement tools. As concerns data governance, the new EU data strategy will ensure fair access for all companies.

Global markets represent an important source of growth for SMEs. So far, however, only 600,000 SMEs employing roughly 6 million people directly export goods outside the EU. Awareness raising and advice on market regulation, of opportunities provided to SMEs by EU trade and investment agreements and of ways to find international partners and access finance for activities abroad can go a long way to assist SMEs with access to global markets. The Commission is already taking action to help SMEs benefit by connecting SMEs through international industry clusters and the EEN, the new information portal "Access2Markets", actions supporting European SMEs to participate in public procurement outside the EU, and support structures such as SME Centres. As part of its wider trade policy, the Commission continues to fight against barriers and negotiates improved access to key markets, including for SMEs. The Commission will expand the opportunity for European entrepreneurs to gain experiences in third country markets through the extension of the Erasmus for Young Entrepreneurs Global scheme. The Commission will develop a dedicated economic diplomacy for SMEs initiative to support, especially through EU delegation, the access of SMEs to third country markets.

Buying an existing company is an alternative way of starting a business. It is often more advantageous than starting from scratch. Every year, around 450,000 SMEs change ownership affecting more than two million employees. However, in one third of cases the transfer is not possible due to a lack of appropriate rules to facilitate the succession of business. As a result, Europe is losing around 150,000 enterprises and 600,000 jobs.\textsuperscript{24} Facilitating business transfer should be accompanied by developing a framework to support and promote family business across the EU. Once the business is created or taken over, there may be valid reasons it does not succeed. Many entrepreneurs do not succeed at their first attempt and this learning is key for the next time. The stigma of failure should be removed and the Commission will ensure that the recently adopted Directive on second chance is correctly transposed by all Member States.

\textbf{KEY ACTIONS}

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\textsuperscript{22} The Regulation and a Directive to protect SMEs against unfair business practices in business to business relations

\textsuperscript{23} 2018 EU publication "A comparative analysis of legal measures vs. soft law Instruments for improving payment behaviour"

\textsuperscript{24} Add source
• The Commission will mobilise Member States and step up efforts to reduce administrative burden by increasing transparency, use of digital tools and stronger voice of SMEs in better regulation. The Commission will ensure that the risk of gold plating from Member States is controlled.
• The Commission will mobilise Member States to establish national one-stop shops to provide SMEs with answers to all their queries linked to cross-border business.
• The EU SME Envoy will introduce an “SME filter” where he/she will collate legislative proposals together with SME stakeholders to make new regulation “fit for SMEs”.
• The Commission will mobilise Member States behind an EU Start-up Nations Standard in 2020 to share and adopt best practices to accelerate growth of high tech SMEs with a particular focus on start-ups.
• The Commission calls on Member States and their contracting authorities to use the flexibility offered by the new EU’s procurement framework to enhance opportunities for SMEs. The Commission will issue guidance and support to contracting authorities to foster market engagement with SMEs.
• The Commission will mobilise Member States to develop proposals for regulatory and technical sandboxes by launching in 2020 a pilot open call for companies and Member State regulators to participate in live testing of emerging technologies and data management for citizens and individual enterprises to address societal challenges, such as climate action or health.
• The Commission will launch a call for pioneer partnerships among border regions to enhance regional cooperation in enforcing the Single Market and thus remove administrative barriers for SMEs bottom up.
• The Commission will reinforce the Late Payment Directive24 by equipping it with strong monitoring and enforcement tools, such as a new EU Observatory for payment delays, and an alternative conflict resolution/arbitration mechanism for SMEs.
• The Commission will facilitate cross border cooperation with and among SMEs in the defence sector, in particular through targeted calls for proposals under the European Defence Fund.
• The Commission’s will launch its Space Entrepreneurship Initiative “CASSINI” by 2021 in view of ensuring European technical sovereignty.
• The Commission will extend the Euresmus for Young Entrepreneurs Global scheme.
• The Commission will launch an initiative to promote succession of SMEs to avoid many successful family businesses going under when the owner retires.

4. Improving access to financing

Access to finance is essential for SMEs to finance the investment needs for the transition, to grow and to expand. However, at all stages of development, small businesses struggle more than large enterprises to get finance. Their investments are perceived as riskier, because they do not have a proven financial track record, they lack collateral or investors lack information to assess their credit-risk and value their

24 In accordance with the EP Resolution of 17 January 2017
Intangible assets. Every year, SMEs experience a major finance gap in Europe of 20-35 billion EUR despite substantial support programmes at EU and national level. Only in 2019, 28% of SMEs in the EU did not obtain the full bank loan they had planned for.

This represents a huge cost to SMEs as they are heavily reliant on bank-based finance, which in 2018 accounted for roughly 90% of their financing needs. EU banking regulation must provide the foundation for a stable banking system that delivers adequate finance to all businesses, including SMEs. The EU banking package in 2019 maintained the SME supporting factor and extended it to all loans provided to SMEs. The Commission will ensure that any future financial market legislation takes into account the interests and specificities of European SMEs, start-ups and scale-ups and ensures their uninterrupted access to a wide array of financing options.

At the same time, there is a need to diversify sources of finance. Only 10% of businesses in Europe used capital market finance compared to over a quarter in the US. Venture capital investments in Europe are roughly 8 times smaller than in the US and therefore not deep enough to finance growth of European businesses.

A consequence is that innovative, fast-growing deep tech and green technology SMEs and start-ups with important needs for capital often move abroad for markets where risk capital is more abundant. This is not only a risk for Europe’s technological sovereignty, growth and jobs, but it also has a downstream impact on Europe’s wider fleet of SMEs, who need innovative tools and services to adapt to the twin transitions.

In addition, lack of diversity in the investment sector constrains the talent pool and innovation. Women create one third of companies in Europe, but remain underrepresented as beneficiaries of finance and decision makers. In 2019 more than 92% of venture capital raised by tech companies in Europe went to teams that were all male. Lack of gender diversity in the investment community, stereotypes and gender bias are some of the contributing factors.

More private investment needs to be unleashed in Europe. The Commission will deploy new ways of risk sharing with the private sector, step up its investment efforts and work towards a revamped Capital Markets Union Action Plan.

Another barrier facing European investors is a reluctance to invest in start-ups due to challenges in assessing the value and market potential of the underlying technology of a new tech service or a product offered by an innovative SME and, hence, assess the valuation of the start-up itself. Such “tech due diligence” services to help define an IP strategy and its value are not widely available in Europe. However,

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27 mid source Israel’s share is at 0.38% and Canada at 0.18%
28 Financing the Deep Tech Revolution (EC-EIB study, 2018): https://op.europa.eu/en/publication-detail/-/publication/56e2b0b7-753e-49f7-a18a-0f40d1a1e71a
29 Add source
they have been successful in other regions and ultimately benefit all parties involved: the SMEs, potential investors and the wider innovation ecosystem.

Fintech Innovation based on distributed-ledger technology ("blockchain") creates platforms that enable SMEs to directly engage with investors, either via trustworthy intermediaries or decentralised by themselves. SMEs can then issue digital tokens, for instance in the form of financial instruments such as bonds. These are attractive for investors because they can immediately be traded. This is a way to offer faster, more efficient and cost-effective financial services for SMEs. The Commission will facilitate the uptake of digital tokens by SMEs, investors and intermediaries, in alignment with the EU’s upcoming Digital Finance Strategy.

State aid rules have enabled significant national support for SMEs and risk capital. The Commission is in the process of streamlining EU State aid rules to further facilitate the combination of national and EU funds under InvestEU whilst ensuring that public support does not crowd out private spending, or distort the level playing field. Furthermore, the Commission is reviewing relevant State aid rules by the end of 2021 to make sure they are still fit for purpose.

While there is ample liquidity on the market, SMEs in Europe find limited possibilities for growth, such as listing on capital markets through an IPO or using innovative financial instruments. Many institutional investors, such as pension funds and insurance companies, remain risk averse and do not sufficiently engage in financing of growth possibilities. Capital markets are an important source of growth funding for SMEs transitioning towards mid-caps and large companies. However, the number of SME IPOs sharply declined in the aftermath of the financial crisis and has not recovered since. In 2019, the value and number of European IPOs continued to fall, decreasing by 40% and 47%, respectively, relative to 2018. Over the last years, investment research on SME seems to have suffered an overall decline leading to less SME investments, secondary trading liquidity and IPOs. The review of the Markets in Financial Instruments Directive that the Commission will carry out this year will look at how to foster research coverage on SMEs.

Public funding could act as an anchor investment and attract more private co-investors into high-growth, innovative SMEs at the stage of public listing. A targeted intervention aimed at the preparation of SMEs in a pre-IPO stage, the SME listing process at the IPO stage together with continued support post IPO is needed in order to unleash the full potential of the capital markets and growth opportunities of SMEs.

The intervention will take into account the analysis of the IPO market and testing with investors and stakeholders.

In 2014-2018 EU financial instruments have helped to mobilise EUR 100 billion of financing, notably for SMEs, in the form of debt and equity finance. The EU Investment Plan is expected to support over 1 million

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30 Expenditure for 2018 amounted to 216 million EUR for the objective 'Risk capital' and 501 million EUR for the objective 'SMEs'.
31 Including revised State aid rules for risk finance, research, development and innovation, IPCEIs, regional aid, energy and environmental aid and the corresponding parts of the general block exemption regulation
32 https://www.pwc.co.uk/audit-assurance/assets/pdf/ipo-watch-q4-2019-annual-review.pdf
SMEs. However, without a continuation of EU and national support, the SME debt financing gap will widen significantly.

The Commission will put in place targeted measures to reduce the funding gap and to diversify funding sources. Complementing initiatives at national level, with a guarantee from the EU budget, InvestEU will support SMEs that are perceived as high risk or have insufficient collateral. Concretely, the Commission will build on the positive experiences with the existing SME guarantee schemes under the COSME Programme, Horizon 2020 and the Creative Europe Programme. Under the SME window of InvestEU, it will create one single integrated guarantee facility, targeting traditional SMEs, innovative ones and those from the cultural and creative sectors, as well as those transitioning towards more sustainable and digital business practices. With regard to risk capital, the intervention under the SME window of InvestEU will prioritise funding for areas of special EU policy interest such as space and defence, sustainability, digitalisation, innovation, green and deep tech, gender-smart financing. It will allow financing along all development stages of a business, from the start-up to the scale-up, and include the initial public offering stage. It will help leveraging private funding from different type of investors such as business angels, family offices, venture capital funds, pension funds, and insurance companies.

The European Commission will work closely with Member States to pool funding and address geographical imbalances in investments, in particular through the Digital Innovation and Scaleup initiative. In addition, the Commission will double the amount on social investment and skills in the next programming period. The Social Investment and Skills window of InvestEU will improve access to microfinance, financing to social enterprises, social investment, competences and skills.

**KEY ACTIONS:**

- The Commission will support Initial Public Offerings (IPOs) of SMEs with investments channelled through a new private-public fund specialising in Initial Public Offerings (IPOs) for SMEs, to be developed under the InvestEU programme starting 2021. It will also work with Member States and stakeholders to improve IPO structures and make it more attractive for SMEs to go public in Europe.
- The Commission will introduce a first of a kind risk/reward mechanism to boost the size of venture capital funds and crowd in private investments for scaling up through the ESCALAR initiative.
- The Commission will launch a gender-smart finance initiative to stimulate funding for female-led companies and funds.
- The Commission will boost a green tech investment [platform] to pool funding from the EU, Member States and the private sector to increase the access to equity financing for innovative SMEs and start-ups that develop and adopt green tech solutions.
- The Commission will, together with the members of the European Blockchain Partnership, fund the development of a blockchain-based platform as part of the European Blockchain Services

5. Governance: an EU-Member State partnership for delivery

To succeed, the SME Strategy must be driven by commitment and actions at both European and Member State level. It will be underpinned by a strong partnership of all actors who share the responsibility for delivery - EU, national, regional and local authorities, SMEs and Investors (private and public). It will involve regular political stocktaking of progress, measurement and monitoring.

The SME Envoys network provides an organic link between the local business communities, national authorities and the EU. With the renewal of its mandate in 2020, the network's role will be reinforced. The Commission will appoint a dedicated and highly visible, high level EU SME envoy. He/she will drive the work of the network, in order to ensure the implementation of strategy and the application the Think Small first Principle in all EU policies. He/she will also track the implementation in the Individual Member States. The EU SME Envoy will also act as an intermediary between the Structural Reform Support Services (SRSS) of the Commission and S72 to provide hands-on support and access to contacts and know-how on good practices. The SME envoy-Envoys network will assume a reinforced role in determining the Commission’s Better Regulation agenda through a structured dialogue with the Regulatory Scrutiny Board and within the Fit for Future platform.

To complement the activities of the SME Envoys network and bring in the local business expertise into EU-policy making, the Commission will also work closely with an advisory group of entrepreneurs from across Europe which will play the role of a sounding board. The yearly SME Assembly, amongst others, will also provide an opportunity for local stakeholders and the wider SME community to get actively involved.

The new strategy will be subject to a regular review, led by the SME Envoys network, to assess the measures, adapt to new developments and identify missing links. This will be done in collaboration with other EU Institutions, for instance, through the Envoys' annual report to the Competitiveness Council and a regular dialogue with the European Parliament.

(The SME definition is a key tool making sure that SME policy and this strategy targets the right population, i.e. that it delivers support and benefits to enterprises most in need. The Commission regularly monitors
whether the SME Definition is fit for that purpose. According to a recent public consultation, studies and surveys the definition works well and is easy to use for the overwhelming majority of EU SMEs which are small and autonomous. The Commission will be looking further into concerns raised by companies with the ambition to scale up or with complex ownership structures.

Closer ties with the European Semester process will be established to further integrate SME policy into national reform processes. In addition, the SME Performance Review, a successful tool for setting benchmarks for Member States’ progress on SME policy set up by the Small Business Act, will be enhanced to monitor the implementation of the strategy. The EU SME envoy will seek direct contact in Member States to meet, together with the respective national SME Envoys, the regional and local SME policymakers and other stakeholders on the basis of the specific priority issues. This will be complemented by a new “Europe Startup Nations” index to track national start-up friendly policies and a robust indicator to monitor the engagement of SMEs in sustainable business practices, as well as existing systems such as the DESI index (which tracks the digitisation of SMEs). Based on the analysis derived from these evaluation mechanisms, the EU SME Envoy will coordinate with the national SME Envoys to develop national implementation plan in cooperation with local business stakeholders.

**KEY ACTIONS:**

- **???? The Commission will appoint a high level EU SME envoy.
- The Commission will reinforce the SME Envoy network to strengthen the link between the EU and national level on SME policy.**
- **The Commission will launch a group of Strategic Entrepreneurship Ambassadors to complement as a sounding board the public sector SME Envoy network.**
- **The Commission will set up a structured dialogue between the SME Envoys and the Regulatory Scrutiny Board and within the Fit for Future Platform.**

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34 As highlighted by the SME Performance Review