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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE EVALUATION of Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium- sized enterprises (2003/361/EC)

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Delegations will find attached document SWD(2021) 280 final.

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**COMMISSION STAFF WORKING DOCUMENT**  
**EXECUTIVE SUMMARY OF THE EVALUATION**

**of Commission Recommendation of 6 May 2003 concerning the definition of micro,  
small and medium- sized enterprises (2003/361/EC)**

{SWD(2021) 279 final}

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**EXECUTIVE SUMMARY OF THE EVALUATION**

**of Commission Recommendation of 6 May 2003 concerning the definition of micro,  
small and medium- sized enterprises (2003/361/EC)**

**1. BACKGROUND**

The EU SME Definition (hereafter ‘the Definition’) is the structural tool to identify enterprises that are confronted with market failure and particular challenges due to their size, and are therefore allowed to receive preferential treatment in public support. It has become a key instrument in the EU SME policy and is referenced in a large number of legal acts.

The purpose of this Staff Working Document is to evaluate to what extent the Definition remains fit for its purpose, delivers on its objectives, is relevant, coherent and has EU added value.

**2. METHODOLOGY**

This evaluation is based on a number of sources: an external study<sup>1</sup>, a targeted survey of SMEs across all EU Member States<sup>2</sup>, in-depth interviews with stakeholders at EU and national level, a Public Consultation<sup>3</sup>, desktop analysis, statistical review, and analysis of EU legal acts applying the Definition as well as case law of the Union Courts.

**3. FINDINGS**

a) Relevance:

The categories (micro, small and medium) and criteria (staff headcount, financial data and ownership) of the Definition are generally considered appropriate and adequate to capture the specificities of SMEs.

The majority of stakeholders confirm that the staff headcount should remain unchanged. Certain associations call for more flexibility for labour-intensive companies, however such sector-specific issues could be better examined within their particular policy context.

The evaluation shows that the ceilings of the Definition are in line with economic developments as the average turnover/balance sheet total of SMEs is still well below the

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<sup>1</sup> Available on: [https://ec.europa.eu/info/publications\\_en](https://ec.europa.eu/info/publications_en)

<sup>2</sup> As the analyses took place before Brexit, some data still include the UK.

<sup>3</sup> [https://ec.europa.eu/info/consultations/public-consultation-review-sme-definition\\_en](https://ec.europa.eu/info/consultations/public-consultation-review-sme-definition_en)

ceiling. Preliminary estimates<sup>4</sup> on the impact of the Covid crisis on turnover, balance sheet and employment corroborate this trend.

The majority of stakeholders are in favour of the existing ownership criterion. Some companies, such as publicly-owned or equity-funded (e.g. by venture capital or business angels) companies, question certain rules which may prevent them from benefiting from reduced fees or burden reduction and/or not having access to certain support measures. It has to be noted that during the Covid crisis, the Temporary State Aid Framework allows support to all types of enterprises, irrespective of whether they are considered SMEs or not. In addition, other State Aid provisions were relaxed to ensure that micro companies, start-ups and scale-ups were able to get the support they need.

b) Effectiveness:

The evaluation shows that the Definition has been effective in its aim of identifying the enterprises most confronted with disadvantages due to their size. Some stakeholders point to the need for recognition of the mid-cap enterprises as a separate category.

While the SME Definition is perceived as clear in the large majority of cases, there is a distinct call for clarification of the rules on ownership and further guidance on key concepts.

c) Efficiency:

The cost to verify the SME status is generally considered modest and proportionate to the benefits. The Definition could be applied more efficiently through an overall increase in the digitalisation of SMEs as well as public administrations, next to enhanced awareness raising about existing support, provision of more user-specific guidance and improved access to company data.

d) Coherence:

The Definition is well integrated into EU legislation, provides the necessary flexibility to adapt to particular policy areas and target groups and is widely used by EU Member States.

The 2-year grace period is considered useful and overall adequate enough to allow enterprises to confirm their growth. Some stakeholders ask for an extension to prevent the “lock-in” effect of the SME definition. Problems related to operating cross-border and access to finance however actually seem to be bigger obstacles preventing SMEs from scaling up than the loss of the SME status.

Certain stakeholders suggest that the rules on ownership affect the attractiveness of venture capital, equity investment and business angels’ financing for start-ups and scale-ups. This however impacts a very small number of enterprises and there is no evidence that the Definition has a pivotal role in steering equity investment in SMEs.

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<sup>4</sup> Estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts database and the Short-Term Business Statistics Database (EUROSTAT).

e) EU added value:

The Definition has been successful at limiting the proliferation of different SME definitions across the EU and contributed to a large extent to the shared understanding of the concept of SMEs throughout different interventions and to a harmonisation of related practices.

#### **4. CONCLUSIONS AND LESSONS LEARNED**

The evaluation shows that the Definition remains relevant, fit for its purpose, and has been effective in reaching its objectives. Within the overall context of SME policy, the evaluation has not found evidence that points to a need for a revision.

##### **Lessons learned:**

The Definition works well for the overwhelming majority of enterprises and is easy to apply in the bulk of cases. Difficulties arise in the assessment of companies with complicated and/or foreign ownership structures. Better guidance, enhanced use of existing digital tools and easier access to data are seen as means to improve the efficient application of the Definition, while bearing in mind that the only binding interpretation of the Definition can be provided by the Union Courts. It must also be ensured that the Definition is not circumvented by purely formal means.

Most issues identified during the evaluation are not specifically attributable to the Definition and would not necessarily be addressed by a revision. Matters of such a specific nature could be better examined within their particular policy context, while recognising the need to ensure consistency and equal treatment in view of the horizontal nature of the Definition.

Perceived lock-in effects that were identified cannot be assigned to the Definition specifically, but rather to national policies such as labour law or taxation.

Identified challenges and barriers for start-ups and scale-ups are proactively addressed by the Commission, inter alia through the recent SME Strategy.

There is a distinct call for a tailor-made definition fitting companies that have outgrown the SME definition ceilings. It could be useful to look into the challenges that companies meet once they have ‘outgrown’ the SME-phase and analyse whether any policy gaps could be addressed.