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Subject:	2021 Annual Report of the SME Envoy Network to the Competitiveness Council <i>Presentation by the Commission</i>

Delegations will find attached the 2021 Annual Report of the SME Envoy Network to the Competitiveness Council with a view to its meeting on 25 November 2021.

SME ENVOY NETWORK

**2021 REPORT OF THE SME ENVOY NETWORK
TO THE COMPETITIVENESS COUNCIL**

FOREWORD

The EU SME Envoy Network submits this Annual Report to the Council following the request by the Competitiveness Council of September 2013 to the SME Envoys to report annually on the state of the EU SMEs and the implementation of SME policy.

2021 has been marked by the joint efforts of the Commission and the Member States to help European SMEs to recover fully from the COVID crisis and to set them on a path to become more digital, more sustainable and more resilient. To implement this ambitious policy agenda efficiently, DG Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) was reorganised in March 2021, guided by the new industrial ecosystem approach in policy-making. The DG also significantly reinforced its capacities in country analysis, which facilitates the dialogue with the Member States and strengthens the links between national and EU level policies - including in the area of SME policy. The new organisation allows us to design actions better to help the European economy recover from the pandemic. My role as the SME coordinator is to make sure that the interests and needs of SMEs are guiding our policies and instruments and that SME policy aspects are fully mainstreamed in all 14 ecosystems.

The SME Strategy from March 2020 remains the flagship of our policy. Now more than ever do we need a comprehensive strategy, which encourages and supports SMEs to develop their business models to become the frontrunners of a strong, sustainable, digital and resilient economy where no one is left behind.

The implementation of the SME strategy is well underway with a focus on easing the access of SMEs to funding, providing advice and support on sustainability and digitalisation through the Enterprise Europe Network and the Digital Innovation Hubs and combatting late payments, to mention only a couple of examples. The SME Envoy network plays a key role in the implementation of the strategy and in fostering the cooperation between the EU and the Member States.

With the adoption of the updated Industry Strategy¹, European SME policy received another massive push towards a sustainable and digital economy. SMEs feature strongly in this updated strategy, including building a crisis proof Single Market, strengthening the resilience of supply chains and strategic autonomy and tackling solvency-related issues. Actions will be funded by both the EU's long-term budget and the Recovery and Resilience Facility. The national Recovery and Resilience Plans play a key role in addressing the investment needs of SMEs and helping them to recover, through direct funding support as well as reforms in public administrations and the modernisation of procedures. The Network is now starting to contribute to the implementation of these plans. Let's work together to ensure that these funding opportunities effectively give a strong boost to the long-term recovery of SMEs.

This report informs about the work we have undertaken in 2021 and the way forward.

Hubert Gambs

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on behalf of the SME Envoy Network

¹ https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/european-industrial-strategy_en#documents

1. SMES IN EUROPE – HOW ARE THEY DOING?

On 1 July 2021, the Commission published the 2021 SME Performance Review (SPR).

The Review shows that the COVID-19 crisis brought to an abrupt halt or even reversed the gains made by the EU SME sector over the past decade. Many industries, especially in the SME-intensive services ecosystems, experienced large declines in sales as a result of the lockdowns and other measures introduced by Member States to fight the spread of Covid-19, although conversely, some industries such as digital ecosystems saw their sales increase. Various business support measures implemented by Member States during the pandemic limited the employment impact of the decline in economic activity.

Overall, according to the available data the value added generated by EU-27 SMEs in the non-financial business sector (NFBS) in 2020 declined by 7.6% and EU-27 SME employment in the NFBS fell by 1.7%.

SMEs implemented a wide range of mitigation measures. While some temporarily ceased to trade, many others made use of the different support programmes implemented by national governments, especially to pay their wages, overcome cash flow issues, and reduce working hours and/or staffing. Although bankruptcies have risen lately, they are still significantly lower compared to pre-COVID years. However, this is due to moratoria during the lockdown periods and continuing governmental support measures which mask the magnitude of the problem.

The EU took an active role in providing support to businesses already during the acute phase of the crisis in 2020. In addition to EU programmes such as the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) which provided EUR 100 billion for short-time work schemes, the temporary state aid framework allowed Member States to provide direct support to the economy. The Commission also acted swiftly to increase the loan guarantee facility of the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) by EUR 714 million, helping at least 100.000 European SMEs obtain around EUR 8 billion of financing. In total, all EU and Member State support measures added up to EUR 3.7 trillion².

In addition, the national Recovery and Resilience Plans will have a key role to play in supporting SMEs during the recovery phase and ensuring their transition towards digitalisation, sustainability and resilience. According to our preliminary assessment, all submitted plans included measures to improve the business environment in general, from which small and medium-sized enterprises can indirectly benefit, and they also contain specific SME measures. According to our conservative calculations, at least some EUR 70 billion are clearly dedicated to SMEs. These measures vary from digital transformation of enterprises through financial instruments for SMEs to investments to boost skills of employees. In addition, SMEs will also be able to benefit from the remaining RRF measures even if they are not explicitly targeting SMEs.

² https://ec.europa.eu/info/live-work-travel-eu/coronavirus-response/jobs-and-economy-during-coronavirus-pandemic_en
Please note the SURE and COSME are multi-annual programmes.

Digitalisation was of key importance for SMEs to weather the crisis. SMEs in the narrow digital sector only saw their value added fall by 0.5%, whereas non-digital SMEs' value added fell by 8% in 2020. However, there are large disparities when it comes to the state of digitalisation of SMEs, particularly smaller SMEs. A much larger proportion of micro SMEs than of small and medium sized SMEs reported focusing on only basic digital technologies and not on advanced digital technologies (36.5% of micro SMEs versus 29.2% of small SMEs and 26.9% of medium-sized SMEs). The most common reason given by SMEs for not using information and communication technologies was that ICT was not suitable for the enterprise in question (59% of SMEs not using ICT). Other, relatively less important, factors reported by SMEs were that the costs of ICT systems outweighed the benefits (34%) and a lack of internal ICT skills (30%).

For 2021, DG GROW's SME Performance Review forecasts a rise in SME value added by 5.8%, while a smaller increase of 0.6% is expected for SME employment. Overall, both SME value added and SME employment are predicted to remain below their 2019 levels, by 2.3% and 1.2%, respectively.

2. ACTIVITIES OF THE SME ENVOYS IN 2021

In 2021 the Envoys met 4 times: in February, July, October, and in November during the SME Assembly. The main subjects of the meetings have been the implementation of the SME Strategy in all industrial ecosystems as well as crisis-related measures; the latter mostly related to the preparation of the implementation of the National Recovery and Resilience Plans (NRRPs).

Specific discussions focused on the defence and space ecosystems, digitalisation, the work on better regulation (see below for more details) and on how the network as well as individual Envoys could facilitate the implementation of the NRRPs to make sure the intentions towards SMEs can be fulfilled.

2.1. Burden reduction

SMEs have identified Regulatory obstacles and administrative burden as their biggest problems (55%)³.

The SME Envoy Network assumed its reinforced role in the Better Regulation agenda.

2.1.1. Single Market Enforcement Taskforce - SMET

As foreseen in the SME Strategy, the EU SME Envoy and the Network are contributing to the work of the SMET. The SMET started its work towards the end of the second quarter of 2020.

2.1.2. Fit for Future platform – F4F

The EU SME Envoy and the Network are contributing to the work of the Fit for Future (F4F) platform. The platform has been operational since the end of 2020.

The platform helps the Commission simplify EU laws and reduce related unnecessary costs. F4F examines whether existing laws can achieve their objectives efficiently. The Commission takes

³ Flash Eurobarometer 486: SMEs, start-ups, scale-ups and entrepreneurship, February-May 2020, ISBN 978-92-76-20792-4; https://data.europa.eu/data/datasets/s2244_486_eng?locale=en

into account the platform's opinions to ensure EU laws help people and business, in particular small and medium-sized enterprises. The platform also supports the Commission in ensuring that Union policies are forward-looking and relevant in light of new challenges, such as greening and digitalisation.

The platform issues opinions on the topics listed in its annual work programme. The platform draws up the programme in agreement with the Commission, based on information on burdensome pieces of EU legislation from Member States, the SME Envoy Network, the Committee of the Regions, in particular through RegHub, and the European Economic and Social Committee. The Platform should work closely with the SME Envoy Network, represented by the EU SME Envoy. The EU SME Envoy will provide input to and advice on the proposed annual work programme in particular in relation to regulatory burdens and complexity of legislation affecting small and medium-sized enterprises.

The 2021 work programme includes 15 topics⁴. Topics of importance for SMEs include:

- Directive on combating late payment in commercial transactions, for which the Dutch SME Envoy is the rapporteur,
- Eco-design Directive,
- New Legislative Framework for Products, or
- Directive on package travel and linked travel arrangements.

2.1.3. SME filter

SMEs are affected by costs created by legislation, because of their limited human and financial resources. To ensure that new legislation is SME-friendly, the EU SME Envoy will filter EU initiatives, in collaboration with SME stakeholders, to signal to the Commission those that merit close attention from an SME perspective. In this context, the EU SME Envoy will also bring in the national expertise of the SME Envoys network. It is the Commission's ambition that all future legislation, at European and national levels, should be made with the end user in mind, by identifying potential barriers and mitigating them early on in the process, for example by the use of digital tools. The Envoys have contributed to the development of the filter and have held first discussions about how it should work in practice.

2.2. Digitalisation of SMEs

The SME strategy's main aim is the double transition of Europe's SMEs to a more sustainable and digital economic activity. Under the leadership of Gunilla Nordlöf and Caroline Mischler, respectively SME Envoys for Sweden and France, the Network discussed digitalisation of SMEs at its February meeting (the report and presentation are available via the SME Envoy webpage).

SMEs with very traditional activities, for example in crafts, can have it more difficult when digitalising, in particular if their financial means are limited. The report concluded that the main issue is still a lack of awareness by SMEs about the need and the possibilities that lay in the digitalisation even for the most traditional businesses. Without this awareness of the possibilities, the awareness of support initiatives is obviously even more limited. The most important angle is therefore not necessarily adding money to the existing or creating new initiatives but making the existing initiatives known. In this context, informing SMEs about initiatives such as the Digital Innovation Hubs and Digital Volunteers, foreseen in the SME Strategy, is of particular importance.

⁴ F4F work programme for 2021 is available here: https://ec.europa.eu/info/law/law-making-process/evaluating-and-improving-existing-laws/refit-making-eu-law-simpler-less-costly-and-future-proof/fit-future-platform-f4f/annual-work-programme_en

Fair online competition and clear rules for big data adapted to SMEs' needs are another important issue.

The SME Envoy Network will continue its work to support Europe's SMEs on their way to exploit fully the advantages of the digital economy.

2.3. Access to finance

Under the direction of Pieter Waasdorp, SME Envoy for The Netherlands, an ad-hoc expert working group met on 28 September.

While bankruptcies among SMEs have not increased much during the pandemic, this is likely due to various temporary government support measures and moratoria on insolvencies that prevent companies from going bankrupt. Many EU countries adopted such measures based on the Commission's State Aid Temporary Framework to support the economy in the COVID-19 outbreak. However, issues could still arise, as a substantial number of companies may only have limited cash buffers and may need to rely on further government intervention. Financial pressure may amplify, with insolvencies expected to rise alongside the scaling down of loan schemes, moratoria, tax holidays and other forms of relief.

As most EU countries focus their support schemes on debt solutions, many SMEs may reach the limit of their sustainable debt capacity. Against this over-leveraging, the need for recapitalisation is most acute for smaller SMEs with even less access to institutional funding than their bigger peers. Meeting this gap is a challenge at both EU and national level. One major challenge is to design policies that can reduce solvency risk for viable companies while avoiding the 'zombification' of the economy (i.e. financing non-viable companies).

The SME Envoy Network will continue to work on these aspects of SMEs' access to finance in general, as well as on financing innovation, essential for Europe's competitiveness, financing investments in digitalisation and in sustainability to assist SMEs in reaching the climate goals of the EU.

2.4. SME definition

At the Envoy Network meeting in October, the Commission staff working document on the latest evaluation of the SME definition was presented.

The EU SME Definition (Recommendation 2003/361/EC) is the structural tool to identify those enterprises that are confronted with market failures and particular challenges due to their size, and therefore are 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 evaluation is based on a number of sources, inter alia a public consultation (2018) collecting nearly 1.000 answers and more than 100 position papers.

The staff working document concludes that the SME definition remains fit for its purpose, and has been effective in reaching its objectives. The main finding is that the definition works well for the bulk of EU SMEs and the evaluation has not found evidence that points to a need for a revision. The presentation led to an intensive discussion during which participants shared their experiences in the application of the SME definition and their views on the need for a revision. The Commission informed about an ongoing study analyzing the challenges of companies that have outgrown the thresholds of the SME definition, which will become available by the end of 2022.

2.5. 2021 SME Assembly

The 2021 SME Assembly from 15 to 17 November, held in Portorož together with the Slovenian Presidency of the Council, focused on the recovery after the pandemic. A number of industrial ecosystems were in the spotlight such as defence, tourism (in cooperation with the European Tourism Forum), retail and construction. More horizontal subjects such as women entrepreneurship and new ways of working as well and the rejuvenation of city centres completed the agenda.

The Envoys will include the progress on the implementation of the NRRPs regarding SMEs in their next report.

3. CONCLUSION AND OUTLOOK TO 2022 AND BEYOND

SMEs represent the overwhelming majority of companies in all industrial ecosystems. The SME Envoy Network underlines that SME aspects need to be taken into account in all legislative and policy initiatives both in the EU and in the Member States.

SMEs are the key to the dual transition to a more digital and sustainable European economy; they are the key to employment creation. The recovery from the COVID-19 pandemic critically depends on our SMEs. The SME Envoy Network will monitor and support actions which facilitate the recovery and at the same time enhance the resilience.

The Network will continue its work by linking EU level and Member State policies for SMEs. The SME Envoy Network stresses the importance of regular debates in the European Parliament and the Council to engage Member States in the implementation of SME policy and ensuring that SMEs remain high on the political agenda.

The key **priority areas** for the SME Envoys continue to be

- mainstreaming SME interests and needs in all ecosystems and value chains as well as in all policy areas and instruments,
- strengthening the resilience of SMEs and support them in the recovery phase,
- making sure that SMEs are on the path to sustainability,
- supporting SMEs in their digitalisation endeavours,
- improving skills and capacity building, especially with regards to greening and digitalisation,
- reducing administrative burden and making better regulation,
- improving access to finance,
- Entrepreneurship and Innovation,
- improving access to markets, mainly by completing the Single Market.

The EU SME Strategy provides the blueprint to modernise SME policy. The SME Envoy Network welcomes the progress made on the implementation of the SME Strategy and will continue to closely look at Commission's initiatives with a particular impact on SMEs. In 2022 the SME Envoys will in particular:

- Implement the SME Strategy and the push the double transition towards a more digital and sustainable European economy, especially as means to support the SMEs in the recovery phase and enhance their resilience;
- Intensify the dialogue on SME policy and the exchange of good practices for SMEs, in particular related to the post-COVID 19 economic recovery;
- Continue their support for any initiative intended to further complete the Single Market, access to finance and access to markets as well as support for start- and scale-ups and crafts businesses. This includes following new developments related to advances in technology such as artificial intelligence, blockchain, new business models and their impact on SMEs;
- Discuss and give input to future initiatives from all the Commission's branches with significance for SME's in all industrial ecosystems (for example Important Projects of Common European Interest), by making sure industrial policies and initiatives are fully aligned with SMEs priorities and needs;
- Contribute to making EU legislation work better for SMEs by identifying administrative burden through the SME filter and addressing it in collaboration with the Fit for Future platform and the Regulatory Scrutiny Board.

The SME Envoy Network invites Ministers to

- take note of this report;
- provide guidance to the SME Envoy Network on the suggested priorities for 2022;
- highlight any policy actions taken at the national level to support the green and digital transition of SMEs which would merit further discussions in the SME Envoy Network to facilitate mutual learning from good practice.