



Council of the European Union
General Secretariat

Brussels, 16 November 2020

WK 12535/2020 INIT

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From:	General Secretariat of the Council
To:	Delegations
Subject:	Informal videoconference of the Ministers of Internal Market and Industry on 19 November 2020 - Any other business: 2020 Annual Report of the SME Envoy Network to the Competitiveness Council - Presentation by the Commission

Delegations will find attached the 2020 Annual Report of the SME Envoy Network to the Competitiveness Council, with a view to the AOB item at the Informal videoconference of the Ministers of Internal Market and Industry on 19 November 2020.

SME ENVOY NETWORK



2020 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 Competitiveness Council request from September 2013 for annual updates on the state of the EU's SMEs and the implementation of SME policy.

With the adoption of the SME Strategy, European SME policy has been considerably boosted to respond to the latest challenges and the evolving needs of businesses. The double shift to a more green and digital economy at the heart of the strategy is complemented by a general drive towards more resilience to withstand crises like the current COVID pandemic or any future external economic shocks.

The EU SME Envoy and the Network as a whole have received a panoply of new tasks in order to support these ambitious goals. The SME Envoy Network is already a key actor in completing the Single Market and is set to contribute to the Fit for Future platform the moment it becomes operational.

The first full year of the von der Leyen Commission was overshadowed by the COVID-19 crisis and the beginning of the recovery from it. Both national SME Envoys and business organisations have all been heavily involved in dealing with the crisis. The network suspended its more traditional work to concentrate on short term crisis relief. With the help of my staff in DG GROW, the network produced a series of comprehensive overviews of national actions and measures taken by Member State to provide COVID support for businesses. These overviews helped us to exchange best practice, identify disruptions in supply chains and to keep Member States and business organisations well informed about ongoing developments. You will find in this report an overview of measures taken.

The Network is also uniquely positioned to contribute to the recovery plans. Together with our business organisation observers, we work for 25 million entrepreneurs and their 100 million employees. While SMEs have shown in general a strong resilience during the 2008/2009 subprime crisis, the picture is more nuanced in relation to the COVID-19 crisis. Some parts of the economy, such as online sales platforms of all sizes and food retail, did reasonably well, yet others (like tourism or the creative industries) have to face huge difficulties and knock-on effects.

The concentration of all forces towards the sheer survival of SMEs and their recovery afterwards naturally bound a lot of resources in the Commission, national administrations and business organisations. We are now moving towards a mid-term perspective, focusing on the implementation of the SME Strategy, which is our guiding compass through the recovery. Its emphasis on more sustainability and more digitalisation is more important than ever.

In this context, I would like to pay tribute to all SME Envoys, their staff and our observers from the business organisations. They have worked tremendously and they have proven that the Network is a place for finding common solutions. We will continue to work together in order to help SMEs recover from this crisis and bounce forward with more resilience. The Network is well prepared for its new challenges.

Kristin Schreiber

Deputy EU SME Envoy and Director for SME Policy

1. SMEs IN EUROPE – HOW ARE THEY DOING?

In September 2020, the Commission published a Eurobarometer on 'SMEs, start-ups, scale-ups and entrepreneurship'. The SME Envoys would like to highlight in particular the data related to sustainability and digitalisation, i.e. the double transition envisaged by the SME Strategy, as well as the issues that SMEs are facing most.

A large majority of SMEs proceed with digitalisation, but are held back by uncertainty about future digital standards, IT security issues and a lack of IT infrastructure

- More than six in ten (62%) SMEs say they are facing at least one of the listed barriers to digitalisation in their enterprise. The most mentioned are uncertainty about future digital standards (24%) and a lack of financial resources or regulatory obstacles (both 23%). Information technology (IT) security issues and a lack of skills are both barriers to digitalisation for one in five (20%) SMEs, while 19% mention a lack of IT infrastructure and 17% say internal resistance to change is a barrier to digitalisation. The older the company, the more likely they are to mention internal resistance to change as a barrier to digitalisation.
- 91% of SMEs say they are taking at least one of the environmental or social sustainability actions referred to. The most common actions are improving the working conditions of their employees (66%), recycling or reusing materials (61%), reducing consumption of or impact on natural resources, saving energy or switching to sustainable energy sources and promoting and improving diversity and equality in the workplace (each 52%). Almost half (49%) are engaging employees in the governance of the organisation. Three in ten (30%) are developing sustainable products or services, while 24% are evaluating the impact of their enterprise on society.

One third of SMEs already have a strategy or action plan to become sustainable, and four in ten may consider it in the future

- Start-ups and scale-ups (both 44%) are more likely to have a sustainability strategy or action plan than other SMEs (31%) that are neither start-ups nor scale-ups. Also, the more "rural" the start-up, the more likely they are to be developing sustainable products or services.

Barriers to SME sustainability include a lack of consumer or customer demand, but also the perception that becoming sustainable is not compatible with their current business model, and a lack of awareness of how to integrate sustainability into their business model

- Seven in ten (70%) SMEs say they are facing at least one of the of the listed barriers that prevent their enterprise from becoming sustainable, i.e. combining long-term success and profitability with a positive impact on society and the environment.
- The most mentioned barriers to sustainability are lack of consumer or customer demand (30%), lack of financial resources (27%), the view that becoming sustainable is not compatible with their current business model (24%) or that there is a lack of awareness of how to integrate sustainability into their business model (23%). More than one in ten say becoming sustainable would not be profitable (15%) or that there is a lack of skills to become sustainable (also 15%), while 7% say a lack of willingness from management is a barrier preventing their enterprise from becoming sustainable.

Due to a change in the organisation of the SME Performance Review (SPR) and the process of the European Semester, the annual reporting cycle on the state of Europe's SMEs had to be modified. The next SPR will only be available in early 2021. It should be borne in mind that the Eurobarometer mentioned above bases itself mostly on data before the European economy

started to bear the full brunt of the COVID crisis. However, data related to the situation and readiness of SMEs for the double transition towards a more digital and sustainable economy, the data is likely to be less effected by the crisis,

2. ACTIVITIES OF THE SME ENVOYS IN 2020

The SME Envoy Network ensures that the '*think small first*' principle is integrated into policy-making and regulatory proposals of the European Commission and also applied throughout the Member States. The work of the Envoys contributes to the Commission's policy priorities and supports the implementation of the flagship initiatives, in particular the newly adopted SME Strategy. Due to the COVID-related difficulties, the Envoys met only three times in 2020. Most of their work was dedicated to mastering the COVID-19 crisis and the recovery from it.

2.1. Digitalisation

The SME Envoy Network is in the process of finalising its report on digitalisation of SMEs. Ms Gunilla Nordlöf, SME Envoy for Sweden, together with Ms. Caroline Mischler, Deputy SME Envoy for France and their respective teams, together with Commission staff, are preparing this report which is supposed to be presented at the last SME Envoy meeting in 2020. This report was planned for an earlier moment in 2020; however, both the Swedish and French teams have been and continue to be closely involved in dealing with the crisis and the recovery.

2.2. Access to finance

During the SME Assembly on November 17th Mr Pieter Waasdorp, SME Envoy for the Netherlands, presented the Call to Action: *Enabling innovative growth enterprises to grow for the European future*, in which the SME Envoys Network calls for the European investment entities (EIB & EIF), in cooperation with the member states, national promotional banks and institutes, institutional investors and private investors to join forces and pool together resources from current instruments and instruments that are in the pipeline in order to stimulate sufficient funding for scale-ups in the form of open private equity and venture capital co-investment funds on a European scale. Scale-ups in the member states should obtain sufficient growth capital from European and national resources so they are no longer forced to move to other parts of the world in order to grow. Second, the Envoys indicate that it will actively involve European institutional and private investors across the EU to boost investments in innovative European growth enterprises. The call to action was discussed with private investors, institutional investors and representatives of innovative growth companies, during the European Entrepreneurship Summit (EES) in October this year.

2.3. Reporting on new tasks attributed to the EU SME Envoy and SME Envoy Network pursuant to the SME Strategy

2.3.1. 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 SME Envoy for Denmark, Mr Torsten Andersen, is participating in the SMET and presents the SME Envoy Network. The SMET has started its work in the towards the end of the second quarter of 2020.

2.3.1. Fit for Future platform – F4F

The EU SME Envoy and the Network are contributing to the work of the F4F platform. The Fit four Future platform is supposed to be operational by the end of 2020.

The Platform should work on simplification and burden reduction. The Platform could also support the Commission to ensure that Union policies are forward-looking and relevant in light of new challenges. It should also look at how digitalisation can reduce burdens for citizens and business. The Platform will assist the Commission by providing opinions on the topics identified in its annual work programme. The work programme will be drawn up by the Platform, in agreement with the Commission, from issues identified based on information on the most burdensome Union legislation provided by 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 burdens and complexity of legislation affecting small and medium-sized enterprises.

2.3.1. Rapid Alert Function

In the context of the recovery from the COVID-19 crisis, the European Council and the Commission issued a Joint Roadmap which foresaw the setting up of a Rapid Alert Function “[...] to identify supply and value chain disruptions, relying inter alia on existing networks such as Enterprise Europe Network (EEN), Clusters, Chambers of Commerce and trade associations, SME Envoys as well as other actors such as the European-level social partners. Best available solutions will be sought to tackle these disruptions, which can have their origin in an asymmetrical lifting of containment measures (inside or outside the EU), the bankruptcy of businesses or third country actor interference.”

The involvement of the SME Envoy Network in this function, together with its involvement in the Single Market Enforcement Taskforce, allows for a rapid identification and solving of problems that Europe’s SMEs face, both in the context of the current crisis and the recovery from it but also further in the overall European economic context.

2.4. The future of SME policy

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

- reducing administrative burdens and better regulation;
- improving access to finance;
- supporting entrepreneurship and innovation;
- improving access to markets, mainly by completing the Single Market
- improving skills and digitalisation;
- making sure that SMEs are on the path to sustainability.

The COVID crisis has not changed the priorities, it has made them even more poignant, even more important and urgent. Action needs to be fast and well-aimed. The Network of SME Envoys highly welcomes the SME Strategy and will continue to address the Commission’s initiatives with a particular impact on SMEs. The Strategy provides the blueprint needed to modernise SME policy. For 2021 the SME Envoys will in particular:

- Implement the SME Strategy and support the double transition towards a more digital and sustainable European economy;

- 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 its work on the completion of the Single Market, access to finance and access to markets as well as start- and scale-ups. 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;
- Make sure that the SME filter, introduced by the SME Strategy, is applied wherever necessary to ensure that new legislation is SME-friendly; in this context, the EU SME Envoy will bring in the national expertise of the SME Envoys network and will work in collaboration with SME stakeholders.

2.5. 2020 SME Assembly

The 2020 SME Assembly on 16 and 17 November focused on the new reality in view of COVID and the recovery from it. Delegates participated in workshops on maintaining businesses afloat, digital sovereignty, encouraging SMEs to adopt resource efficient and circular practices, the new workplace and many others. Commissioner Breton and German Minister Peter Altmaier opened this yearly gathering of all those who matter in SME policy. Nobel Prize Laureate Professor Joseph Stiglitz and a group of renowned economists around Professor Friederike Welter and Dr. Maja Göpel contributed to identifying the actions needed to face challenges and make use of opportunities presented by the COVID crisis.

3. THE SME ENVOY NETWORK IN THE CRISIS AND RECOVERY

As of end March, all national SME Envoys, as well as the business organisations, had to focus on crisis mitigation. With the help of DG GROW's SME Performance Review Team, a weekly report has been prepared from end of March onwards.

This report contained peer reviewed information from all Member States and the most pertinent anti-crisis measures as well as the financial means put at the disposal to enable SMEs to stay afloat.

Member States are now preparing together with the Commission for the recovery from the COVID crisis. The SME Envoy Network will be involved in these processes as a group but also through individual Envoys at national level.

Indeed, we have all learned from the mistakes made during the first lockdown, during which border closures including to the transport of goods were seen as a necessary measure. These closures led to local and regional disruptions of the Single Market from which SMEs suffered disproportionately.

From the weekly reporting the SME Envoy Network was able to draw the following lessons:

- As EU Member States prepared their exits from strict lockdown measures in spring, the discussions on economic support measures shifted – while initially short-term liquidity was the main issue for SMEs, the **focus is now on longer-term survival**. There is also the question to what extent economic support measures designed for lockdown conditions have to be continued even after re-opening, in particular for sectors such as hospitality,

which may only be able to serve a reduced number of customers. In the second lockdown scenario, these discussions are re-emerging.

- Implementation of existing measures remains a key topic. In some countries, business associations report that support measures require a high level of administrative burden and do not reach the companies fast enough, while other countries have reported concerns about fraudulent use of state support.
- **All EU countries have offered some form of deferral or reduction of tax and social security contributions** with variations as to the exact application of these measures. Some schemes focus on postponing the payment of taxes for companies, others allow for earlier repayments of tax refunds from the previous year.
- Another widespread measure are **financial guarantees**. All Member States have developed new and expanded existing guarantee schemes to allow companies in financial difficulties to continue accessing finance. Some of these measures specifically target SMEs, whereas others can be used by any company affected by the crisis. Guarantees are welcome but SME associations have expressed their fear that risk-averse banks will not provide loans to SMEs despite the state guarantees. In response to this, certain countries have raised their guarantee percentage to guaranteeing 90% or even 100% of loans.
- Wage subsidies, in particular **subsidising the wages of employees working shorter hours ('Kurzarbeit')**, continue to be one of the most popular measures across Member States and it is one of the most immediately popular measures among SMEs. Across all countries, large numbers of companies have applied to use these measures for temporary lay-offs or reduced working hours.
- **Direct loans** are also common, with a considerable number of countries setting up new loan schemes or working with banks to facilitate new loans, most of which are aimed at ensuring the cash flow of SMEs. However, reactions from SMEs show that repayable loans can be a difficult choice especially for the smallest enterprises, as they cannot currently predict their revenue for the rest of the year. A useful additional measure is therefore **postponing the repayment of loans**; implementation varies from a focus on postponing repayment of existing loans and others on offering new loans with generous repayment terms.
- **Direct grants/ cash injections for micro businesses and self-employed are offered by about half of EU Member States**. Often, the sum is related to the size/ number of employees.
- From the perspective of SMEs, all these measures are welcome, but it is important that they are accessible through an **easy administrative process**. If loans, grants and guarantees require elaborate applications, this could deter especially the smallest enterprises, who find themselves hardest hit. Several countries have by now taken up the approach advocated by SME associations to provide immediate and non-bureaucratic help to the smallest enterprises. Cash injections to the self-employed and micro-enterprises with only a few employees are often paid out immediately with eligibility checks only taking place afterwards.

The SME Envoy Network and the observers will continue to monitor the situation, now that most Member States are in a scenario comparable to a second (semi-) lockdown.

4. CONCLUSION

The SME Envoys call on the Council to endorse this report.

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 represent the majority of companies in all industrial ecosystems. The SME Envoy Network is fully committed to this work and stresses the importance of the regular debate at the Council to engage Member States in the implementation of SME policy and ensuring that SMEs remain high on the political agenda in the coming years.

The SME Envoy Network looks forward to contribute to the post-crisis recovery, during which SMEs will again have to bear the brunt of responsibility, like after the 2008/09 financial crisis.

Please note that at the time of the presentation of this report, the last meeting of the SME Envoys for 2020 had yet to take place. The results will be presented in the 2021 report.