

SME Strategy for a Sustainable and Digital Europe

Context

The European Commission adopted an SME Strategy for a sustainable and digital Europe, aiming to support SMEs through strengthening their capacities to adapt to climate neutral challenges, help them to reap the benefits of digitalisation, and reduce the regulatory burden that SMEs face while improving opportunities to access to finance. It is important to note that the Strategy was published just before the outbreak of the Covid-19 pandemic, and so may not necessarily reflect the new realities SMEs face. However, it is nevertheless hoped that the initiatives set out in this communication may help SMEs move on from the crisis.

The Strategy puts considers three pillars, and puts forward actions geared towards them:

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

The aim of the strategy is to exponentially increase the number of SMEs engaging in sustainable business practices and employing digital technologies, making Europe more attractive to start a small business and making it grow.

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

Empowering SMEs

It is clear that the aim of the strategy is to position SMEs in the best way possible to achieve a climate neutral, resource efficient and agile digital economy. However, the Commission realises that for SMEs to undergo this process, they require tailor-made measures that give them the opportunities to grow.

The Strategy points to the Commission's belief that first of all, SMEs must be empowered to be able to transform from within, with the help of support structures such as the Enterprise Europe Network (EEN) and Digital Innovation Hubs (DIH) so that every SME has access to advice and support nearby.

The Commission also recognises that only 9% of SMEs protect their Intellectual property as they are either unaware of EU and national IP law or fear the complexity and expense associated with it. As such, the Commission shall also propose an Intellectual Property Action Plan that will put forward measures to make the IP system more effective through simpler registration procedures and improved access to strategic advice.

Leveraging Talent and Intellectual Property

It is also acknowledged that companies across the board are challenged by a lack of skilled employees, in particular those companies that do not have adequate resource to train

employees. Over 70% of firms report access to talent as an obstacle to new investment, in particular when it comes to skills relating to digitalisation or new technologies as 35% of the labour force have low or no digital skills. For this reason, the Commission will develop Digital Crash Courses for SME employees to become provision in areas such as AI, cybersecurity and blockchain, using the Digital Innovation Hubs as intermediaries.

In addition, the Commission also explains how the collaborative economy has created opportunities in areas such as mobility and accommodation for innovative SME platforms intermediating between service providers and recipients, opening access to a wider circle of customers. The Commission will continue to explore a possible initiative focusing on short-term accommodation rental services to promote the balanced and responsible development of the collaborative economy across the single market.

Key Actions:

- Upgrading the Enterprise Europe Network including with dedicated Sustainability Advisors
- Digital Crash Courses for SMEs
- Updating the skills agenda for Europe
- Expanding the Digital Innovation Hubs
- Allocating EUR 300 million to encourage breakthrough Green Deal innovations
- Exploring a possible collaborative economy initiative

Reducing regulatory burden and improving market access

The Single market accounts for 70% of the value of SME goods exports, with 80% of all exporting SMEs selling to other Member States. However, market access could be much higher, for example only 17% of all manufacturing sector SMEs export within the single market. The reason for this is the financially and administratively burdensome compliance with regulations, standards, labels and others administrative formalities, most of which are different in each Member State.

The Commission has recently undertaken a detailed analysis of these barriers, which can be found in their Single Market Barriers report and its Action Plan on Better Enforcement and Implementation of Single Market rules. The Action Plan sets out a list of initiatives that aims to address disproportionate cross-border restrictions. The Commission has committed itself to working with Member States and not shying away from strong enforcement action to ensure the proper functioning of the Single Market. The Commission highlights the lack of tax harmonisation as one of the main obstacles faced by businesses when operating cross-border.

The regulatory fitness and enforcement programme (REFIT), through which the Commission screens EU legislation will be reinforced with better regulation principles in order to reduce some of these barriers at EU level. In addition, EU competition rules will continue to be rigorously enforced in order to prevent abuse of market power by big players to the detriment of SMEs.

The Commission has also outlined its ambition to make Europe the most attractive start-up and scale-up continent, by using the United States as an example. To do this, it shall launch a new political initiative, the EU Start-up Nations Standard, which will focus on making it easier to start-up and expand across borders, streamline implementation of rules on procedures for visa applications and residence permits for third country nationals, make granting of stock options for employees more attractive, promote venture-building and tech transfer, increase access to finance, and promote cross-border digital tools and platforms. The Commission acknowledges that sometimes innovative solutions fail to succeed due to outdated regulation which is poorly adapted for fast-changing technologies. Regulatory sandboxes enable innovative solutions not foreseen in the regulations to be live-tested with supervisors and regulators.

In addition to these new initiatives, the Commission will also focus on the implementation of existing measures such as the Directive on preventive restructuring and second chance, so that companies in financial difficulties have access to support services helping them avoid bankruptcy. The Commission also points out that even though the Late Payment Directive has been a success, only 40% of businesses are paid on time, leading to a major cause of bankruptcies – late payments account for one out of four bankruptcies among SMEs in the EU.

Harnessing the benefits of global markets

The Commission points out that global markets, outside the EU's single market, are an important and as yet untapped resource by SMEs, who often need concrete agreements with third countries, as they would not have the resources to overcome large barriers like larger corporates. As such, the Commission commits to including dedicated SME chapters in all trade agreements with third countries.

Key actions:

- Setting up the Single Market Enforcement Task Force to address, inter alia, gold plating in transposition of EU rules
- Mobilising Member States behind an EU Start-up Nations Standard.
- Issuing of guidance and support to contracting authorities to ensure SME friendly public procurement
- Promoting regulatory sandboxes
- Enforcing implementation of existing legislation to ensure level playing field
- Enhancing SMEs access to third country markets

Improving Access to Financing

It is no secret that small businesses struggle more than large enterprises to get finance, for a variety of reasons. It is estimated that the financing gap in the EU currently stands at EUR 20-35 billion, and in 2019 18% of SMEs in the EU did not obtain the full bank loan they had planned for. This puts SMEs at a disadvantage, as bank-based financing accounts for c. 90% of their financing needs. The Commission has committed to ensure that future legislation takes into account the needs of SMEs and support uninterrupted access to finance.

Diversifying sources of funding and making more SMEs investment ready

There is a clear need to diversify sources of finance. Only 10% of EU businesses used capital market finance compared to over 25% in the US, and venture capital investments are 8 times smaller in the EU than in the US. Fast growing SMEs are having to move away from the EU to find risk capital. EU investors are also more reluctant in investing in start-ups due to challenges in assessing the market potential and/or IP underpinning an SME's new tech service or product, making it harder to assess the valuation of the start-up itself. The Commission will thus seek to co-fund tech due diligence services under an EU pilot project to enable more precise valuation and prepare investment readiness. The Commission will also deploy new ways of risk-sharing with the private sector, and the ESCALAR initiative will boost the size of venture capital funds and step up investment efforts. It will also work towards a revamped Capital Markets Union Action Plan, aiming to diversify sources of funding.

It is also noted that SME Initial Public Offerings (IPO) declined sharply since the financial crisis and has not recovered. European IPOs in general continue to fall steadily. To address this, an SME IPO Fund will be set up to support SMEs through and beyond the listing process.

The Commission also notes that financial technology innovation based on blockchain can open new pathways for SMEs, enabling them to issue crypto assets in the form of bonds, amongst other instruments. These are attractive for investors, as they can be immediately traded, and may offer faster, more efficient, and cost-effective financing for SMEs. The Commission will aim to support and promote this method in the EU's upcoming Digital Finance Strategy.

Key Actions:

- Launching gender-smart financing to stimulate funding for women-led companies and funds, empowering female entrepreneurship
- Launching green-tech investment initiatives to pool funding and the private sector to increase access to equity finance for innovative SMEs that develop and adopt green tech solutions
- Launching a blockchain-based initiative enabling issuance and trading of SME bonds
- Simplifying state aid rules making it easier for SMEs to benefit from pooled resources and avoid distortions of the level playing field
- Revising state aid rules for risk finance and "Important Projects of Common European Interest" to ensure more SME involvement

The Malta Business Bureau shall keep monitoring developments and update the Maltese businesses community accordingly.

Full text of the communication: https://ec.europa.eu/info/sites/info/files/communication-sme-strategy-march-2020_en.pdf

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