Position Paper

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**On the future of EU SME Policy**

Another term is approaching the end for the European Union: the upcoming elections will shape a new European Parliament and a new Commission will take the lead and drive the policy making accordingly. This phase naturally marks a moment of evaluation and stock-tacking. EUROCHAMBRES wishes to bring its contribution and propose its vision on the direction of the future SME policy.

*The economic scenario*

The outgoing Commission inherited a difficult situation and responded with a set of strategies aimed at bringing back the European economy on track. The financial crisis, which subsequently turned into a sovereign debt crisis, the radical changes the economy and trade are currently undergoing and a rather volatile international political scenario, have all made their effects felt throughout these years. Not surprisingly, SMEs have been and still are disproportionally affected. However, the positive results should be acknowledged, and these achievements, considering the time in which they were realised, are worth the warmest praise. As always, the road ahead presents opportunities as well as problems that should be tackled.

European SMEs face specific challenges, highlighted in past and recently published EUROCHAMBRES studies[[1]](#footnote-1) on different fronts. Enterprises are dealing with higher **labour costs** with some regions experiencing **labour shortages** which might amplify the effects of this demand-supply mismatch and cause further rises. All of this, combined with **population ageing**, **migration** and **brain-drain**, makes finding the proper skills more difficult and discourages investments in capital-intensive and high added-value activities. Rising or already high labour costs are also hindering the capacity of firms, specifically SMEs, to reach satisfactory **profit margins**, which could be invested in R&D, expansion of the personnel, training etc. These aspects will become more urgent in the next five years and the European Commission, when acting in its competencies, should carefully consider the effects on business. It is very important to acknowledge, also at European level, that these macroeconomic factors are not separated and independent boxes. They have a great and strong impact on our entrepreneurial fabric, with consequences for society more widely. This may sound obvious, nevertheless in some circumstances policy makers adopted decisions not exactly aligned with this simple principle.

Another issue interesting business is finding sufficient **demand** for products and services in the market. In order to respond to this point and create the right environment for SMEs, the **combination** of policies which **suppress domestic demand**, both private and public, and parallelly stimulate the **supply side** of the economy, should be limited or avoided if possible. The risk is that of creating a downward pressure on prices, which should instead be mitigated, especially in sight of the increased, and not always fair, **competition** from third countries.

This justifies the long-standing and enduring call onto our Institutions to set in place policies and measures intended to **alleviate** these effects and create **a business friendly environment**, which is and will be beneficial to all. The scope of any SME Policy should be that of avoiding that businesses under this category are put at disadvantage by market distortions, societal changes and excessive bureaucracy imposing unforeseen and unnecessary costs. The **ultimate goal** is the creation of an environment where European business can **grow**, **scale-up**, **thrive** and bring new **jobs**, in a symbiotic exchange with institutions and other stakeholders. It is important to safeguard our actions from SME policies which result in an end themselves and create adverse incentives. Entrepreneurs create wealth and provide jobs to millions of people throughout Europe. With this in mind, EUROCHAMBRES believes that the following recommendations could help to serve this purpose.

*A few key principles guiding action in several fields*

The core of the SME policy at EU level has been based on the corner-stones and objectives broadly enclosed in the **Small Business Act** and in the “**Think Small First**” principle, which should be the driver and the paradigm informing the actions and the measures implemented at European level in all sectors. This means that the needs of businesses and enterprises, notably SMEs, should be taken into account not only in specific programs, projects or pieces of legislation which show the highest and most purposeful goals for the wellbeing of the “backbone” of the economy.

Quite contrarily, spill-over effects on business and SMEs should be duly considered also and especially when designing or guiding our, among the many, **macroeconomic**, **monetary**, **trade** and **common foreign policies**. EUROCHAMBRES warmly calls onto the future Commission to actively work to make this a reality, while respecting and granting fair competition in the Internal Market. **The future SME Policy should be characterised by more horizontality.** Programs for competitiveness and entrepreneurship, working groups and conferences, can only have a limited impact if all the factors are not taken on board in an overarching strategy.

*A more efficient and process-oriented policy-making*

The future SME policy, in order to build on the existing positive results and be successful, should therefore **primarily focus more on improving the process of policy-making** in the European Institutions and ensure a sound delivery of the principles and objectives contained in the **Small Business Act** and the **Better Regulation Guidelines**. Indeed, there is widespread agreement on the topics and the challenges that should be tackled both at European and National level, from sustainability to digitalisation, access to finance etc. A considerable amount of high-level expertise is already available within the European Commission. It is necessary to work in order to **better re-direct** and employ this expertise and capacity in the right direction. Thus, the relevant Directorate General, should proactively work to increase **horizontal coordination with the other Directorates** whose actions may have an influence on business and SMEs. Laudable efforts have been undertaken in this context, with the Better Regulation Agenda and the SME Test for example. However, this has not been implemented always satisfactorily and there is considerable margin of improvement that will be in the hands and possibilities of the next European Commission. EUROCHAMBRES calls for a more extensive use of this tool and for further **openness and cooperation** with the relevant stakeholders. In addition, **transparency** should be always guaranteed throughout the entire legislative process.

*Diversified approach*

The process of policy making should always be structured in order to take into account that there are considerable differences among the enterprises that can be categorised under the “SME” label. When in policy dialogues we speak about this abstract entity, or when IAs take into account the effects of proposed legislation on the entirety of this group, which include all European businesses *tout court*, the risk is often that of producing rather general statements or evaluations that could fit all and none of them simultaneously. The **shift in the paradigm of policy making** therefore should be accompanied by a closer look at the needs of the different groups of SMEs: from self-employed, to micro, small and medium enterprises.

*Proportionality and subsidiarity*

Once the European actions take properly into account business and entrepreneurial needs widely in the different policy areas, and these are guided by the right principles and are duly diversified, it is always necessary that they respect the notions of **proportionality** and **subsidiarity**.

The objective should be that of having a **simple**, **accessible** and **intelligible** corpus of laws and requirements. The proliferation of regulations, technical requirements, fiscal and administrative burdens, is always **detrimental to entrepreneurship and business** in general, and this is considerably more evident for Small and Medium-sized Enterprises. The EU has also proven to be inclined toward an excessive production of laws. Potential entrepreneurs are often discouraged when approaching bureaucracy and its pharaonic apparatus, and they therefore turn down their plans. **The Institutions should regulate and enter the private sphere only when truly necessary, in a proportional and adequate fashion.** Legislation and public action is required when and where private citizens cannot protect themselves or act sufficiently to provide commonly desired goods, or when market failures create difficult situations. Furthermore, it is of fundamental importance that the initiatives undertaken represent a true European added-value for business.

*The road to 2024*

The principles outlined above should in sum guide the future SME policy and adopted in the following key areas, where efforts have already been undertaken and future developments are expected to positively continue in this direction.

*Competitiveness and Innovation*

In order for SMEs and the European economy to remain key players in the international arena it is necessary that the next European Commission, in coordination with the other Institutions and Member States, continues to foster programs and initiatives designed to improve our competitiveness and to promote innovation.

It will be of considerable importance however to conjugate the need for **disruptive innovation** in some sectors of the economy with that of **incremental innovation** in others. The increasing attention to enhanced competitiveness and disruptive innovation, should not drive policy makers and resources away from the reality in which the vast majority of businesses are currently moving and operating. Without prejudice for the importance of the most advanced technologies, which should be duly developed and made marketable, the fact that a large share of businesses are in the process of upgrading their activities to the most basic ones (e.g. digital accounting, e-invoicing etc.) should be carefully considered by policy makers. **The “Think Small First” principle will be successfully implemented if and only if both necessities are satisfied.** EUROCHAMBRES hopes that it will not be necessary to advocate in the future for a “Think Small *also*” principle.

*Sustainability and Circular Economy*

In order for European SMEs to remain competitive and economically viable in the future it is necessary that innovation in this field ensures valuable progress. Several barriers slow-down the shift toward greener and circular production models. As always, in order to move in the right direction it is fundamental to firstly understand where SMEs are currently standing and moving. The past years have seen the setting of ambitious goals and targets. EUROCHAMBRES welcomes any effort directed at improving our capacity to tackle environmental challenges, this will determine the possibility to gain in competitiveness in a world where ensuring input-supply and production continuity will be essential. However targets and goals should remain constant and reasonable as business needs a long-term horizon to plan and act for such a radical transformation. Changes can be costly, especially when a firm has already undertaken significant investments in a certain direction. **Clarity** and **predictability** are essential. This leads therefore to one of the main barriers for SMEs to the transition: finance. Obtaining the appropriate financial resources could be prohibitive both in terms of volumes needed and success in getting the funds. SME policies in this field should duly consider this problem. The preferred solutions should be informed by proportionality and ideally without imposition of further burdens or costly requirements, which could only hinder European competitiveness. It is instead recommendable to **create incentives and invest in research to make green solution** **affordable and comparable in terms of costs to traditional production techniques**. SMEs do not have enough resources in comparison to large companies to invest for this cause while they need to address daily administrative tasks. Furthermore, confirming the all-encompassing nature of this topic, it will be required to work on better information, development of technical-skills and the creation of new professional figures to accompany and guide entrepreneurs throughout this process. The future SME policy linked to environmental matters should acknowledge these facts and the future Commission should continue working and providing a coordination platform to **make green and circular solutions the cheaper option for European companies**. This problem requires a European solution (at the very least) and the current situation is a clear example of common resources and public goods mismanagement. Private actors with the capacity to invest in the development of more efficient and greener solutions do not have enough incentives to share results without profits. Public authorities should work to promote incremental actions generating new knowledge and innovation at reasonable costs for all, as envisaged already in the **Small Business Act**. This is a further demonstration that our current need is to **strengthen delivery of already agreed goals.**

*Promotion of entrepreneurship*

The promotion of entrepreneurship and of an environment where entrepreneurship can thrive – already cornerstones of the Small Business Act and of the **Entrepreneurship 2020 Action Plan** – should continue to be pursued at EU and national level in the next five years and beyond. The process of fostering entrepreneurship should start in school, with the introduction of entrepreneurship education in curricula of all forms of education and training, from primary and secondary school to vocational education and university, in order for students to develop ‘entrepreneurial’ attitudes and skills from an early age. Despite the Commission’s recommendation that all young people have a practical experience before leaving compulsory education), the uptake of entrepreneurship education still has a significant way to go in Europe. **This is an area where EUROCHAMBRES would like to see a stronger commitment from MSs and more substantive progress.**

Among the existing initiatives aimed to promote entrepreneurship, the **Erasmus for Young Entrepreneurs** programme resulted to be particularly successful and should be progressively and coherently expanded to new countries.

*Skills*

Skills gaps and mismatches are an increasingly pressing issue for the competitiveness of SMEs and, more broadly, for the European economy and society as a whole. Ageing population, rapid technology advances and inability of education systems to keep up with the changing needs of the economy have contributed to the sharpening of skills mismatch-related issues in recent years. The creation of a regulatory and institutional environment that facilitates the matching of skill demand and supply requires collaboration between the EU, national and local level and the involvement of all relevant stakeholders.

In today’s highly dynamic labour market, maintaining a **clear understanding of employers’ current and projected skills needs is crucial and is surprisingly absent across much of the EU.** A **Europe-wide skills forecasting tool** should be put in place and feed into the design and delivery of curricula.

Small companies should be encouraged to provide Vocational and Education Training opportunities to students and adults that needs upskilling or reskilling (e.g. through incentives), while at the same time the mobility of apprentices should be further promoted.

*Access to new markets and internationalisation*

Access to new markets and customers help business to find the appropriate demand for goods and services. It streamlines the production process and widens the possibility of further specialisation. The **Single Market** is of course one of the main achievements in the European integration process with regard to this aspect. **EUROCHAMBRES calls for a renewed and stronger momentum in order to ensure its correct functioning.** Only by reducing and eliminating remaining barriers can we counter the additional costs which impede SMEs to increase their exports. Some of these costs are **fixed** and only Large Businesses have volumes large enough to spread and amortise them rapidly. This should always be kept in mind. **Preventing a fully-fledged Single Market equals to a failure of our SME Policy.** EUROCHAMBRES trusts that the incoming Commission will prove itself ready to fulfil this mission in one of the most decisive moments for the EU.

Looking beyond Europe, it is very important that protectionist tendencies are mitigated without recurring to top-down impositions. The incoming European Commission, being the institution better positioned to accomplish this task in the interest of all Member States, should instead champion to revitalise a **constructive multilateralism**, both within and outside the EU. Particular regard and attention should be paid to close partners and historical allies which have proved worthy of trust: unilateral actions could lead only to a deterioration of relationships. **As data already suggest, this is done at the expenses of business and entrepreneurs, especially those involved in export activities.** SME policies in this field will be successful if the impact of Trade Agreements and policy initiatives on business is duly assessed, in this context the “Think Small First” principle manifests its high importance equally.

*Digitalisation*

Digitalisation represents a great source of opportunities for business which, if duly mastered, would bring enormous benefits to businesses and SMEs alike. There is at the same time an energic request, from different stakeholders, to **regulate** the new dynamics originating from this transition, often justified. In this field, contrary to the commonly agreed narrative that characterises policy debates, it is equally important to take into account the needs of SMEs in different directions. It is generally argued that regulatory efforts should be concentrated on defending small entrepreneurs from digital giants and ensure that they comply with the same set of rules to which everyone else abide. Nevertheless, it is also important to consider, when putting in place new regulations, that there are also SMEs active in the digital economy which may be negatively affected from laws responding only to the previous principle (i.e. regulating the activities of large companies). In this sense it is important to apply the “Think Small First” principle and include **exemptions or different regimes for SMEs** active in this area.

*Better and more diversified access to finance*

Access to finance is the fuel that allows business to develop, from its early stages to maturity. It allows entrepreneurs to grow and invest. European SMEs, differently from those in the US for example, still rely widely on bank loans. Venture capital, business angels, dedicated growth markets and trading venues, still remain underdeveloped comparatively speaking. In addition, there is still a bias in some fiscal and taxation systems in favour of debt finance, which creates distortions. The outgoing European Commission has put on the field considerable efforts to change the current scenario and allow SMEs and entrepreneurs to diversify their sources of financing. This is very much welcomed, with the aim to further strengthen our capacity to grow. EUROCHAMBRES calls for the continuation of this policy and the promotion of a well-functioning Capital Markets Union which could really benefit SMEs and take into account their needs. However, it would help bearing in mind that for small entrepreneurs the financial system is sometimes seen as a far and unclear world, characterised by uncertainty and high compliance costs. In this sense, it is necessary to work and build accordingly an easier environment which increases protection both for issuers and investors alike. In addition, it is of utmost importance, that in the context of the next Multiannual Financial Framework, the programs aimed at supporting SMEs (e.g. InvestEU) effectively reach the target ensuring proportionality, additionality, respect of fair competition and market integrity.

Additionally, in terms of European entrepreneurial cohesion, special attention should be deployed to the specific needs of the peripheral and the outermost islands of the EU. The future EU SME policy has to guaranty an EU homogenous growth and the full involvement of the business communities of these territories to enable their full participation and to take advantage of the opportunities offered in by the single market in equal conditions. In this context special attention should be provided to the specific needs of these business communities regarding their access to the continental and other markets, finance, skills, digitisation, entrepreneurship and innovation with special chapter.

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*EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents*

*over 20 million enterprises in Europe – 93% of which are SMEs – through members in 44 countries*

*and a European network of 1700 regional and local Chambers.*



1. See e.g. the results presented in the last EUROCHAMBRES Economic Survey 2019 [↑](#footnote-ref-1)