

# HOW TO TURN EUROPE INTO AN SME SUPERPOWER DURING THE NEXT EU CYCLE

- During the next cycle, we want Europe to become an “SME superpower”. SMEs are deeply rooted in European regions and societies. Many are important players in competitive value and supply chains and networks. They are undeniably a fundamental part of European DNA and their contribution to the economy, wellbeing and innovation of our continent is unquestionable.

In Europe, there are over **25 million SMEs**, representing **99% of all businesses** and providing jobs to more than **88 million European citizens**.

- The resilience of entrepreneurs in recent years has proven once again that they are part of the solution. They want to be part of an “SME superpower” project, but to do so, they need the right support from institutions at both national and European level.
- The starting point for SMEs as well as for mid-caps and large corporates is that in the next EU cycle the EU puts competitiveness and the resilience of companies at the core of the political agenda.
- What do SMEs need to be more competitive?
  - better regulation which truly support SMEs,
  - better and faster access to finance,
  - greater clarity around SME funding programmes allocation, including unbureaucratic access,
  - a green transition that does not overwhelm but boosts SMEs, along with strong support for the skills needed for the twin transition; and,
  - stronger EU SME governance.

- A deeper Single Market in which barriers for businesses are addressed and quickly removed is also crucial, as well as a trade policy which takes into consideration the needs of export-oriented SMEs and an industrial policy in which SMEs play a central role.
- On the green and digital transitions in particular, the EU needs to turn its attention to making it work and prove that its ambitions can lead to economic success after five years focusing on regulating these two crucial transitions.
- European companies are committed to playing a central role in the necessary transitions. But in order to facilitate the green and digital transition for SMEs, breathing space for entrepreneurial solutions, guidance and support tools are needed. SMEs need time to understand, absorb and implement existing regulations – and should be shielded from accumulative new regulatory, financial and ESG burdens.
- In the years to come, it will be essential for the competitiveness and wealth of Europe to truly support entrepreneurship. This should be done by ensuring that SMEs are equipped with the right skills needed. Allowing smooth and effective generational transfer of businesses is also relevant for the competitiveness and wealth of Europe. To ensure this, promoting the skills needed for smooth transfers of employer companies' ownership at an EU-level is critical.

**If business transfers are not successful, more than 692.000 jobs could be lost over the next ten years. On the other hand, successful takeovers increase the turnover of companies by 61%, create 36% of new jobs and increase investments by 60%.**

*Source: SME Envoy Network [report](#) "Assessment of framework conditions for business transfers in Member States".*

- In our "[Reboot Europe](#)" publication, BusinessEurope launched its campaign for policy changes during the next EU political cycle, calling for a REBOOT in European policies, building on EU achievements, with targeted actions to tackle the structural weaknesses that are undermining companies' efforts to deliver for people.
- Building on this, to make the EU an "SME superpower", we need the following actions to be prioritised during the next EU political cycle.

## A. BETTER REGULATION

- Better SME regulation should be the number one priority for EU institutions during the next cycle. Regulatory inflation brings with it major reporting and compliance costs for European companies and is particularly damaging for SMEs. To succeed, SMEs must operate in a regulatory framework that is certain and stable.

The EU's ambitions have translated into an extensive legislative agenda. **Between 2017 and 2022**; the European legislator has imposed a total of 850 new obligations on companies, representing more than 5.000 pages of legislation which add **extra burden for companies**.

Source: "*Confrontations Europe's survey for the MEDEF*", March 2023.

- The work announced to reduce reporting requirements for companies by 25% is a good first step but the European Union will need to go way beyond that; it must also stop seeking to micro-manage companies, and fully implement better regulation principles and tools. It is positive that the political guidelines for the next European Commission state that each Commissioner will be tasked with focusing on reducing administrative burdens and simplifying implementation: less red tape and reporting. Any proposal by Commissioners now should be conditioned upon reduction of reporting requirements.
- Sustainability reporting standards for SMEs must remain simple and balanced. Proportionality is key for SMEs to comply and access the necessary financing opportunities for their transition.
- The EU will need to stop proposing unnecessary revisions of its existing rules and to fully apply competitiveness checks and impact assessments on all new EU regulatory initiatives. This involves effectively measuring and quantifying the tangible effects of EU legislation on competitiveness and taking into account the cumulative impact of EU legislation on companies, as well as on annual EU Commission work programmes.
- Burdens also come from national level and member states should take particular care not to add unnecessary bureaucracy at national level.
- It is crucial that EU legislative proposals, once adopted, do not introduce direct or indirect cumulative burdens or costs on SMEs which were not initially foreseeable or expected. To improve the situation, ways to identify, measure, analyse and reduce cumulative regulatory burden of existing legislation should be explored.
- Effective better regulation tools already exist, and the SME Relief Package provides a good basis for improving better regulation for SMEs. However, good intentions must be backed by political commitment and considered a collective responsibility of all institutions.
- In the years ahead, it will be key to improve the application of the EU SME Test. BusinessEurope is committed to further contribute to the analysis of the application of the EU SME Test and will provide further recommendations for improvement in its 2024 SME Test benchmark report.



### 1. Improve the quality of the SME Test

As outlined in [BusinessEurope's 2022 SME Test benchmark report](#), to improve the quality and the effectiveness of the EU SME Test the European Commission should apply the SME Test guidelines more consistently. We recommend that, in line with the “think small first” principle, the Commission services reflect on SME needs early in the impact assessment process. This should be done systematically and see greater inclusion of SME stakeholders. The consultation of SMEs and SME stakeholders is critical in the SME Test and their perspectives should be fully reflected in policy initiatives. Official data and relevant, usable information should always be collected to avoid partial or missing data which jeopardises the validity of the analyses. It is also crucial that impact assessments measure the indirect effect of policies and explore the unintended consequences.

Along with this, the European Commission should better develop the analysis of the SME Test in its Annual Burden Survey report, in particular by highlighting the qualitative changes compared to its application in previous years.

### 2. Make sure other EU institutions play their role

While the European Commission has a crucial role in making sure that proposed EU legislation is SME-proofed, other European institutions are equally accountable in regard to better regulation principles. This is particularly true for amendments to Commission's proposals during the co-legislative process which may introduce direct or indirect, as well as cumulative and unexpected burdens or costs on SMEs. It is worth recalling that the “2016 Interinstitutional Agreement on better lawmaking” already mandates Council and Parliament to conduct an impact assessment of substantial amendments made to Commission proposals.

### 3. The EU SME Envoy and the Envoys' Network should focus on better regulation

The importance of moving better regulation through the consistent application of the already existing instruments, such as impact assessments and the Competitiveness Check, was strongly reiterated by the SME Envoy Network in its Berlin joint [declaration](#) of June 2024.

The EU SME Envoy must have a real say in the Commission's decision making. The EU SME Envoy's involvement in Regulatory Scrutiny Board hearings on initiatives that have a substantial impact on SMEs is a positive step. The Envoy's key takeaways from these hearings should be included under the regular SME Envoy Network reporting session to the EU Competitiveness Council.

SME envoys appointed by EU national governments have a central role in supporting and complementing the role of the EU SME Envoy, in particular in their task of promoting SME friendly regulation and policymaking at national level.

## B. ACCESS TO FINANCE

- Businesses have been facing tighter financing conditions in the past year due to the general economic downturn, the fast rise in interest rates and increasing regulations. They continue perceiving a decrease in banks' willingness to provide loans and credit lines. These conditions do not support SMEs' commitment to the digital and green transition. They also hamper SMEs' efforts to tackle skills shortages.
- Ensuring SMEs' better and faster access to bank credit is key. Considering the dependence of SMEs on bank loans, and the need to preserve banks' ability to provide new loans, any changes in regulatory requirements on bank capital as part of the implementation of the Basel III accords must be carefully calibrated to ensure that they do not lead to a sudden reduction in lending and investment.
- As access to finance for SMEs involves different dimensions, attention should also be paid to EU financing programs, in connection with the debate about the future Multiannual Financial Framework of the EU. Within the different financing programs, there is a need for dedicated, easy-to-access and manageable instruments for SMEs. In this regard, better coordination of all available EU financial resources, especially for SMEs, is needed. It is also key that SMEs' participation is strengthened in relevant EU funding programmes (e.g. Horizon Europe) and to re-focus the Framework Programme for research and innovation (the upcoming FP10) to industrial competitiveness.

### PRIORITY ACTIONS ON ACCESS TO FINANCE FOR SMEs:

1. **Facilitating access to new capital, in particular by SMEs, continuing the realisation of the European Commission's Capital Markets Union plan** by swiftly approving and implementing the legislative proposals (so-called Listing Act): this should focus on giving a new impetus to the development and integration of European financial markets and making them more attractive to companies.
2. **Strengthen the participation of enterprises, and in particular SMEs, in all relevant EU funding programmes.** It is necessary to increase the participation of SMEs in the Horizon Europe R&I programme. This can be achieved, for example, by intervening in the following areas: dedicated, easy-to-access and market-oriented measures for traditional and innovative SMEs; strengthening investments in all kinds of innovation. Europe also needs a sound legal framework and tools to unlock the potential of IP for SMEs. It has been demonstrated that SMEs using IP tend to be more profitable, generate higher revenue, attract more investment, employ more people, and pay higher wages than non-IP owning firms.
3. **Move towards a more European approach to export credits.** We suggest accelerating the work on a European strategy for export credits in order to provide a more effective and consistent export credit (guarantee) offer across the entire EU, focusing also on solutions that cater for the needs of SMEs. The creation of an EU Export Credit instrument could be considered, along with enhanced coordination of the EU's external financial instruments.



## C. SKILLS FOR THE TWIN TRANSITION

- SMEs are in great need for skills upgrading, if they want to play a role in the green and digital transitions. The digital transition, in particular, strongly relies on the development of emerging key technologies such as Robotic and automation technologies, Internet of Things (IoT), Artificial Intelligence (AI) and Cloud and High-Performance Computing.

**In 2022, 21% of SMEs provided training to their staff to develop or enhance their ICT skills. In 2023, only 7% of SMEs had adopted AI.**

*Source: Digitalisation in Europe, 2024 edition, European Commission*

- Nevertheless, many companies face difficulties in adopting digital technologies at the workforce level and in finding workers/professionals equipped with the required skills. Skills shortages result from a low number of graduates in STEM fields, the substantial mismatch between the demand for STEM graduates (or professionals with appropriate digital skills) and the unsatisfactory supply of human capital available in the labour market and from the lack of continuous training.
- In order to improve up-skilling and re-skilling within SMEs, of both entrepreneurs and their workforce, it appears necessary to establish increasingly close relations between companies and training institutions. This is required to ensure that the working-age population is equipped with the necessary skills for a constantly and rapidly changing labour market and to ensure that companies, especially SMEs, have access to qualified and competent staff. There is a need for up-to-date and easily accessible courses on the territories, networked at both national and EU level, incentivising the participation of SMEs.
- In support of this, it is important to increase enrolment and graduation rates in STEM fields, develop interdisciplinary and accessible courses and enhance public and private investments.
- The European Network of European Digital Innovation Hubs (EDIHs) have proven in recent years that they have become a key reference point for European companies in the digital sphere and can support digitisation of many industrial sectors in Europe. It is therefore important to strengthen EDIHs by considering the territorial dimension and the proximity that they must maintain with respect to companies.

### PRIORITY ACTIONS ON SKILLS FOR THE TWIN TRANSITION

1. **Addressing the digital skills shortage in key areas.** During the next programming period (2028-2034), 50% of ESF+ resources should be earmarked for the implementation of actions to support skills development within the context of helping to address labour and skills shortages. Within this earmarking, 15% should be allocated to financial incentives for employers to provide training. Cybersecurity is a rapidly growing field that needs to be constantly monitored and addressed in all its aspects, not only from a technological, but also from a cultural and skills point of view; awareness must be promoted. An essential aspect of tackling the skills shortage, particularly for SMEs, is to highlight the available opportunities within the labour market to third-country nationals too. In this regard, the establishment of an EU Talent Pool is a promising initiative, but its success relies on providing support to SMEs to effectively utilise it.

2. **Promote lifelong learning for workers and entrepreneurs** to continue implementing the approach adopted with the establishment of the European Year of Skills. Continuous training, including strategic skills around business continuity, should be seen as a key aspect of industrial policy, and at the same time a central element in strengthening the competitiveness of enterprises and improving the employability of workers.
3. **Artificial intelligence** needs to be harnessed for the use of SMEs as it has great potential to increase productivity. Less than 10% of SMEs use AI in their business. The adoption of AI and data (and the digital transition) will require business-driven skills development based on peer learning, sharing of good practices, testing and experimentation. Developing business-driven cooperation with universities, research institutes and educational institutions is critical but the most important way to develop skills is peer learning, on-the-job learning and training of existing workers. The use of Artificial Intelligence can be fostered by promoting the inclusion of experts to support SMEs in defining strategies and paths to the adoption of AI. In addition, the Digital Europe Program (DEP) is a key program to make the most of the possibilities of AI in the field of SMEs. In order to increase the deployment of AI, the DEP resources should be directed towards the deployment and utilisation of artificial intelligence, cybersecurity and innovative solutions for digital work.

## D. GOVERNANCE

### MID-CAPS AND SME DEFINITION

As stated in the SME Relief Package, the European Commission should be attentive to the needs of companies that outgrow the thresholds of the SME definition, as well as the broader range of small mid-cap companies. With regard to the actions announced by the Commission, below are our views on how to support SMEs and small mid-caps throughout their entire business life cycle.

- **SME definition:** as the three criteria to define an SME were set in 2003, a permanent adjustment of the two financial thresholds (e.g. to inflation) should be considered now and more regularly in the future. Any decision in this regard should be based on research and analytical work aimed to provide evidence on the exact adjustments needed.
- **Small mid-cap definition:** we support, in principle, the intention to create an EU-wide small mid-cap definition (250-499 employees) specifically to reduce the regulatory burden, such as reporting obligations. Such definition must not impact access to EU funding for SMEs.



### European Commission

- Despite the adoption of an “SME strategy” in 2020 and an “SME Relief Package” in 2023, SMEs are still lacking attention due to a lack of leadership at EU level.
- We urgently call for the appointment of an EU SME Envoy. The new EU SME Envoy should clearly define key priority areas for prompt implementation with the support of all services of the future Commission. The EU SME Envoy, regardless of the future Commission (DG Grow) structure, should have effective powers and act at “Commissioner level”.
- The SME Envoy Network, comprising SME Envoys appointed in national capitals, has a central role in supporting and complementing the role of the EU SME Envoy. SME Envoys communicate and explain EU policies within national ecosystems and they support the task of promoting SME friendly regulation and policymaking at national level. National SME Envoys could be involved in relevant work in the Council. The role of European and national SME envoys will be strengthened if their coordination and dialogue with business communities is close, constructive and consistent.

### European Parliament

- Any reforms in the European Parliament structure should lead to a better focus on SMEs. We believe that increased dialogue between the Commission and the Parliament well ahead of the publication of Commission proposals can support an effective SME policy. MEPs work in gathering evidence and data in view of Commission proposals should be improved.
- Building on its past work, the European Parliament should establish a strong SME Intergroup which work, focused on targeted SME priorities.
- The European Parliament should commit itself to measurable, SME-friendly policies and report regularly on its own measures. In this regard, it would be key to facilitate an annual hearing of the EU SME Envoy on the implementation of the work of the Commission on SME policy.
- To clearly put SMEs at the centre of the debate, it is important that progress is reviewed and monitored on an ongoing basis. The established State of the SMEs Union debate represents a valuable proposal which we strongly believe should be maintained and improved during the next cycle.





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