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of the Regions

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Economic Policy

ECON

EU policy framework on SMEs: state of play and challenges



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List of abbreviations

CF	Cohesion Fund
CLLD	Community Led Local Development
COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises
CoR	European Committee of the Regions
CPR	Common Provision Regulation
EAFRD	European Agricultural Fund for Rural Development
EaSI	Employment and Social Innovation programme
EASME	Executive Agency for SMEs
EC	European Commission
EFSI	European Fund for Strategic Investment
EIB	European Investment Bank
EIC	European Innovation Council
EIF	European Investment Fund
EIT	European Institute of Innovation and Technology
EMFF	European Maritime and Fisheries Fund
ENN	Enterprise Europe Network
ERDF	European Regional Development Fund
ESAF	EIF SME Access to Finance Index
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
FET	Future and Emerging Technology
GNI	Gross National Income
LRAs	Local and Regional Authorities
MC	Monitoring Committee
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
R&D	Research and Development
R&I	Research and Innovation
RIS3	Smart Regional Innovation Strategy
SAFE	Survey on Access to Finance of Enterprise
SBA	Small Business Act
SCOs	Simplified costs options
SME	Small and medium-sized enterprise
TO	Thematic Objective

Executive summary

Small and medium-sized enterprises (SMEs) are the engine of the European economy, accounting for 99.8% of total enterprises. They employ more than two thirds of the EU labour force, contribute to more than half of EU value added and have played an important role in the recovery since the financial and economic crisis.

SMEs in the EU, however, face barriers and challenges that hamper their full potential for growth and job creation. For example, they suffer from a low capacity to compete and grow internationally as their small size as well as their lack of financial and human resources prevent them entering new markets. They mostly operate in sectors which do not require intense scientific knowledge or intense technology so have limited research and development capabilities. In comparison to large enterprises, they have lower turnover and value added as well as limited strategic planning and managerial skills.

The inclusion of a strong SME dimension in the EU policy is therefore of particular importance. However, to fully unlock SME growth potential requires a strong horizontal policy approach that helps them surmount existing barriers. Based on desk research and structured interviews with selected Local and Regional Authorities (LRAs) this report identifies key challenges currently faced by European SMEs, analyses the evolution of EU policy initiatives since the introduction of the Small Business Act (SBA) and formulates policy recommendations to strengthen the role of LRAs and SME policy in the post-2020 period.

Key challenges for European SMEs

The literature and most recent quantitative information highlight external factors limiting SME potential which are most relevant for EU policy:

- Limited availability of skilled labour. At EU level **SMEs often experience problems in hiring skilled workers** due to competition from big enterprises and general financial conditions. EU SMEs do not invest enough in training their existing staff and are often hampered by increased labour and other costs.
- **Difficulty to access finance.** This is one of the most important issues SMEs have faced since the 2008 crisis. SME financial needs are still significant, especially for fixed investments and working capital, though the costs for such finance are still high. Moreover, access to public financial support (including guarantees) remains limited for SMEs.
- **Excessive regulations and administrative burden.** For SMEs, more than for large enterprises, compliance costs and requirements affect their capacity to

innovate, the qualified human capital at their disposal and hinder their capacity to internationalise.

There are also profound inter-regional business environment differences across the EU which can further exacerbate these key challenges. For instance, the quality of institutions directly impacts the regulatory framework but also affects labour and financial markets. Poor quality governance and institutions are the main obstacle to development in low-growth regions, posing particular problems for SMEs. The quality of local and regional institutions is often affected by a **lack of personnel resources and competences in the public sector**.

These key external obstacles for SMEs can significantly impact regions creating a vicious circle affecting the entire regional economic system. Since SMEs represent the majority of people employed and value added in most EU regions, challenges that limit their capacity to grow and compete can therefore negatively affect the capacity of regional economies to be innovative and to compete. In turn, this **limits the capacity of SMEs to grow and compete which implies that regional economies are more exposed to risks from globalisation and technological change**. Globalisation has a highly differentiated impact on EU regions. Some can more easily take advantage of new opportunities, with SMEs well positioned in international value chains. Others are hit by job losses, stagnating wages and shrinking market shares when low-cost competitors move into more technologically advanced sectors. The best response to globalisation is to move up the value chain but this requires innovation, entrepreneurship, knowledge transfer and continuous upgrading of skills. Regions that are innovative with a large share of high-skilled jobs and a highly educated work force are less likely to face heavy job losses.

Main areas for action at EU level

To address obstacles limiting SME growth, the EU has issued several key initiatives. One of these is the **SBA**, adopted in 2008 as a cornerstone policy document for SME support. Based on ten principles with actions for Member States and regions, the document proposes a new approach to entrepreneurship. It also looks to address challenges faced by SMEs, make the Single Market more accessible and make competition policy more SME friendly. At national level from 2011 to 2018 almost 3 300 measures following SBA principles were adopted by EU Member States. These especially cover Principle 1 - Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded, Principle 6 - Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions, and Principle 8- Promote the upgrading of skills in SMEs and all forms of innovation. **These three principles** account for 55% of measures supporting SMEs and **are consistent with the key challenges of ‘access to finance’ and ‘lack of skilled labour’**. Similarly, these three principles are also those most applied at regional level.

In the 2021-2027 programming period several instruments and provisions address limited access to finance, encourage R&D and innovation and aim to improve skills and (international) market access. The policy objectives, scope of support and funding available for the next programming period suggest that **ERDF will be the main source of support for SMEs and entrepreneurship in general**. This will be complemented by EMFF and EAFRD in coastal and rural areas for fishery and aquaculture, agriculture and rural sector business development.

Overall support will decrease, with both reduced funds and lower co-financing rates, though **the proposed regulatory framework for 2021-2027 suggests greater leeway for SMEs to benefit from EU support**. The new Multiannual Financial Framework proposes increased alignment of political priorities with EU programmes and funds, implying some new programmes but mainly a continuation of existing programmes with renewed focus and reallocated budgets. **The proposed regulations enable programme authorities, especially for ERDF, to focus on SME development and entrepreneurship**.

LRAs may act as contributors, facilitators and beneficiaries, complementing the general possibilities for LRAs to enhance EU programme support for SMEs and synergies between ESIF and other EU programmes. LRAs can contribute through direct involvement, including human resources, financing and policy making. LRAs can also create synergies between EU programmes such as Horizon Europe, the Single Market Programme or Invest EU. An example would be the involvement of regional authorities in the advisory board of instruments under the InvestEU Member State compartment.

LRAs may also facilitate EU programme implementation by involving third parties, such as SMEs already benefiting from the programme. LRAs applying integrated governance approaches, which is required for RIS3, can create synergies across policies and programmes.

Finally, LRAs can also be beneficiaries of EU programmes other than ESIF. For instance within the Single Market Programme, support is anticipated for actions that empower internal market actors. This can be through information and awareness raising campaigns, best practice exchange, promoting good practices, exchanging and disseminating expertise and knowledge as well as training.

Key findings and recommendations

The interviews and document review have led to the following **key findings**:

For current LRA SME policy:

- **SMEs are crucial for the EU economy but limited access to finance, a lack of skilled labour and administrative burden hinder their growth potential.** Even if these three factors are common across the EU, their intensity varies greatly between European regions.
- EU support for SMEs is financial and institutional. At LRA level, **ERDF is the most important EU financial source while SBA contributes by shaping policy to support SMEs.**
- **Regions** see themselves as having an active role in addressing the needs of SMEs in different areas. However, they **perceive a lack of internal capacity as the main constraint to providing support.**
- **SBA has a recognised role in shaping policies to support SMEs.**

In relation to the 2021-2027 programming period:

- **Less ESIF resources will be available to support SMEs compared to 2014-2020.** Earmarking for SMEs will be less visible. Compared to other ESIF, the **ERDF will target SMEs more explicitly**, with thematic orientation, scope of support, financial volume and earmarking.
- SME programmes managed at EU level will be the Single Market Programme, Horizon Europe, and InvestEU. Even without considerable change, **support may become less accessible for SMEs.**
- **LRAs can have important roles and functions in ESIF and EU Programmes to optimise the use of resources and facilitate the involvement of SMEs.** However, they need adequate skills and know-how.

The report provides **the following specific recommendations:**

For access to finance:

- Regional financial instruments should also be supported by ESIF. They should involve local partners including regional financial institutions and regional agencies in the design and implementation of more tailored instruments. A robust market assessment and financial gap analysis is also needed. Indeed, quantifying the financial gap is a key precondition to assessing any market failure to be addressed by financial instruments. The recommendation is for a **yearly quantification of the financial gap for SMEs at EU, national and regional levels** based on an EU standard methodology defined by the European Commission. **A regional level database on SME access to finance** could

provide useful information to LRAs to better match financial supply to demand, especially for volume and collateral.

For the lack of skilled labour:

- It is important that **the working groups shaping the agenda for adult learning involve SME stakeholders at EU, national and regional levels**. To better match labour supply and demand, the **skills needed by SMEs must be clearly identified and tackled**. SMEs in the stakeholder groups offer an opportunity to better grasp rapid evolutions in global and local markets.
- Re-establishing an EU **Programme such as Leonardo** for vocational education and training. Market evolution requires skills linked to the circular economy, global supply chains, cyber security and advanced financial instruments. Skills and training facilities are not always available at regional or national levels. A ‘new Leonardo’ could also find synergies with the new HORIZON and involve the Joint Research Centre. It could address specific skills completing national and regional vocational training schemes, and encourage further education and development of skills for young entrepreneurs.

For administrative constraints:

- **Update the SBA**, especially principles linked to recent policy developments (the last review was in 2011). More importantly, a revised SBA should fit new SME needs (new production processes and markets, etc.) and the current economic environment which has evolved since the financial crisis years when the SBA was designed.
- **A new ‘regional SBA’** based on principles closer to LRA capabilities and competence, offering regions a blueprint to develop their own strategy. This implies **monitoring SBA at regional level** since application of SBA principles is currently limited to the national level. In addition, the SME Performance Review implemented by the European Commission, monitors and assesses progresses only at national level (i.e. Small Business Act factsheets).
- Recommendations provided by the CoR, the European Parliament, Eurochamber and SMEUnited concerning EU legislative framework or legislation making can become the object of a **joint SME memorandum** to be presented and advocated in front of the Council and the European Commission. The memorandum should be much more powerful in terms of institutional and political force and much more visible for European public opinion.

Finally, LRAs are aware they lack the internal skills and institutional tools to provide full support for SMEs and since resources for capacity building will diminish in the next period, **further actions would enhance LRA capabilities**, such as:

- An **EU platform for LRAs with specific training** for local and regional administrators designing and setting up an SME strategy, considering the recent industrial developments towards new markets and new production systems (such as digitalisation and the circular economy).
- Better **capitalisation and dissemination of successful practices**, in particular of EER experiences, sharing material such as EER applications and SBA strategies across regional policy makers.
- A specific interregional activity under **European Territorial Cooperation for implementing SBA principles**.

1. Overview of EU policy for SMEs and its evolution

This chapter analyses the role and contribution of micro, small and medium-sized enterprises (SMEs) in the EU economy, their key economic and financial characteristics and challenges they face after the financial and economic crisis. It then provides an overview of EU policy over the last 10 years, after the introduction of the Small Business Act (SBA) as well as other EU initiatives affecting small businesses.

Box 1.1: EU definition of SMEs

According to Commission recommendation 2003/361¹ SMEs are enterprises ‘which employ fewer than 250 persons, which have an annual turnover not exceeding EUR 50 million, and/or annual balance sheet total not exceeding EUR 43 million.’

Classification of micro, small and medium enterprises

Enterprise size	Employees	Turnover (EUR)	Annual balance sheet (EUR)
Micro	< 10	≤ 2 m	≤ 2 m
Small	< 50	≤ 10 m	≤ 10 m
Medium	< 250	≤ 50 m	≤ 43 m

1.1 Facts and figures: the role of SMEs in the EU economy

In 2017 there were some 24.5 million SMEs in the EU (Table 1.1)²:

- representing 99.8% of enterprises,
- producing 56.8% of value added,
- employing 66.4% of the EU labour force.

Most SMEs are micro enterprises (93%), while the number of small and medium-sized enterprises is relatively low. Micro enterprises accounted for 37% of total SME value added, compared to 31% for small and 32% for medium enterprises. In terms of employment micro enterprises employ 44% of people in SMEs (small 30% and medium enterprises 26%).

Half of SMEs are concentrated in services, one fourth in trade activities, 14% in construction and 9% in manufacturing (Figure 1.1).

Table 1.1: Non-financial SMEs and large enterprises in 2017, value added and employment

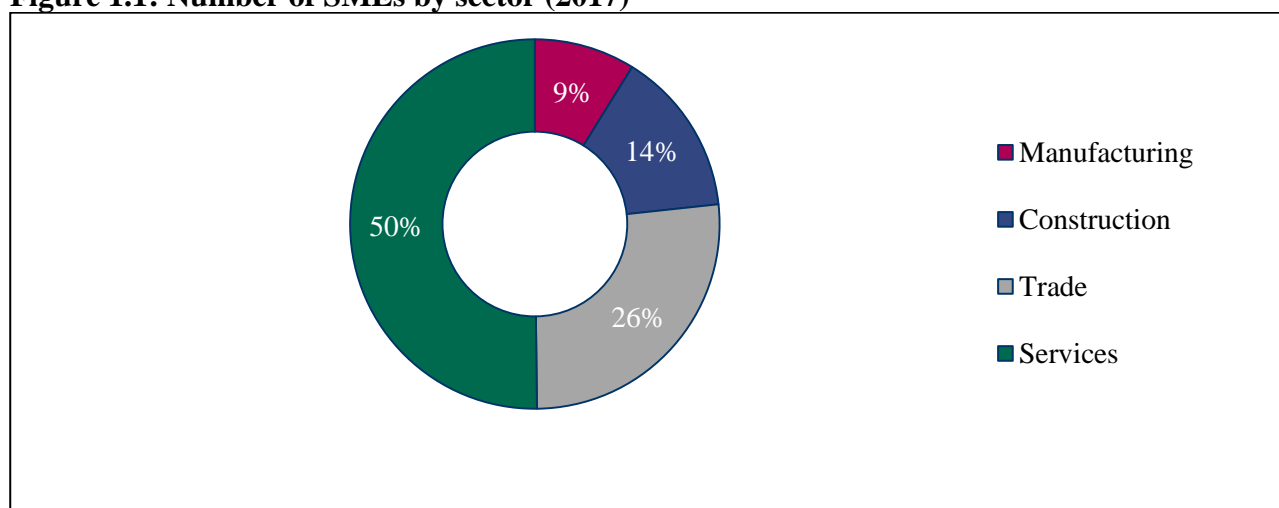
¹ European Commission (2003).

² All data refer to non-financial enterprises.

	Micro SMEs	Small SMEs	Medium-sized SMEs	All SMEs	Large enterprises	All enterprises
Number (million)	22.8	1.4	0.2	24.4	0.05	24.5
%	93.1%	5.8%	0.9%	99.8%	0.2%	100.0%
Value added (€ billion)	1 526	1 292	1 343	4 161	3 168	7 328
%	20.8%	17.6%	18.3%	56.8%	43.2%	100.0%
People employed (million)	42.0	28.6	24.2	94.8	47.9	142.7
%	29.4%	20.0%	17.0%	66.4%	33.6%	100.0

Source: based on European Commission (2018a), p. 14, based on Eurostat, National Statistical Offices, DIW Econ

Figure 1.1: Number of SMEs by sector (2017)

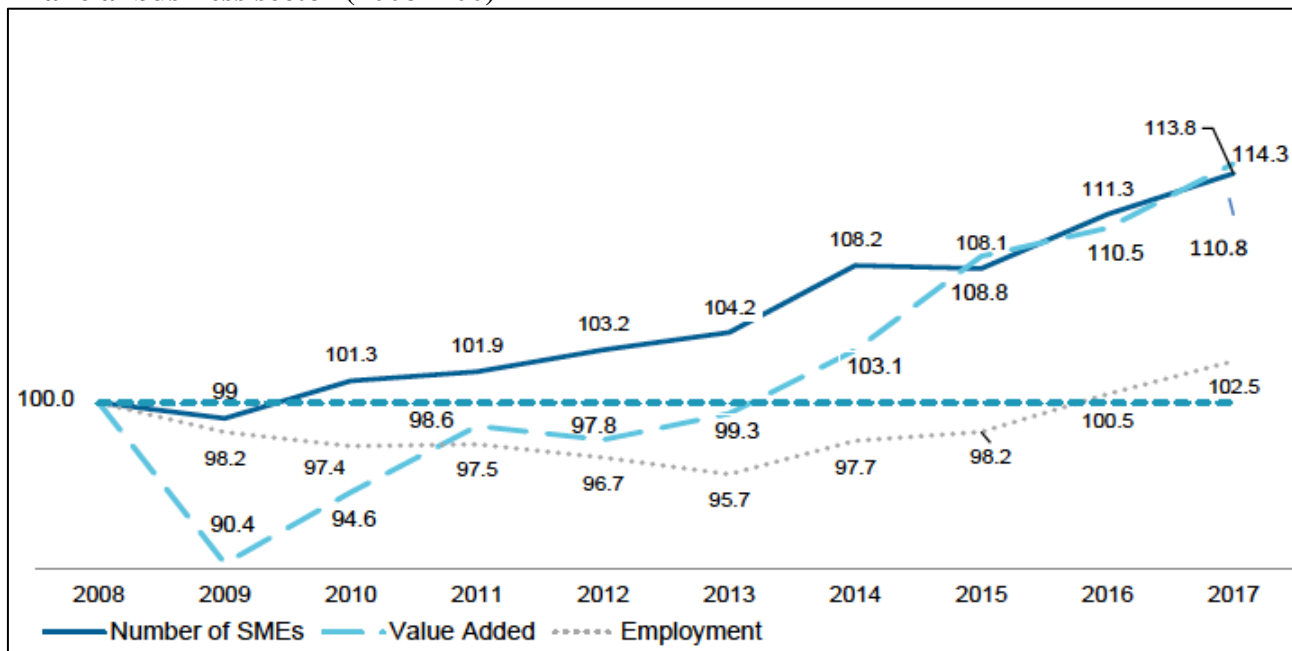


Source: European Commission (2018a).

SMEs have also played an important role in the recovery since the financial and economic crisis. Despite the dramatic consequences of the crisis on all sizes of SMEs, the recovery that started in 2010 is expected to continue. The number of SMEs increased by almost 14% from 2008 and 2017, mainly due to micro-enterprises (Figure 1.2). These also accounted for 47% of the increase in value added generated by non-financial businesses from 2008 to 2017 sector, and for 52% of the increased employment in the sector. The contribution exceeded their relative importance in the economy³.

³ European Commission (2018a), p.8.

Figure 1.2: Evolution of SME value added, employment and number of SMEs in the EU non-financial business sector (2008=100)



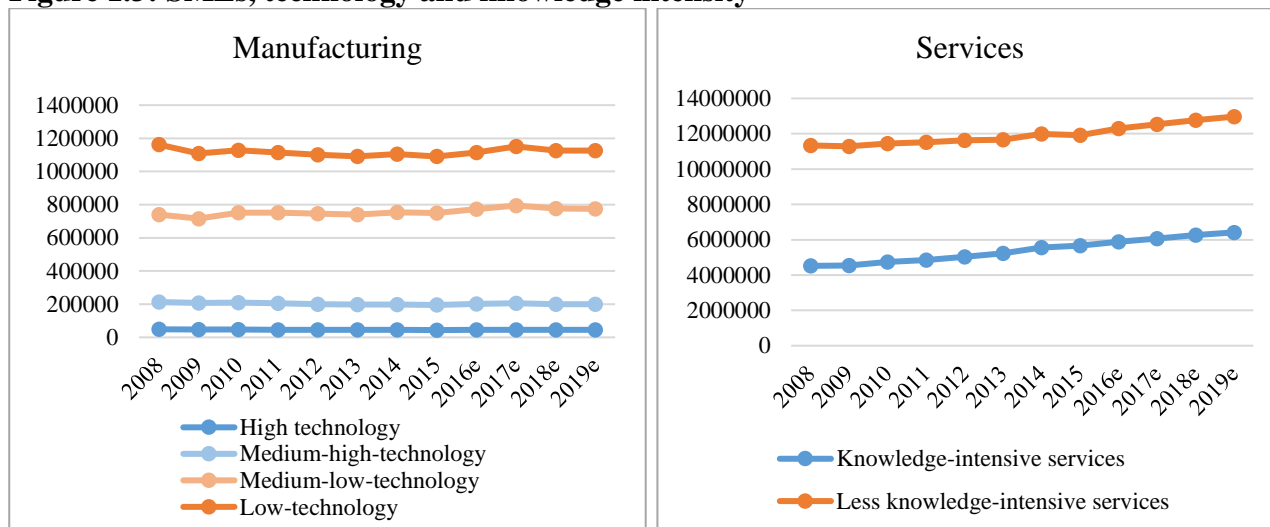
Source: reproduced from European Commission (2018a), p.35.

For the recovery of SMEs, a key role was played by **exports** which grew by 20% after 2012. SMEs represent more than 88% of all EU enterprises exporting goods. The increase in exports since the economic crisis is mainly due to increased intra-EU demand and most SMEs export to other EU countries rather than outside the EU. According to European Commission (2018)⁴, the key factors which increase the likelihood that an SME will export are: belonging to a group, being older, being large (in terms of turnover), having the ambition to grow, being active in the goods sector, selling to other businesses or organisations, and being innovative.

Concerning **innovation** and future potential (Figure 1.3), two third of the SMEs are currently operating in sectors which have either low knowledge or intense technology. In 2019 (Figure 1.4) they are expected to be 89% and 67% of the manufacturing and services sectors respectively. However, the number of knowledge intensive services is increasing much faster, especially high-tech, with cumulative growth for 2008-2019 of almost 58%.

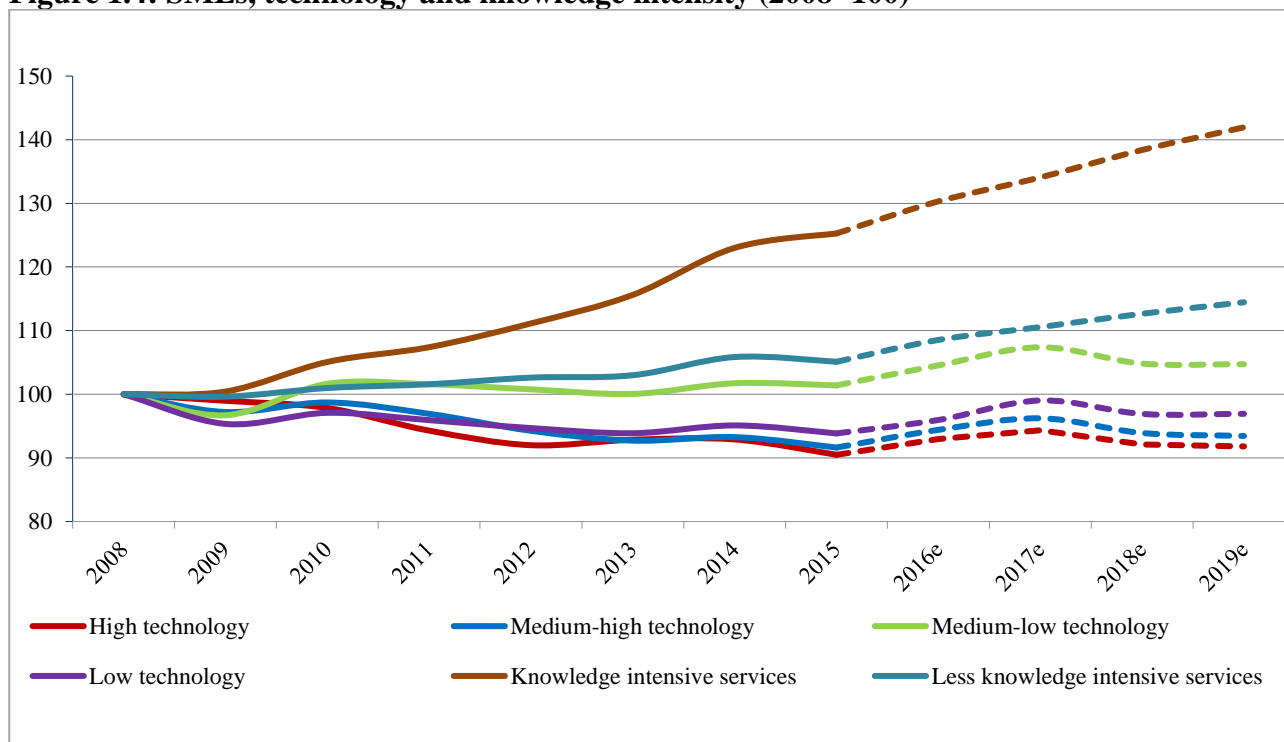
⁴ European Commission (2018a), pp.9-10.

Figure 1.3: SMEs, technology and knowledge intensity



Source: DIWECON data on SME Performance Review (2018).

Figure 1.4: SMEs, technology and knowledge intensity (2008=100)

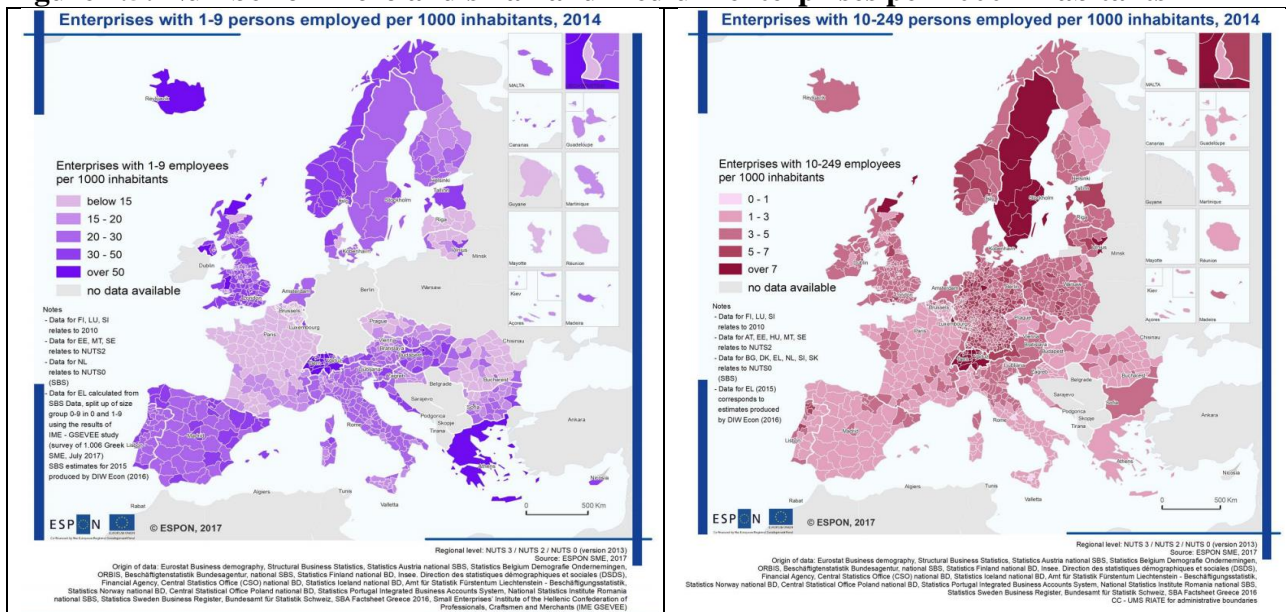


Source: DIWECON data on SME Performance Review (2018).

Geographically there are clear differences in the intensity of SMEs between EU countries. The most SMEs per 1 000 inhabitants is in the Czech Republic (115), followed by Slovakia (98), Portugal (94) and Sweden (90) while Romania (29), Germany (34) and the United Kingdom (40) have the lowest share of SMEs. This could be due to factors such as economic conditions, the industrial structure of each economy or public policy specifically promoting self-employment and new enterprises in some countries.

Looking at the **local and regional dimension**, the difference is more evident at the regional level (Figure 1.5). The maps highlight the number of micro-enterprises (first map) and small and medium-sized enterprises (second map) at NUTS2 level. Darker colours indicate a region with a higher share of enterprises.

Figure 1.5: Number of micro and small and medium enterprises per 1000 inhabitants



Source: reported from *Espon* (2018), p. 11-12.

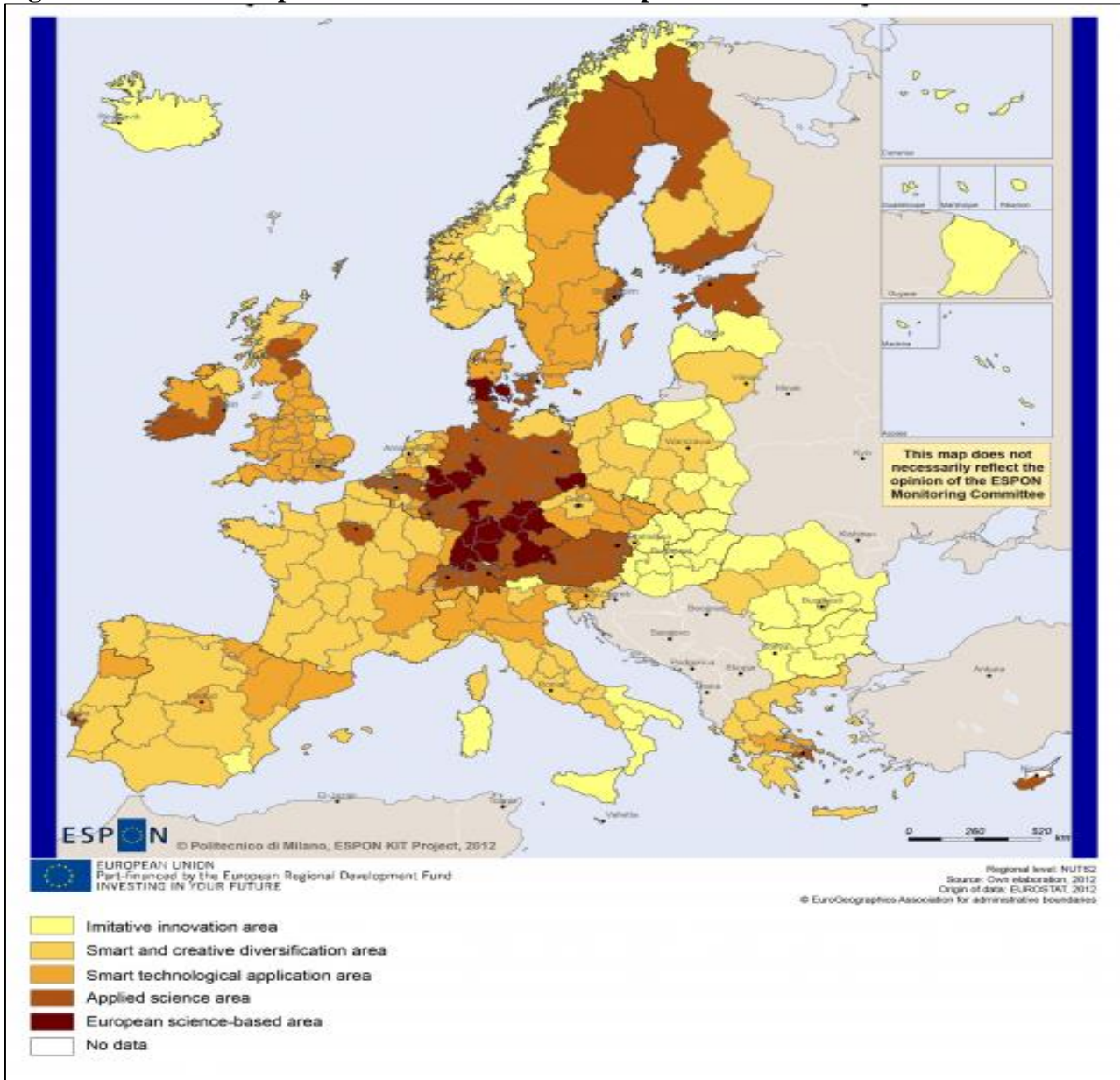
Regions across the EU differ not only in the number of SMEs, but also for **SME development patterns** (Figure 1.6). The ESPON-KIT study⁵ offers an interesting classification:

- South Germany, the Metropolitan areas of Vienna, Brussels and South Denmark are following ‘science-based’ path. In these areas the key elements of development, so the comparative advantage for a local SME, is R&D.
- North-central regions of Germany, some Scandinavia and southern Irish regions are ‘applied science areas. Here SMEs are producing significant knowledge and innovation for general purpose technologies and applied science.
- Northern Italy, Eastern areas of Spain and France as well as the Czech Republic have high product innovation and good capacity for translating R&D into innovation.
- Many of the Polish, Hungarian, Greek, Central Italian, Spanish and French regions are classified as ‘Smart and creative diversification’ areas, with low knowledge production but high entrepreneurship SMEs.

⁵ ESPON (2012).

- The other regions are identified as ‘Imitation’ areas where SMEs have low levels of knowledge, innovation and entrepreneurship.

Figure 1.6: Territorial patterns of innovation in Europe



Source: reproduced from ESPON (2012), p.19.

Box 1.2: Lessons from European Entrepreneurial Regions (EERs): a comparison between two regions with a different economic background

<p>Central Macedonia (EER 2018) has a strong orientation to industry and is the second industrial centre of Greece. In recent years the region developed projects and initiatives to increase economic competitiveness and foster SME development. These include Central Macedonia being part of the InterregEurope Cooperation programme as well as initiatives regarding innovation (collaboration with CERN, an independent Division for Innovation and Entrepreneurship support in the region). The region also has a high concentration of R&D organisations and private sector infrastructure initiatives.</p> <p>Despite the strong effort to boost SME competitiveness and contrast the effects of crisis, economic conditions in the region are still critical. GDP per capita decreased by 28% from 2008 to 2014. Moreover, Central Macedonia has many traditional sector SMEs that lack the ability to innovate. This is mainly due to the difficulty of finding skilled labour after the brain drain of highly educated and skilled personnel. A great portion of R&D expenditure in the region is concentrated on government and education, businesses receive only a small percentage.</p> <p>SMEs are also affected by a dramatic decrease in the national demand for goods and services as well as changing dynamics with increasing tariffs and barriers for global trade.</p>	<p>The region of Southern Denmark (EER 2013) has very favourable conditions for starting a business and a special entrepreneur-friendly environment. The region has a solid entrepreneurial spirit and a strong attitude to businesses start ups and self-employment. The region has the highest survival rate for new companies and the highest growth for entrepreneurs in all Danish regions. Southern Denmark is an EU leader for welfare technology, sustainable energy and the knowledge economy with well-established clusters.</p> <p>Its geographical location gives the region a strong potential for internationalisation, but this is not fully exploited as Southern Denmark has a lower share of exports than the national average.</p> <p>In the region there other factors also risk slowing SME development, such as insufficient collaboration between universities and the private sector. This translates into less innovation and overly complicated procedures that discourage SME participation in public procurement. In the region SMEs also have more difficulty than the national average to access venture capital.</p>
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Source: EER application forms of Central Macedonia and Southern Denmark.

1.2 Key obstacles for EU SMEs

As presented in the previous section, SMEs are crucial for the EU, though several obstacles can hinder their growth. The literature identifies internal and external factors (see the figure 1.7)⁶ with a negative impact on:

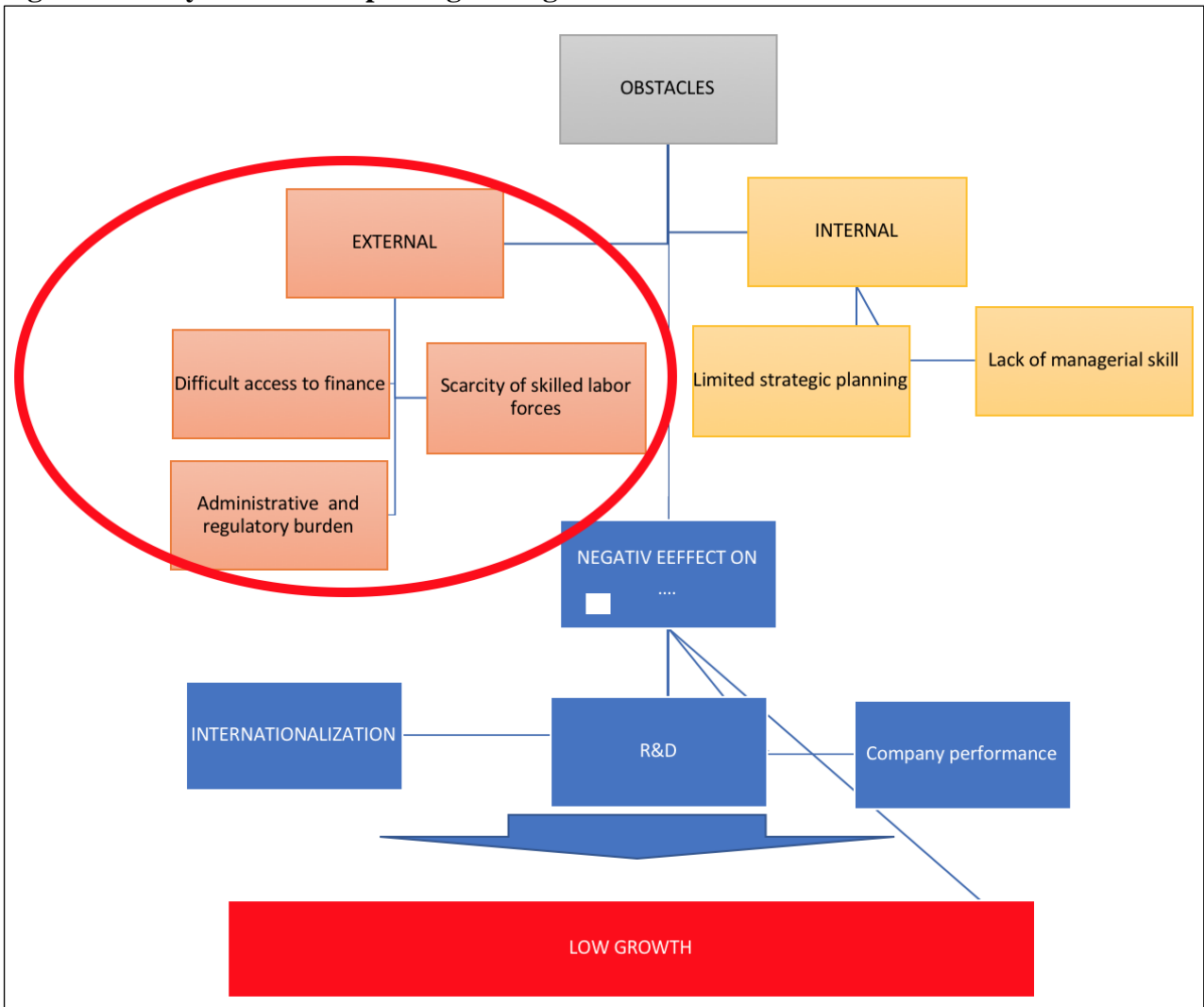
- SME competitiveness and internationalisation: the small size of SMEs, with a consequent lack of financial and human resources is a strong barrier to entering new markets.

⁶ Eurofound (2016).

- Research and development capabilities: limited innovation in many enterprises, especially in more traditional sectors such as manufacturing, make SME products less competitive in external markets.
- Company performance: in comparison to large enterprises SMEs perform worse in terms of turnover and value added.

In turn, limited internationalisation, low innovation and company performance have a negative effect on potential SME growth.

Figure 1.7: Key obstacles impacting SME growth



Source: t33 elaboration.

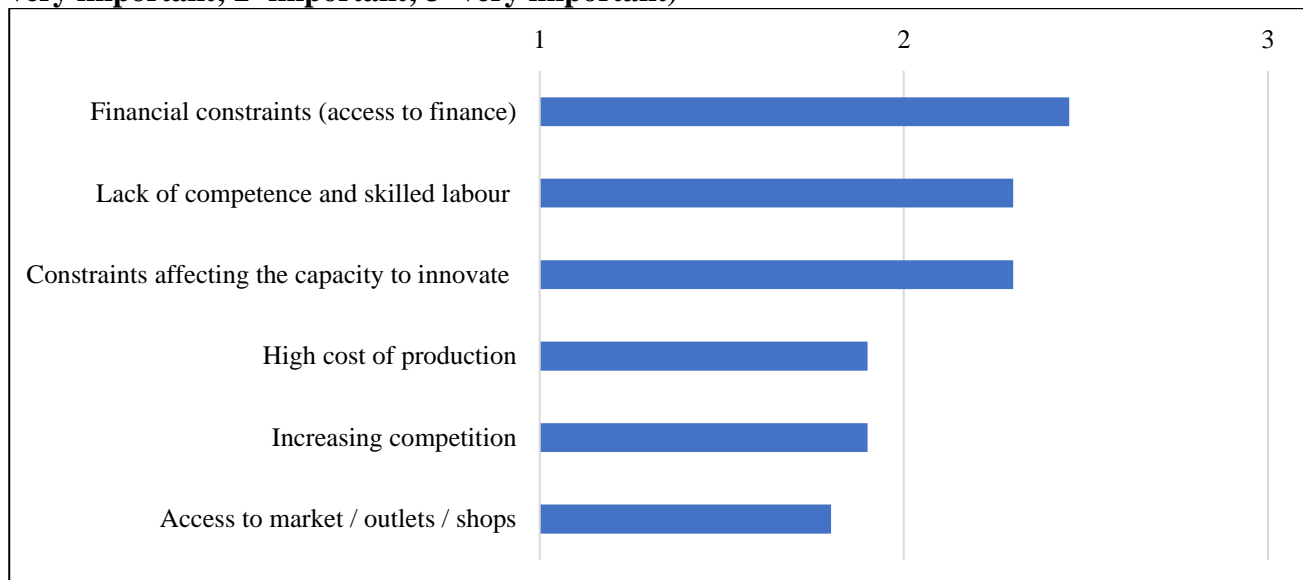
Given the specific objectives of this study, this section focuses on external factors which are more relevant for EU policy:

- availability of skilled labour,
- difficulty to access finance,
- regulations and administration (taxes, laws unfriendly to small businesses).

According to the Survey on Access to Finance for Enterprises (SAFE) survey⁷ EU SMEs identify the **availability of skilled labour** as the main challenge. This was the most pressing problem for 25% of SMEs in 2018 and has grown over time (in 2013 only 14% of SMEs identified it as the main challenge). SMEs are dynamic and at the same time vulnerable actors in the economy. They are particularly sensitive to internal production process changes, increasing competition from developing countries such as China and India and unpredictable events like the economic and financial crisis. Access to skilled labour could therefore be crucial in helping SMEs to react and adjust to changes. Upgrading skills is considered as an essential factor to fight external competition⁸.

Moreover, the interviewed LRAs indicate the ‘lack of competence and skilled labour’ as the second key challenge faced by SMEs in their regions (see Figure 1.8).

Figure 1.8: Key challenges/problems SMEs in the region/territory are currently facing (1= not very important; 2=important; 3=very important)



Source: based on Q.1, see Annex II and Annex III.

LRA survey quote
Challenges for SMEs are always dependent on economic cycles. This makes the availability of skilled labour and talents the main challenge currently. SMEs have also a need for external expertise in IT, digitalisation, innovation, sustainability, and internationalisation.

⁷ See European Commission (2018b), p.132. SAFE provides information on the latest developments in the financial situation of enterprises in the EU. Survey results are broken down by firm size, branch of economic activity, country, firm age, financial autonomy and ownership. The survey is conducted twice a year: once by the ECB covering euro area countries and once in cooperation with the European Commission covering all EU countries plus some neighbouring countries.

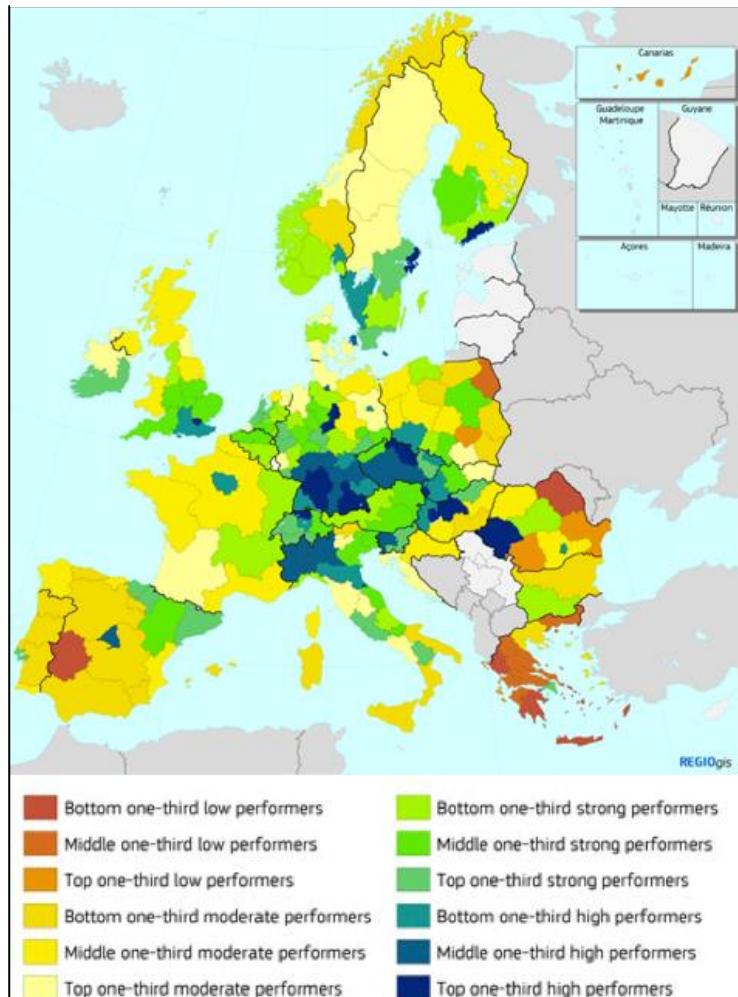
⁸ Jansen and Lanz (2012).

The general trend at EU level is that SMEs experience problems in hiring skilled workers due to competition from big enterprises and general financial conditions. However, SMEs do not invest enough in training for their existing staff. This mainly relates to a lack of information as entrepreneurs are not always aware of how much an enterprise can benefit from a more skilled workforce.

At regional level, differences across and within Member States is highlighted by employment in medium-high/high tech manufacturing and knowledge-intensive services as a share of the total workforce⁹ (Figure 1.9).

Employment in medium-high and high tech manufacturing and knowledge-intensive services is high in 47 regions in Europe¹⁰. Nine countries have at least one region that is in the top third of high performing regions. There are five such regions in Germany five in other Innovation Leader countries, but also regions in Eastern Europe including Severovýchod in the

Figure 1.9: Employment in medium-high/high tech manufacturing and knowledge-intensive services as a share of the total workforce



Source: reproduced from European Commission (2017a), p.54.

Czech Republic, Közép-Magyarország and Közép-Dunántúl in Hungary, Vest in Romania, and Bratislavský kraj in Slovakia. All countries except Croatia have at least one region in the strong performing group. Low

⁹ The share of employment in high technology manufacturing sectors is an indicator of manufacturing that is based on continuous innovation through creative, inventive activity. Total employment gives a better indicator than manufacturing employment alone, since the latter is affected by the relative decline of manufacturing in some countries. Knowledge-intensive services such as telecommunications can be provided directly to consumers and provide inputs to the innovative activities of other firms in all sectors of the economy. The latter can increase productivity throughout the economy and support the diffusion of innovations, in particular those based on ICT. See European Commission (2017a), p. 62.

¹⁰ The 20 regions with the highest scores are: Stuttgart (DE11), Stockholm (SE11), Bratislavský kraj (SK01), Oberbayern (DE21), Braunschweig (DE91), Vest (RO42), Tübingen (DE14), Karlsruhe (DE12), Helsinki-Uusimaa (FI1B), Severovýchod (CZ05), Zürich (CH04), Nordwestschweiz (CH03), London (UKI), Közép-Magyarország (HU10), Közép-Dunántúl (HU21), Hamburg (DE60), Lombardia (ITC4), Hovedstaden (DK01), Darmstadt (DE71), and Praha (CZ01). See European Commission (2017a), p.54.

performing regions are in only four countries, Poland, Romania, Spain and most notably in Greece.

Investing in training or hiring skilled workers can be hindered increased labour and other costs. The SAFE survey, notes that the majority of SMEs (58%) reported increases in labour costs in 2018¹¹. The survey also underlines that non-exporting enterprises report increases in labour costs slightly more often than exporting ones. In addition, more innovative enterprises experienced increases in labour costs than non-innovative ones. The survey also highlights that 61% of EU SMEs, especially in industry, experienced increases in other costs such as materials and energy¹². As with labour costs, more innovative enterprises experienced increased other costs than those non-innovative ones.

Direct quote from the LRA survey

High costs of production, such as electricity, in particular, which is 30% higher than in the rest of the country, have consequences on competitiveness. There are also too many auxiliary costs related to administrative and regulatory burden, e.g. energy management fee, commercial transport tax, notary expenses etc.

Box 1.3: Lessons from EER regions

Ile de France (EER 2018) highlighted the difficulty of SMEs to hire high qualified workers in the application form. This is not related to education as in other regions since there are many young graduated and the university is high quality. Instead employment is hard to find which causes a brain drain of the high-qualified workforce who find other regions more attractive and competitive than Ile de France.

In **Flanders** (Belgium, EER 2014) several weaknesses relate to labour. High costs make it difficult for industry to resist moving to low wage countries. Lower wage countries gain more along with access to the same knowledge as high labour cost economies. Moreover, there is a lack of young people with specialised technical skills and more aging entrepreneurs.

Southern Denmark (EER 2013) is facing a serious demographic threat with lower birth rates and an aging population causing labour shortages. Moreover, the shortage of highly educated people in the region risks impeding future growth and innovation. Delocalisation of unskilled production jobs and knowledge-intensive work creates additional challenges for the region looking to re-employ people based on increased competitiveness and skills up-grading.

Source: EER application forms of Ile de France, Flanders and Southern Denmark.

The lack of investment in training by SMEs is also related to the **critical financial condition of small businesses that were strongly affected by credit constraints after the financial crisis.**

¹¹ See European Commission (2018b), pp.124-125.

¹² See European Commission (2018b), pp.126-127.

SMEs in the EU seem to lack not only funding for training, but also the capacity to effectively assess their future needs in terms of skills. Having a highly skilled workforce is crucial for innovation. SME innovation is another challenge at EU level which is strictly related to a lack of skilled labour in enterprises. Without adequate skills, enterprises cannot capitalise on R&D and transform this into innovation. Moreover, a skilled workforce is fundamental for EU SMEs looking to increase their technological and digital level, which is another critical issue especially in manufacturing as shown in the previous paragraph.

Access to finance is one of the most important issues that enterprises have faced since the 2008 crisis. Difficulties in accessing finance is indicated by the LRAs as the main challenge for SMEs (see Figure 1.8). According to the SAFE survey¹³, access to finance is indicated as the most pressing problem by 7% of EU SMEs in 2018 against the 15% in 2013, indicating a general improvement in the capacity of SMEs in accessing credit. Though there are still unsolved issues.

First, the proportion of EU SMEs which reported that their financial needs had increased was higher than those reporting a decrease, especially for trade credit, equity, leasing, hire-purchase, or other types of loans.

More SMEs experienced an increase in interest rates than a decrease (for 2014 to 2017, the reverse was true) and increases in non-interest rate costs of financing and collateral than decreases. In addition, in 2018, more SMEs reported an increase rather than a decrease in loan size and loan maturity. **These indicate that SME needs for finance are still significant, though the costs for obtaining finance are still high.** Most SMEs that feel that there are limiting factors (55%), consider financing costs, including interest rates and price as the main limitation, and insufficient collateral or guarantees in their organisation as the second limiting factor¹⁴.

Second, **access to public financial support (including guarantees) continued to be a net negative factor**, as in previous years¹⁵. Also for 2018, the number of SMEs reporting deterioration was higher than those reporting an improvement. Moreover, the 2017 EIF SME Access to Finance Index (ESAF)¹⁶ shown in Figure 1.10, indicates that in most Member States, SMEs experienced a deterioration in external financing conditions, especially with respect to 2016. In addition, since ESAF allows comparison

¹³ See European Commission (2018b), p.133.

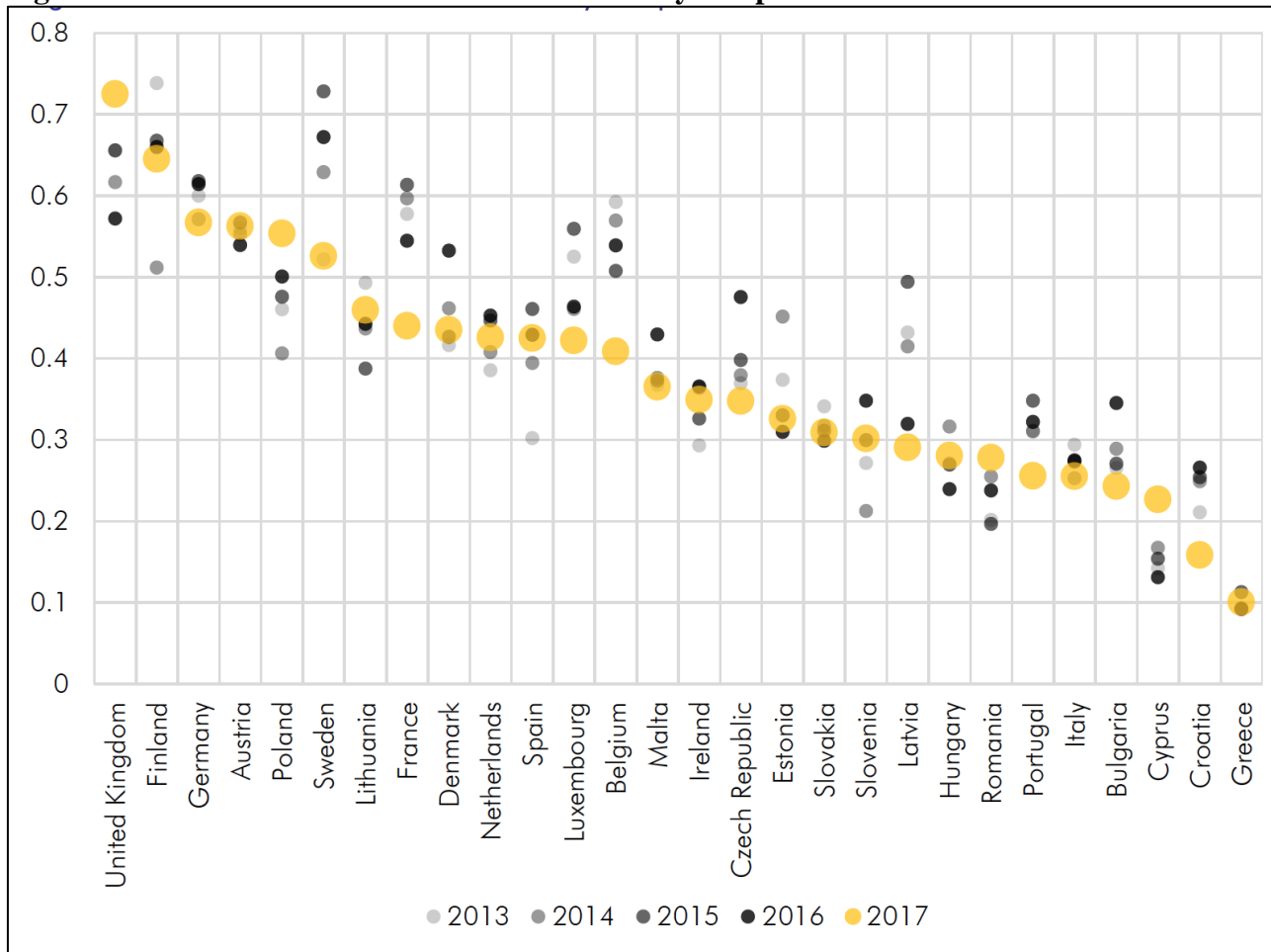
¹⁴ See European Commission (2018b), pp.109-110.

¹⁵ See European Commission (2018b), pp.66.

¹⁶ ESAF is a composite indicator that summarises the state of SME external financing markets for EU28 countries. The indicator is a convenient tool to compare and benchmark country performance for SME access to finance. The index has four subindices, three relate to financing instruments, while the fourth covers general macro-economic conditions for SMEs. The subindices in turn have several variables. See European Investment Fund (2018).

across Member States¹⁷, it indicates a significant variation in SME access to external financing across countries in 2017.

Figure 1.10: The EIF SME Finance Index: country comparison and evolution over time



Source: reproduced from European Investment Fund (2018), p.3

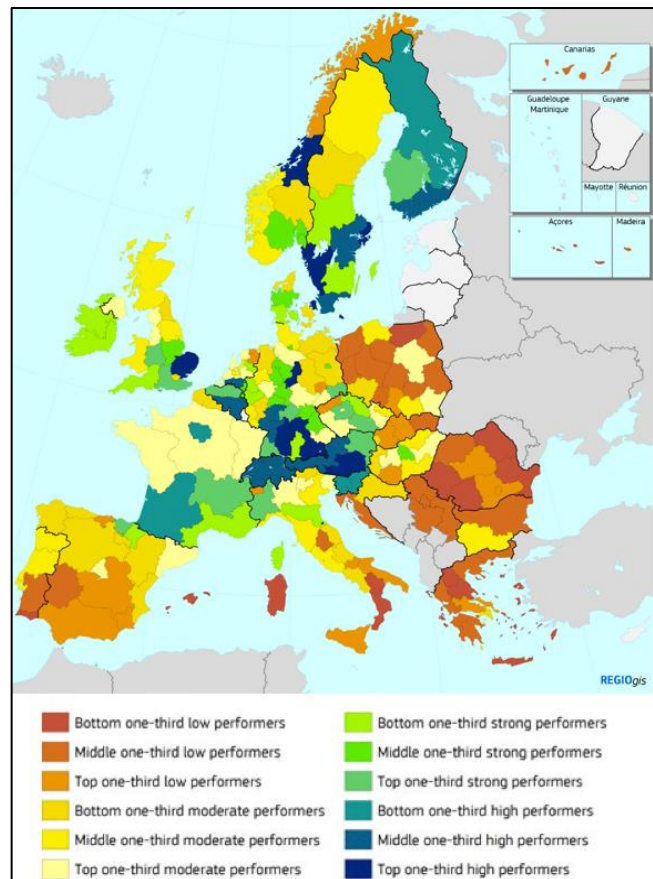
Direct quote from the LRA survey
The first problem that should be mentioned concerns the ability to maintain SMEs with support to their operating costs and working capital. The second problem concerns SMEs, which do not have positive management uses, thus affecting their participation in financial programmes.

¹⁷ The relative interpretation implies that, while it is possible to compare the ESAF values of countries within a given year, or compare how the relative position of countries has changed over time, it is problematic to interpret an ESAF value isolated on a scale of 0 to 1. For example, a value of 0.5 does not in itself imply a country performs average in terms of access to finance. Instead, it implies a country performs average vis-à-vis the best and the worst performing country. It is also not possible to track the performance of an isolated country's ESAF over time. An increase in the value of its index does not necessarily imply SMEs in that particular country experienced an increased access to finance. See European Investment Fund (2018).

Looking at the scope of the required finance, SMEs use most finance for fixed investments (41%) and working capital (37%), including inventory¹⁸. **Only one fourth of SMEs invest in hiring and training staff or developing and launching new products and services.** Logically, this impacts on skills and, therefore, on innovation capabilities.

As underlined by Figure 1.11, there are still significant regional differences across and within Member States in R&D investment by enterprises. Regions in the top third high performing group for Business R&D expenditure are in a few countries: Austria, Denmark, Germany, Norway, Sweden, and the United Kingdom¹⁹. All regions in Slovenia and Switzerland belong to high performing regions. Most regions in Finland belong to the high performing group except for Länsi-Suomi, which belongs to the top third strong performing group. Regions in the South of Sweden and France also perform well on R&D expenditure for business. Most regions in Southern European countries are relatively weak on Business R&D expenditure, except for some regions in the North of Spain, País Vasco and Comunidad Foral de Navarra, and in the North of Italy, Emilia-Romagna and Piemonte, which belong to the strong performing group.

Figure 1.11: R&D expenditure in the business sector as percentage of GDP



Source: reproduced from European Commission (2017a), p.44.

¹⁸ See European Commission (2018b), pp.59.

¹⁹ The top-20 regions with the highest scores are (in descending order): Stuttgart (DE11), Braunschweig (DE91), Tübingen (DE14), Oberbayern (DE21), Südösterreich (AT2), Hovedstaden (DK01), Stockholm (SE11), Mittelfranken (DE25), Trøndelag (NO06), Västsverige (SE23), East of England (UKH), Karlsruhe (DE12), Etelä-Suomi (FI1C), Sydsverige (SE22), Darmstadt (DE71), Rheinhessen-Pfalz (DEB3), Helsinki-Uusimaa (FI1B), Région Wallonne. See European Commission (2017a), p.44.

Box 1.4: Lessons from EER regions

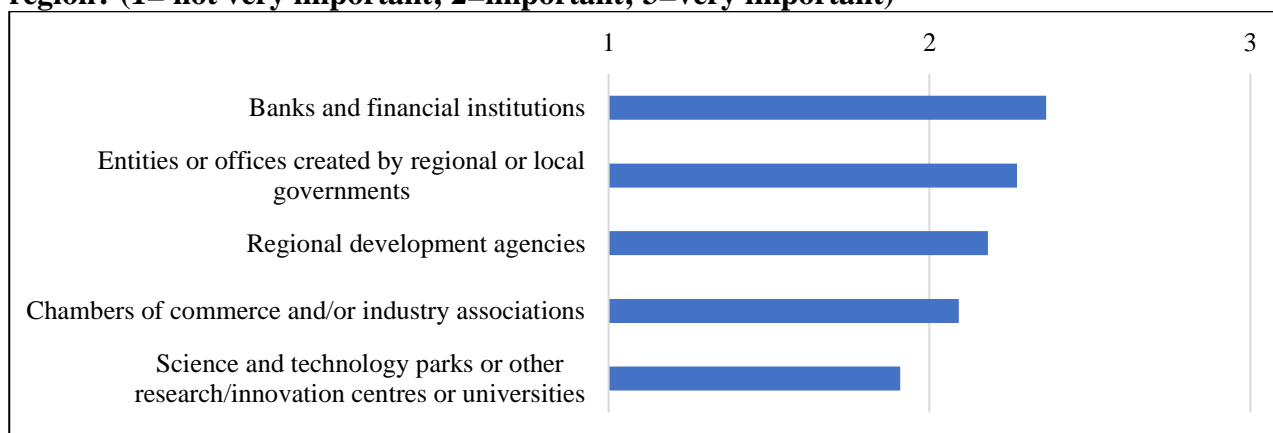
In **Western Greece** (EER 2017), a key weakness for SMEs landscape is that domestic funding for businesses has very much dried out and new tools such as crowdfunding are not yet established. There is very little know-how for attracting non-bank finance resources and non-state funding. There is a financial gap for financing of EUR 100,000 to EUR 1 million especially for instruments combining debt and equity. This is a key obstacle for SMEs to increase R&D and to upgrade technology.

In **Malopolska** (Poland, EER 2016), one of the identified opportunities in the EER application is the change of attitudes to financing among companies, i.e. giving preference to R&D rather than purchasing finished machinery and technologies. On the counterpart, this can be threatened by the slowly changing attitudes of financial institutions to supporting high-risk innovative solutions (unable to make up for the development of modern technologies in the world), which may weaken the technology potential of Małopolska's companies.

Source: EER application forms of Western Greece and Malopolska.

The LRA survey highlights that banks and financial institutions are the most important bodies supporting SMEs, followed by entities or offices created by regional or local governments (Figure 1.12). Their role is considered more important than science and technology parks or other research/innovation centres or universities.

Figure 1.12: To what extent are these organisations/bodies involved in supporting SMEs in your region? (1= not very important; 2=important; 3=very important)



Source: based on Q.3, see Annex II and Annex III.

Direct quote from the LRA survey

Banks and financial institutions are deemed to be very important for supporting SMEs of the region; however, their support is not always relevant, i.e. often not affordable. Support of regional institutions is also important as it usually comes free of charge.

There are hardly any regional representation offices of industry associations. There are only representation offices of the Chambers of Commerce and the Employer's Confederation. Their main aim, however, is to serve the interests of their members, which in most cases are enterprises in the capital. Thus, they are often rather lobbying the interests of their big members, than supporting regional SMEs.

Another barrier is the **regulatory framework** which is a burden for SMEs in terms of compliance costs (i.e. privacy and safety regulation) and requirements such as fiscal obligations and participation in public procurement). Production and the sale of goods and services in Europe are subject to many administrative requirements and regulations, such as registering a firm, certification of products and services, mutual recognition schemes, emissions requirements, the security of industrial goods, safeguarding intellectual property rights and technical standards²⁰.

All these have cost implications for enterprises, SMEs in particular, affecting their capacity to innovate or the availability of qualified human capital at their disposal. SMEs are typically less efficient than large firms in screening the regulatory environment and dealing with norms²¹. Moreover, differences in regulations or their implementation across Member States can lead to additional costs. SMEs can be at a competitive disadvantage in worldwide markets and the regulatory framework also negatively impacts internationalisation. SMEs are not efficient in dealing with legislation, especially for external countries, and this is a significant cost. SMEs rarely possess adequate skills and have to buy such services.

The regulatory framework quality is strictly related to the quality of institutions, which impacts SME performance (for instance, the cost and time to start a company or obtain permits). Poor quality governance and institutions is the main obstacle to development in low-growth regions²². Improving the quality of government can have multiple benefits from a more efficient business environment, to better public services and improved regional development strategies. While lack of transparency and corruption in the public sector are detrimental to all businesses, they pose particular problems for SMEs. These often lack the capacity to cope with an opaque public sector, or design and implement anti-corruption strategies and lobby for their needs in the absence of an established framework for participation in public decision making²³.

²⁰ See Committee of the Regions (2017a), pp.56-58.

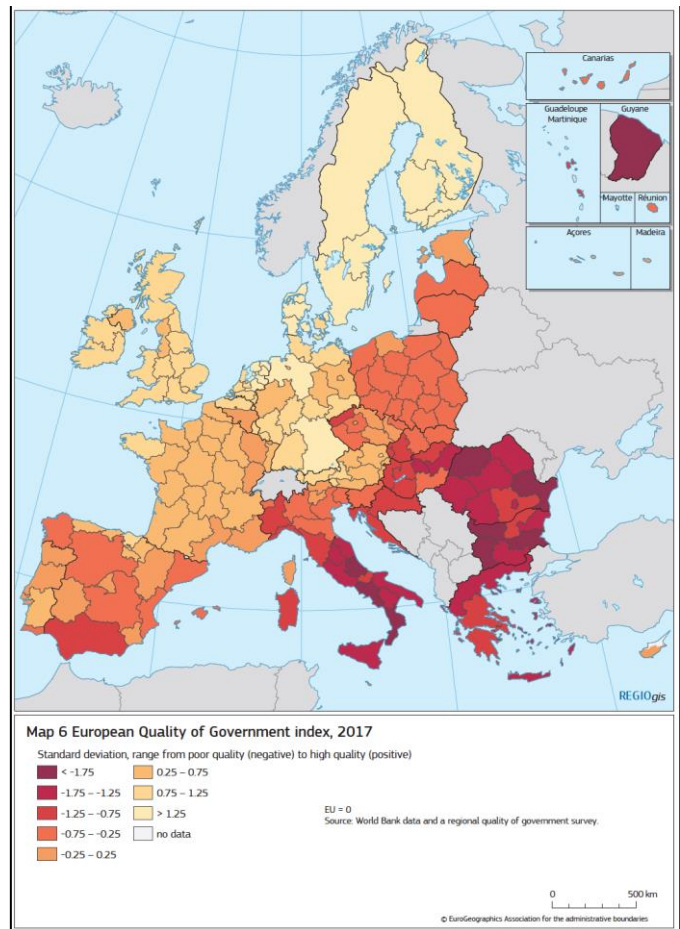
²¹ OECD (2018), p.3.

²² See European Commission (2017b).

²³ OECD (2018), p.7.

As evidenced by Figure 1.12 the perceived quality of government varies markedly between and within EU Member States²⁴. The quality of government and institutions appears to be the main obstacle to development in regions with persistently low growth rates. Italy, Greece and Spain imply that some less advantaged regions in these countries may be stuck in a low-administrative quality, low-growth trap. Regions in the east of the EU, especially in Bulgaria and Romania, which have enjoyed relatively high growth over the past decade or so, may find poor government may impede development and the move to a higher value-added economy.

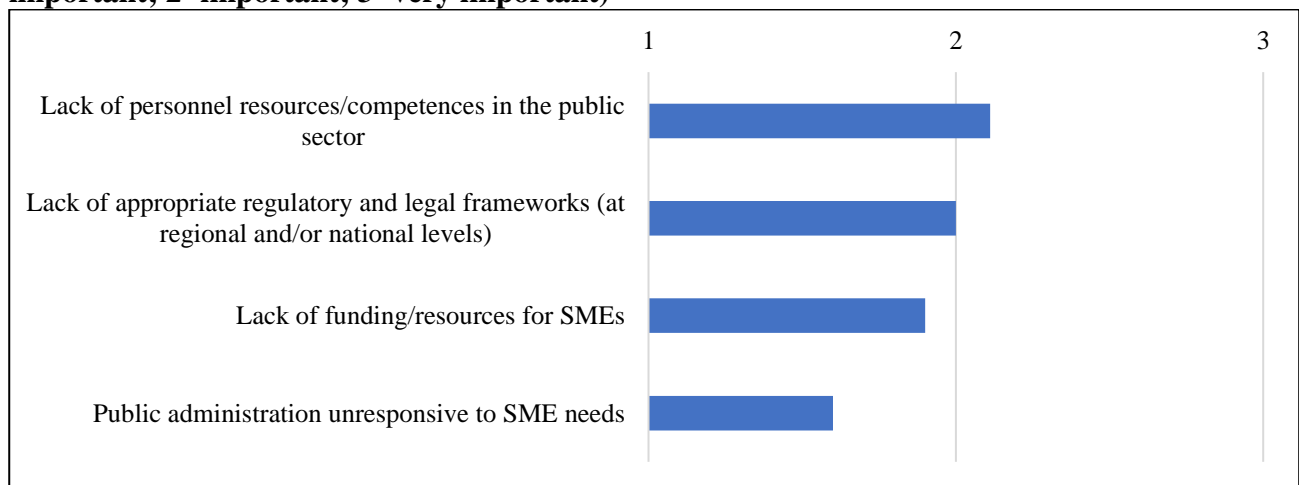
Figure 1.12: European Quality of government Index 2017



Source: reproduced from European Commission (2017c), p.20.

Interestingly the LRAs surveyed saw the main problem in supporting SMEs as a lack of personnel resources and competences in the public sector. This challenge is slightly more important than the lack of appropriate regulatory and legal frameworks (Figure 1.13).

Figure 1.13: Key challenges/problems LRAs currently face in supporting SMEs (1= not very important; 2=important; 3=very important)



Source: based on Q.2, see Annex II and Annex III.

²⁴ European Commission (2017c), pp.139-140.

Direct quotes from the LRA survey

- *The main challenge for the LRA is to match specific target groups with specific SME instruments and programmes. For this it needs to have good and up-to-date knowledge of the market needs and impact.*
- *Qualified specialists move to the private sector, there are not enough resources, including human resources (specialists, experts), in the public sector.*
- *LRA has technical skills but sometimes lacks management or policy maker skills, such as cluster managers.*

Box 1.5: Lessons from EER regions

In **Thessaly** (Greece, EER 2019), one weakness relates to conditions affecting the entrepreneurial environment (i.e., taxation, investment in education and training, stimuli for R&D and investments, labour market, environmental regulations, etc) being set at the national level by the Government. This leaves the Regional Authority with little freedom to develop and implement place-based policies. For instance, access to finance is still highly problematic since government arrears are high and delays in payments between enterprises are well above the EU average. There are also unstable tax and labour regimes and the reform agenda is not fully implemented at the national level. Moreover, the regional government has a modest institutional capacity and limited means to support new and growing firms.

In **Malopolska** (Poland, EER 2016), a key threat is domestic regulations that could constrain the development of new companies and the implementation of innovations. This may result in companies relocating to foreign countries offering more business-friendly conditions. A majority of SBA strategy actions therefore relate to reduced administrative burden and to legal regulations applicable to the conduct of business taken, in accordance with the distribution of competencies between the particular levels of government, at the central level (mainly legislation).

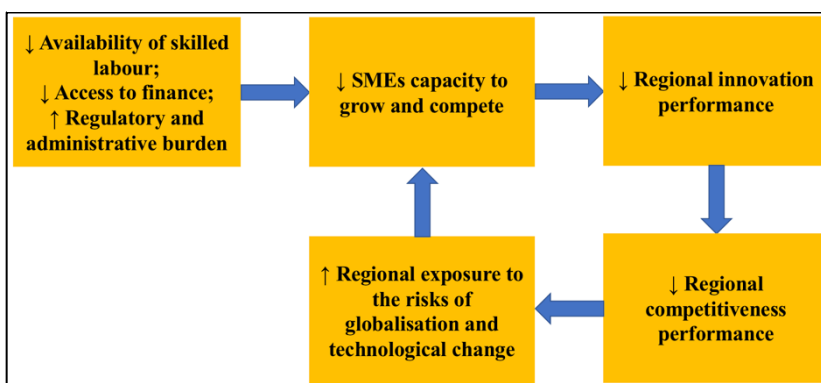
In **Catalonia** (Spain EER 2012), a key weakness affecting the business environment is the excessive administrative regulation. Moreover, a lack of coordination on innovation policies between government agencies further limits the capacity and propensity of SMEs to innovate.

Source: EER application forms of Thessaly, Malopolska and Catalonia.

These key external obstacles for SMEs (lack of skilled workers, difficulties in accessing finance reducing investment in training and R&D, and a lack of appropriate regulatory framework coupled with low quality government) can significantly impact regions. SMEs represent the majority of people employed as well

as of value added in the EU economy. Challenges that limit their capacity to grow and compete can therefore negatively affect the capacity of the regional economies to develop. In turn, limits to regional economic development can further affect the

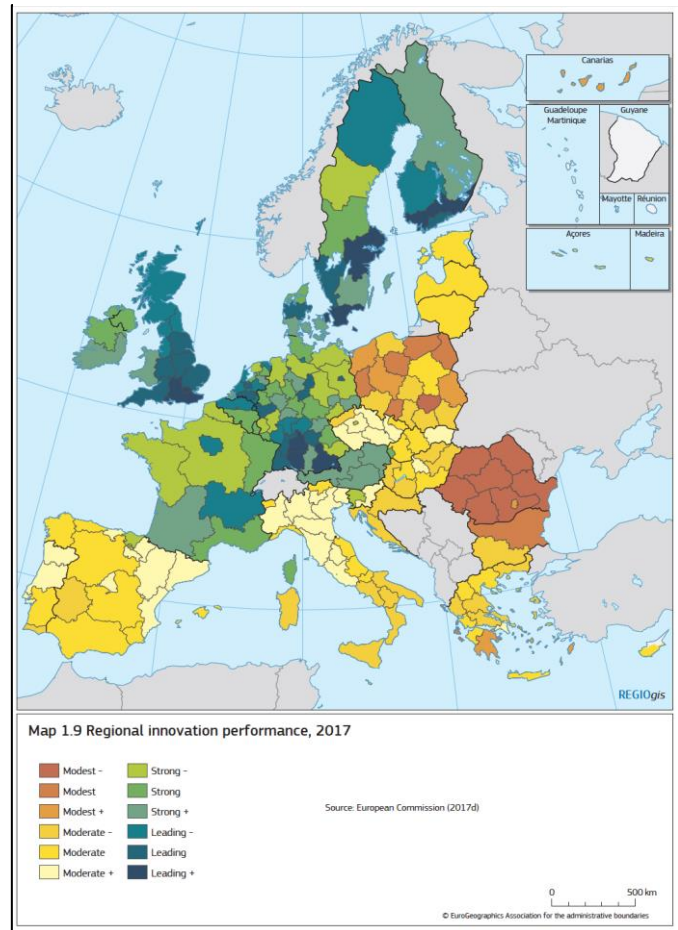
Figure 1.14: From the key challenges affecting SMEs to a vicious circle affecting the entire regional economic system.



capacity of SMEs to grow and compete creating a vicious circle affecting the entire regional business and economic environment.

First, there are profound differences between and within Member States in the capacity of regions to innovate (see Figure 1.15), according to the Regional Innovation Scoreboard 2017²⁵. In this SMEs are particularly important since as indicators note their R&D expenditure, their capacity to introduce product, process, or marketing innovations, and their propensity to collaborate. Innovation Leaders perform best on all indicators, in particular those indicators measuring the performance of their research system (scientific publications) and business innovation (shares of innovative enterprises). Most Regional Innovation Leaders are in countries identified as Innovation Leaders (such as Sweden, Denmark, German, the Netherlands)²⁶. Almost all Regional Moderate and Modest Innovators are in countries identified

Figure 1.15: Regional innovation performance



Source: reproduced from European Commission (2017c), p.34.

as Moderate (such as Italy, Spain, Portugal, Poland, Greece) and Modest Innovators (Bulgaria and Romania). However, regional ‘pockets of excellence’ can be identified in some Moderate Innovator countries (for instance, *Praha (Prague)* the Czech Republic, *Bratislavský kraj* in Slovakia, and *País Vasco (Basque Country)* in Spain), while some regions in Innovation Leader and Strong Innovator countries lag behind.

²⁵ European Commission (2017a).

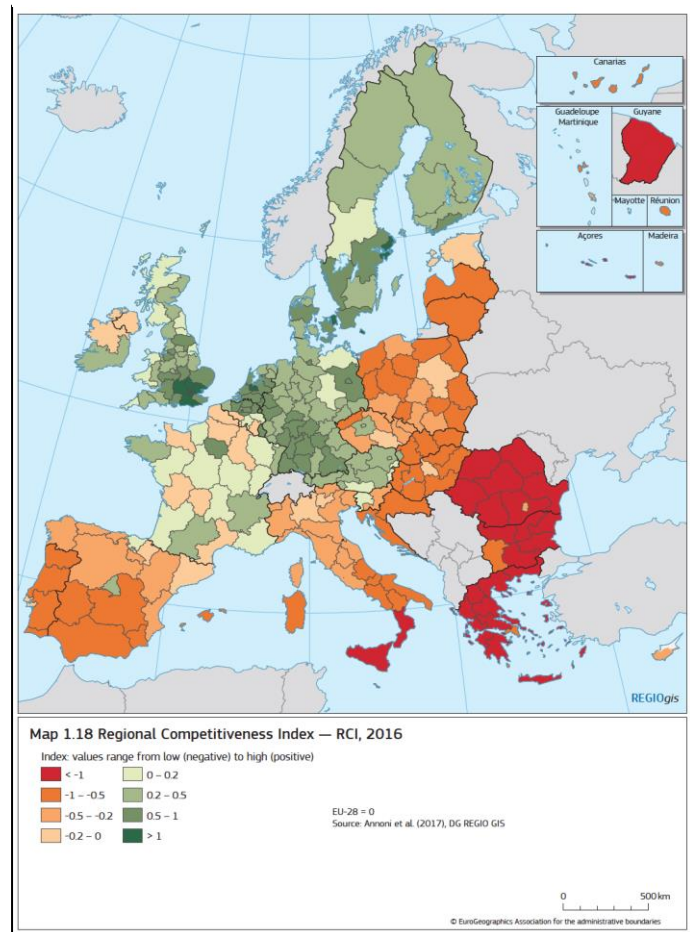
²⁶ European Commission (2018c).

Second, the innovative capacity of a region has a profound implication on its capacity to compete. Regional competitiveness is the ability of a region to offer an attractive and sustainable environment for firms and residents to live and work²⁷. The Regional Competitiveness Index (RCI)²⁸ displayed in Figure 1.16 shows a strong correlation with the Regional Innovation Scoreboard (Figure 1.15). The highest RCI are seen in capitals and other metropolitan regions in many parts of Europe.

Capital regions in most countries are those with the most enterprises relative to population as well as the most newly created enterprises and high-growth firms. Cities tend to have larger labour markets and better matching of labour demand and supply, better sharing of inputs such as infrastructure, in the production process and more people working and living in close proximity, enabling them to learn more easily from each other.

In some countries, capital cities are surrounded by similarly competitive regions, indicating spill-over effects. But in other countries, regions neighbouring the capital are far less competitive. The gap between the capital city region and others is particularly wide in Romania, Greece, Slovakia, Bulgaria and France. A big gap of this kind generally puts substantial pressure on the capital city while possibly leaving resources in other regions underutilised. Moreover, compared to 2010, in some regions

Figure 1.16: Regional Competitiveness Index 2016



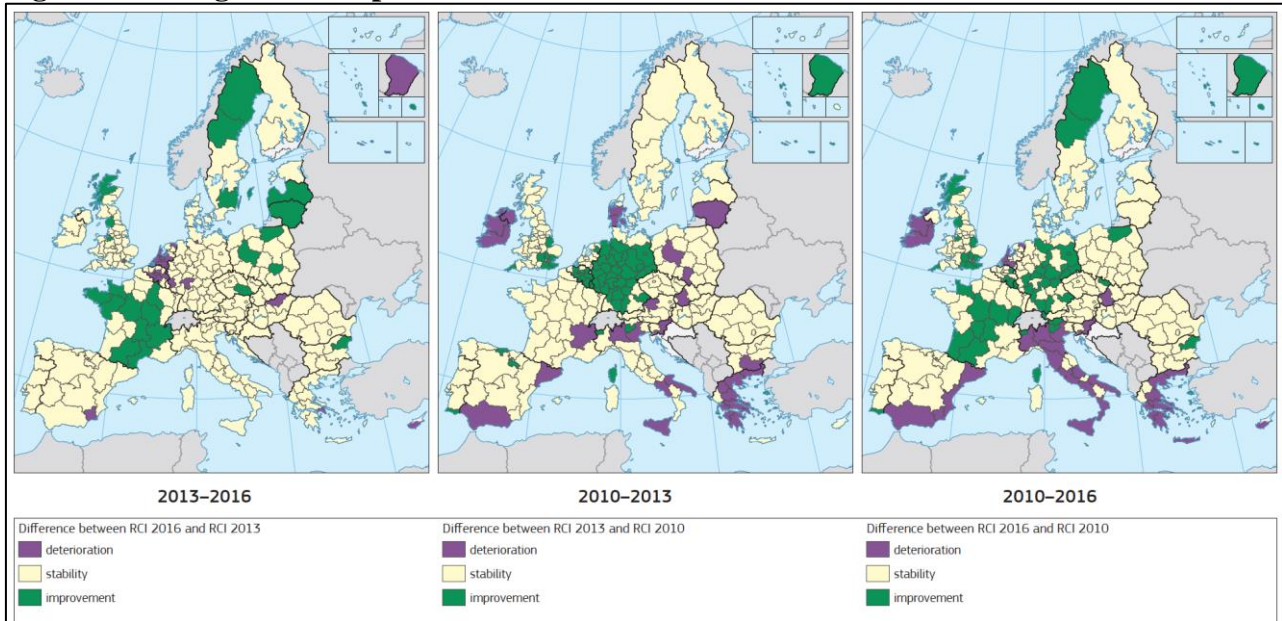
Source: reproduced from European Commission (2017d).

²⁷ European Commission (2017c), p.46.

²⁸ European Commission (2017d). The RCI is designed to capture different dimensions of competitiveness for NUTS 2 regions and is the first measure to provide an EU-wide perspective on this. The 2016 edition follows editions published in 2010 and 2013. All three are based on the same approach as the Global Competitiveness Index of the World Economic Forum. The 2016 index has 11 pillars that cover the different aspects of competitiveness, which are classified into Basic, Efficiency and Innovation groups. The Basic group includes five pillars: (1) Institutions; (2) Macroeconomic stability; (3) Infrastructures (4) Health and (5) Basic education, which are key drivers for all types of economy. As a regional economy develops and advances in its competitiveness, factors related to a more skilled labour force and a more efficient labour market come into play as part of the Efficiency group. This includes: (6) Higher education, Training and Lifelong learning; (7) Labour market efficiency; and (8) Market size. At the most advanced stage of development, drivers for improvement are part of the Innovation group: (9) Technological readiness; (10) Business sophistication; and (11) Innovation.

the RCI worsened (Figure 1.17), especially in southern Spain, Ireland and most of Italy²⁹.

Figure 1.17: Regional Competitiveness Index 2016



Source: reproduced from European Commission (2017d).

Finally, **less capacity to compete implies greater exposure to risks of globalisation and technological change.** Globalisation has a highly differentiated impact on EU regions³⁰. Some are well positioned to take advantage of the new opportunities with SMEs well positioned in the international value chains³¹. Others are hit by job losses, stagnating wages and shrinking market shares when low-cost competitors move into more technologically advanced sectors.

The best response to globalisation is to move up the value chain. This requires innovation, entrepreneurship, knowledge transfer and continuous upgrading of skills. Regions that are innovative with a large share of high-skilled jobs and a highly educated work force are less likely to face heavy job losses³².

²⁹ European Commission (2017c), p.25.

³⁰ See European Commission (2017e).

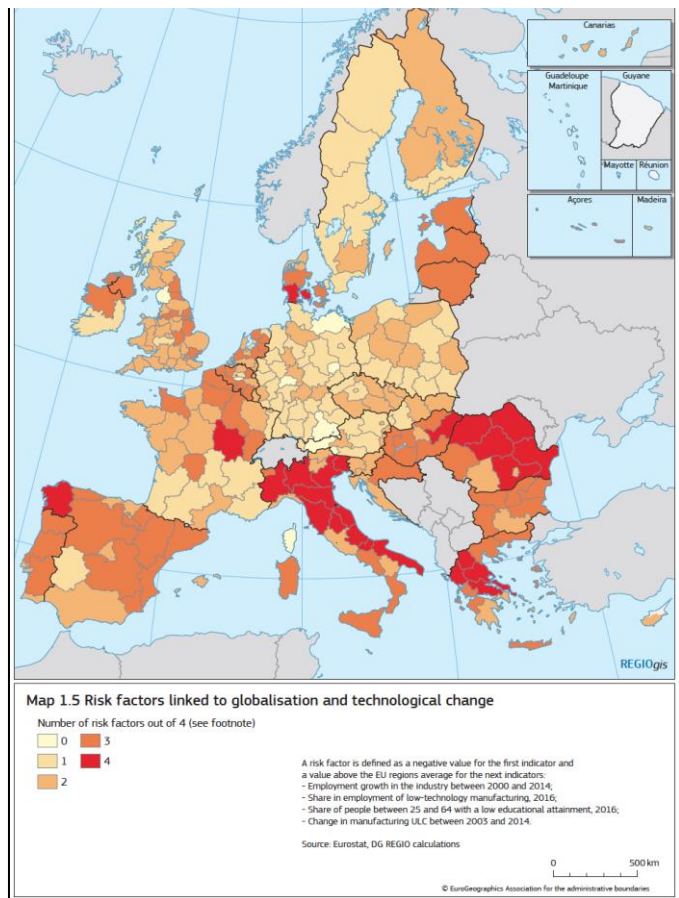
³¹ See European Parliament (2019a).

³² European Commission (2017c), p.9.

The risk factors linked to globalisation and technological change are identified in: (1) a large share of employment in low-tech manufacturing, (2) rapidly increasing unit labour costs in manufacturing over the past decade which may reduce competitiveness and market share, (3) a large share of working-age population with low education, and (4) less employment in industry between 2000 and 2014.

Some 9% of EU regions, in 7 different Member States, are exposed to up to four of these factors (Figure 1.18). Most are in southern or central and eastern Europe, though there are also high-risk regions in Denmark, France, Ireland and the UK. In many Member States, the situation varies with some regions subject to three or four risks and others only one or none at all.

Figure 1.18: Regional exposure to risk factors linked to globalisation and technological change



Source: reproduced from European Commission (2017c), p.10.

Box 1.6: Lessons from EER regions

Marche Region (Italy, EER 2014) includes traditional industrial sectors, with firms created 30-40 years ago and a predominance of family firms. There are relatively few hi-tech / innovative start-ups, little innovation by existing firms as well as limited cooperation between universities and SMEs. SMEs are therefore highly exposed to competition from emerging economies, fewer exports and lower profitability. The high mortality rate of established enterprises as owners approach retirement further increases the possibility of de-industrialisation. Moreover, the region has increasing youth and long-term unemployment.

Similar problems are faced by SMEs in **Central Macedonia** (Greece, EER 2018). The region has traditional labour intensive sectors as well as medium and low technology intensity and many very small SMEs which lack the ability to embody innovative activities including a low capacity for innovation and know-how adoption, or technology transfer, leading to low global competitiveness. This exposes SMEs to increasing competition from new EU accession countries while more tariffs and barriers in global trade affect the regional business model and its capacity to react.

Source: EER application forms of Marche and Central Macedonia.

1.3 The Small Business Act (SBA) and EU Policy framework evolution

To address the obstacles limiting SME growth described in the previous section, the EU started to focus policy on targeting and supporting SMEs, issuing several strategic documents (see Table 1.2). This section describes the policy framework since 2008, specifically the SBA as well as legislative initiatives and actions targeting EU SMEs.

Table 1.2: EC documents and key messages

EC Documents supporting SMEs	Key message
Lisbon Treaty (2007)	Stresses the importance of SMEs for the EU economy to make it the most competitive and dynamic knowledge base economy in the world.
SBA (2008) ‘Think Small First’	Support SMEs in fields that enterprises consider more challenging (access to finance, better regulation, etc...).
An Integrated Industrial Policy for the Globalisation Era (2010)	Improve the business environment, especially access to finance for SMEs, standardisation, deploy Key Enabling Technologies and ICT, help SMEs internationalise.
Territorial Agenda of the European Union 2020 - Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions (2011)	Promote sustainable enlargement for workers, consumers and SMEs.
E-government Action Plan 2011-2015 (2011)	Actions which help SMEs spend less time on administrative procedures, e.g. through promoting cross-border e-procurement.
An action plan to improve access to finance for SMEs (2011)	Improve the regulatory environment to increase access to venture capital, promote availability of information.
Regulatory Fitness and Performance Programme (REFIT) (2012)	Proposes smart regulation tools to make EU legislation more efficient in achieving policy objectives.
Guide to Research and Innovation Strategies for Smart Specialisation (2012)	Support SMEs to produce process and product innovations.
A Stronger European Industry for Growth and Economic Recovery (2012)	Support SME internationalisation, promoting advanced manufacturing technologies (Smart Specialisation strategy) that help SMEs find potential opportunities in new markets.
Entrepreneurship 2020 Action Plan (2012)	Improve the entrepreneurship environment, support entrepreneurial education and training and present entrepreneur role models.
Smart regulation – responding to the needs of small and medium-sized enterprises (2013)	Use of smart regulation tools, such as Impact Assessments to establish if legislation should exempt SMEs.
For a European Industrial Renaissance (2014)	Facilitate the participation of SMEs in the internal market, support access of SMEs to pan-European technological infrastructure, access to finance, also cross-border, facilitate matchmaking of SMEs that want to be part of a cluster.

Upgrading the Single Market: more opportunities for people and business (2015)	Improve regulatory conditions to allow SMEs to benefit from the Single Market, also in terms of internationalisation.
Start-up and Scale-up initiative (2016)	Remove barriers to benefit from the Single Market, facilitate access to finance and create commercial opportunities and partnerships.
Investing in a smart, innovative and sustainable Industry (2017)	Increase digital technologies, support capital investments in scale-up phase, promote innovation also in less innovative SMEs in traditional sectors.

The **Treaty of Lisbon**³³, signed in 2007, stresses the importance of SMEs for the EU economy to create the most competitive and dynamic knowledge-based economy in the world. The key role of SMEs in the EU economy was always very clear and policy orientation toward SMEs increased, especially after 2007 when the economic and financial crisis dramatically affected EU SMEs.

In 2008, the European Commission adopted the **Small Business Act**³⁴ (SBA) which is a cornerstone policy document for SME support. This EU policy framework aims at boosting the growth and competitiveness of SMEs that are decisive for EU prosperity. The document proposes a new approach to entrepreneurship in the EU following the ‘Think Small First’ principle. The SBA tries to address challenges faced by SMEs such as proposing smarter regulation to cut administrative burdens, improve access to finance, make the Single Market more accessible and improve competition policy, making it more SME friendly.

The SBA includes ten principles and for each it proposes actions for Member States and regions.

Box 1.7: Small Business Act principles

The ten principles guide SME policies at Member State and regional levels:

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the ‘Think Small First’ principle
4. Make public administration responsive to SME needs
5. Adapt public policy tools to SME needs: facilitate SME participation in public procurement and use State Aid possibilities for SMEs better
6. Facilitate SME access to finance and develop a legal and business environment supportive of timely payments in commercial transactions
7. Help SMEs to benefit more from opportunities offered by the Single Market
8. Promote skill upgrading in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

³³ European Union (2007).

³⁴ European Commission (2008).

Principles 1 and 8 directly address the problem of a lack of entrepreneurial interest and awareness and a lack of high-skilled labour. They stress the need to introduce entrepreneurship curricula in schools and to provide entrepreneurs and employees the competences to strengthen innovation in SMEs. The first principle also covers the need to facilitate family-business transfer, promote self-employment and fill the gender gap for entrepreneurs.

Principles 2 and 6 relate to difficulties in accessing finance for SMEs. They promote the possibilities for honest entrepreneurs who faced bankruptcy to easily access finance to create a new business as well as public support (e.g. ESIF financial instruments, especially risk capital and micro-credit) to encourage investments in SMEs.

Principles 3, 4 and 5 are strongly oriented to reducing the administrative and regulatory burdens SMEs disproportionately face compared to large businesses. The principles also look at improving the responsiveness of public administration and making public procurement more accessible for SMEs.

Principle 7 encourages SMEs to get more information and increase awareness of how to benefit from opportunities in the Single Market, including patents and trademarks. Principle 9 supports EU and Member States to provide more information, expertise and financing for SMEs to create green businesses. The tenth principle focuses on training for SMEs to benefit from Single Market advantages especially for internationalisation.

With COM(2011) 78³⁵ in 2011 the European Commission adopted the **SBA review**, presenting progress in Member States for adopting SBA and an update on actions to be undertaken to face challenges created by the economic crisis.

The adoption of SBA principles is ex-ante conditionality 3.1 for ERDF Thematic Objective (TO) 3, in relation to the investment priorities ‘Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators’ and ‘Supporting the capacity of SMEs to grow in regional, national and international market, and to engage in innovation processes’.

Following the SBA, additional EC communications were published addressing enterprises, in particular SMEs, such as:

- The **e-government action plan 2011-2015**³⁶ in 2010, to implement e-government services at national, regional and local levels. The communication also focuses on support for public administration to make administrative

³⁵ European Commission (2011a).

³⁶ European Commission (2010).

procedures more SME friendly to save time and resources, promoting for example cross-border e-procurement.

- COM(2011) 870³⁷ which addresses the **difficulty to access finance** proposing regulations to facilitate SME financing, especially:
 - Venture Capital: with a specific regulatory framework to channel investments in SME equity and specific taxation regimes to eliminate barriers to cross-border venture capital investment, creating a single market for venture capital;
 - State aid: with regulations to help SMEs by allowing aid to banks for financial stability and helping Member States implement State aid rules useful to achieving EU2020 objectives;
 - Access to markets: making SMEs more visible for investors and increasing the availability of SME financial information that reduces risk for potential investors. In addition, simplifying accounting rules for SMEs and reducing administrative burdens to increase comparability of SME financial statements, enabling better investment decisions;
 - Making information more available to, for and on SMEs to improve access to financial instruments and facilitate SME access to capital markets. In this case national, but also regional and local authorities have a key role in adopting measures to improve information availability.
- **EU regulatory fitness** COM(2012) 746³⁸ addresses administrative and regulatory burdens that are a problem for EU SMEs, as described in section 1.2. This communication reports the need to make EU legislation more effective and efficient in achieving its policy objectives and proposes smart regulation tools such as Impact Assessment. It does not specifically mention SMEs but is a first step to Smart Regulation.
- COM(2013) 122³⁹ covers ‘**Smart regulation - Responding to the needs of small and medium-sized enterprises**’. It highlights that micro-enterprises should be exempted from some EU legislation, when they cannot be exempted particular conditions for SMEs should apply. The communication stresses the importance of using Smart Regulation tools, such as Impact Assessment to avoid regulatory burden.

³⁷ European Commission (2011*b*).

³⁸ European Commission (2012*a*)

³⁹ European Commission (2013*a*).

The following EU strategic policy documents improve general conditions and support innovation, facilitating access to the single market by removing structural barriers:

- **The Entrepreneurship 2020 Action Plan**⁴⁰ in 2012 is built on three pillars: entrepreneurial education and training to support growth and new businesses; improving the entrepreneurial environment by removing structural barriers and supporting entrepreneurs throughout their business lifecycle and strengthening the culture of entrepreneurship by nurturing the new generation of entrepreneurs. This would pay specific attention to groups whose entrepreneurial potential is not being tapped in full or who are not reached by actions for business support. The plan implies an active role for regional authorities to ensure that ESF and ERDF resources are available for financing SMEs.
- A more recent communication **Upgrading the Single Market: more opportunities for people and business**⁴¹ directly addresses SMEs. Most SMEs do not benefit from the advantages of the Single Market due to complex VAT regulation, barriers to innovation, lack of finance, etc. The EC proposes improving the regulatory framework and conditions for SMEs to easily export and find potential consumers in other Member States.

To enhance **innovation**, the **Guide to Research and Innovation Strategies for Smart Specialisation**⁴² presents SME support as a horizontal approach to innovation. The guide stresses the key role of SMEs in producing process and product innovation as well as the need for an entrepreneurship environment that ensures innovation translates into growth and employment. SMEs are strictly dependent on the regional environment, so regional authorities have a crucial role as policymakers and need to understand regional SME needs. This should ensure that resources are channelled efficiently, especially Cohesion policy funds that specifically target innovation and competitiveness in SMEs.

Regional authorities also help enterprises to access and create synergies between cohesion policy and EU funding such Horizon 2020. To build an SME friendly environment, regions should implement the SBA principles.

The EC in 2016 published an initiative⁴³ addressing enterprises in their **start-up and scale-up** phases. The initiative aims at decreasing the challenges such SMEs have to face. It proposes removing barriers to the Single Market, creating opportunities for partnerships and improved skills as well as facilitating access to finance.

⁴⁰ European Commission (2012*b*).

⁴¹ Regulation 2015/1017 of the European Parliament and of the Council on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments.

⁴² European Commission (2012*c*).

⁴³ European Commission (2016*a*).

The communication **Investing in a smart, innovative and sustainable industry**⁴⁴ presents five pillars for sustainable industry, three of which specifically address SMEs. The communication encourages regional authorities to support digital technologies for SMEs, capital investments in enterprises, especially in the scale-up phase and to promote innovation in less innovative traditional sector SMEs.

Policies to support SMEs address external obstacles such as access to finance, regulatory and legislative barriers and skilled labour depend on LRAs. Many of the above EU policy documents confirm that regions and towns have a major role in supporting innovation and creating a more entrepreneurial environment to help SMEs benefit from the Single Market and access new markets. The table below highlights potential roles for LRAs.

Table 1.3: EC documents and role of LRAs

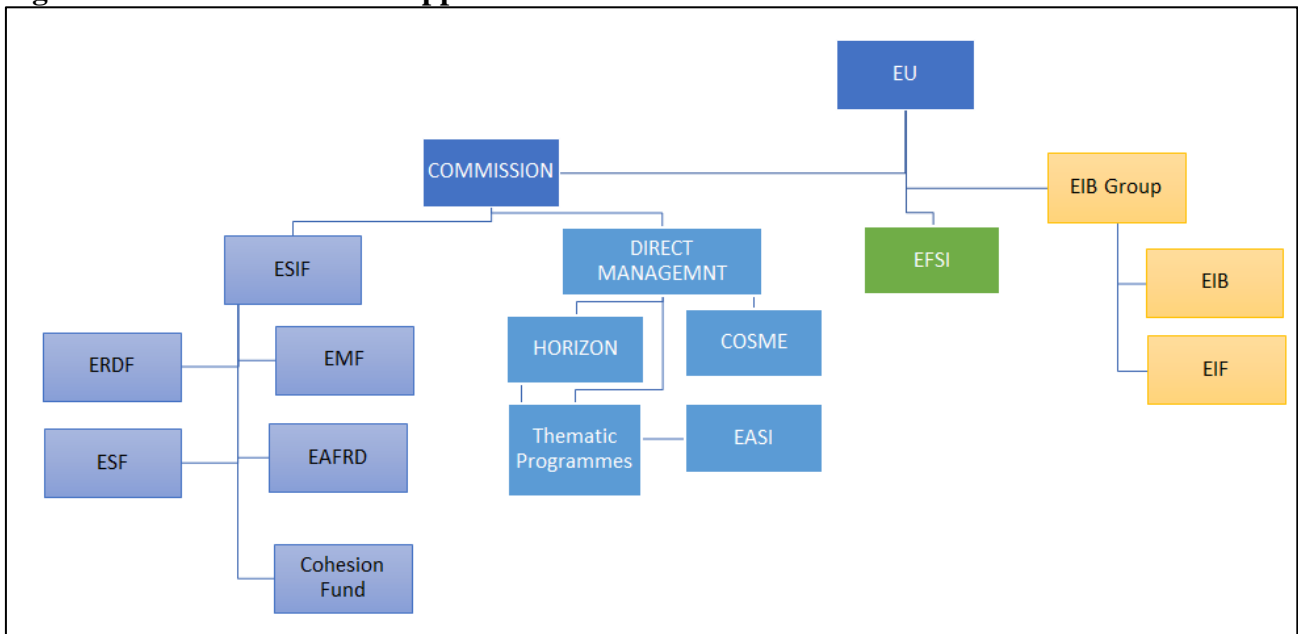
EC Documents supporting SME	Role of LRAs
SBA (2008) ‘Think small First’	Implementation of SBA involves both national and regional authorities.
An Integrated Industrial Policy for the Globalisation Era (2010)	Implement cluster policies to overcome market failures and develop innovation niches adopting smart specialisation strategies.
Territorial Agenda of the European Union 2020 - Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions (2011)	Support for regions to find their own paths of sustainable development.
E-government Action Plan 2011-2015 (2011)	Support for regions to transit to open, flexible and collaborative e-government.
An action plan to improve access to finance for SMEs (2011)	Adopt measures to facilitate information access to, for and on SMEs.
Guide to Research and Innovation Strategies for Smart Specialisation (2012)	Design SME policies according to SME needs, create an entrepreneurship and R&I friendly environment, but also help SMEs to access other EU programmes (FP7 and CIP).
A Stronger European Industry for Growth and Economic Recovery (2012)	Encourage market uptake and implement strategies for smart specialisation exploiting R&I potential.
Entrepreneurship 2020 Action Plan (2012)	Ensure that ESF and ERDF resources are available for micro-financing and financing SMEs.
For a European Industrial Renaissance (2014)	Encourage cross-European value chains.
Upgrading the Single Market: more opportunities for people and business (2015)	Regulatory changes at national, regional and local levels.
Start-up and Scale-up initiative (2016)	Facilitate start-up and scale-up enterprises.
Investing in a smart, innovative and sustainable Industry (2017)	Involved in all the pillars for sustainable industry.

⁴⁴ European Commission (2017f).

1.4 State of play of EU Programmes and Initiatives

This section describes programmes and initiatives to implement EU strategies supporting SMEs. Support is channelled through shared management programmes (ESIF), direct management programmes and the European Investment Bank (EIB) Group. In addition, SMEs could benefit from the European Fund for Strategic Investment⁴⁵ (EFSI), a joint initiative of the EIB group and the European Commission. The fund has a specific SME window offering almost EUR 5.5 billion, implemented by European Investment Fund (EIF), that aims at helping high-potential, high risk start-up SMEs to access equity funding and loans. This fund complements other EU programmes and initiatives such as COSME and InnovFin.

Figure 1.19: EU channels to support SMEs



Source: t33 elaboration.

EU support channelled by ESIF, directly managed programmes and the EIB Group can be financial and non-financial.

Financial assistance can be grants, loans, guarantees and direct equity investment. In addition, financial assistance can cover the whole investment or for ESIF, as co-financing, so projects are also funded through national, regional and private resources.

Non-financial support consists of improving general business condition for SMEs. An example is the Enterprise Europe Network that provides services to help SMEs find international business, technology or research partners, innovation and internationalisation support services, improve access to financing related information, etc. Another example is ‘Your Business Europe’ a portal providing information on EU

⁴⁵ European Commission (2015).

and national rules and legislations to help SMEs internationalise. Moreover, the European Committee of the Regions jointly with EC each year identifies ‘European Entrepreneurial Regions’ (EER)⁴⁶, with particularly innovative and effective entrepreneurial policy strategies.

1.4.1 ESIF support for SMEs

ESI Funds are implemented through ‘shared management’, so the Commission and Member States jointly implement the funds on a decentralised basis. For ESIF, LRAs play a crucial role since they are often responsible for Operational Programmes (OPs) or are the main beneficiaries of single operations.

Even when regions and local authorities do not directly channel support to SMEs, they can create complementarities allowing SMEs to benefit from multiple EU programmes.

ESIF covers five funds that concentrate more than half of EU funding and channel EU cohesion policy:

- European Regional Development Fund (ERDF);
- European Social Fund (ESF);
- Cohesion Fund (CF);
- European Agricultural Fund for Rural Development (EAFRD);
- European Maritime and Fisheries Fund (EMFF).

ESI Funds focus on R&I, digital technologies, low-carbon economy, sustainable management of natural resources and support for small businesses. These are expressed in 11 thematic objectives (TOs) directly supported by ERDF, CF and ESF (Figure 1.20).

Figure 1.20: ESIF thematic objectives



Source: reproduced from https://ec.europa.eu/regional_policy/fr/policy/cooperation/european-territorial/

⁴⁶ <https://cor.europa.eu/en/engage/Pages/european-entrepreneurial-region.aspx>

ERDF specifically supports SMEs through **TO3** ‘Enhancing the competitiveness of SMEs’ and includes two investment priorities focusing on promoting entrepreneurship. One is facilitating the economic exploitation of ideas and fostering business creation and the other is supporting the development of capacities for new products and services. Two other priorities highlight the importance of strengthening internationalisation; develop and implement new business models for SMEs, in particular for internationalisation, and support the capacity of SMEs to grow in regional, national and international markets.

As a pre-condition (i.e. ex ante conditionality) to implementing TO3, EC regulation (Reg(CE) 1303/13 – CPR) demands that Member States (and Regions) fully embrace the SBA principle. In addition, **TO1** is particularly relevant for SMEs supporting R&I and technological development and the implementation of Smart Specialisation Strategies.

In addition, **TO4** promotes energy efficiency and renewable energy use in enterprises.

ESF mainly refers to **TOs 8-11** where the priorities directly targeting SMEs focus on supporting business creation and providing skills for employees and SMES, including social enterprises. The priorities are: ‘Self-employment, entrepreneurship and business creation including innovative micro, small and medium-sized enterprises’ as well as ‘Adaptation of workers, enterprises and entrepreneurs to change’ (**TO8**) and ‘Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment’ (**TO9**).

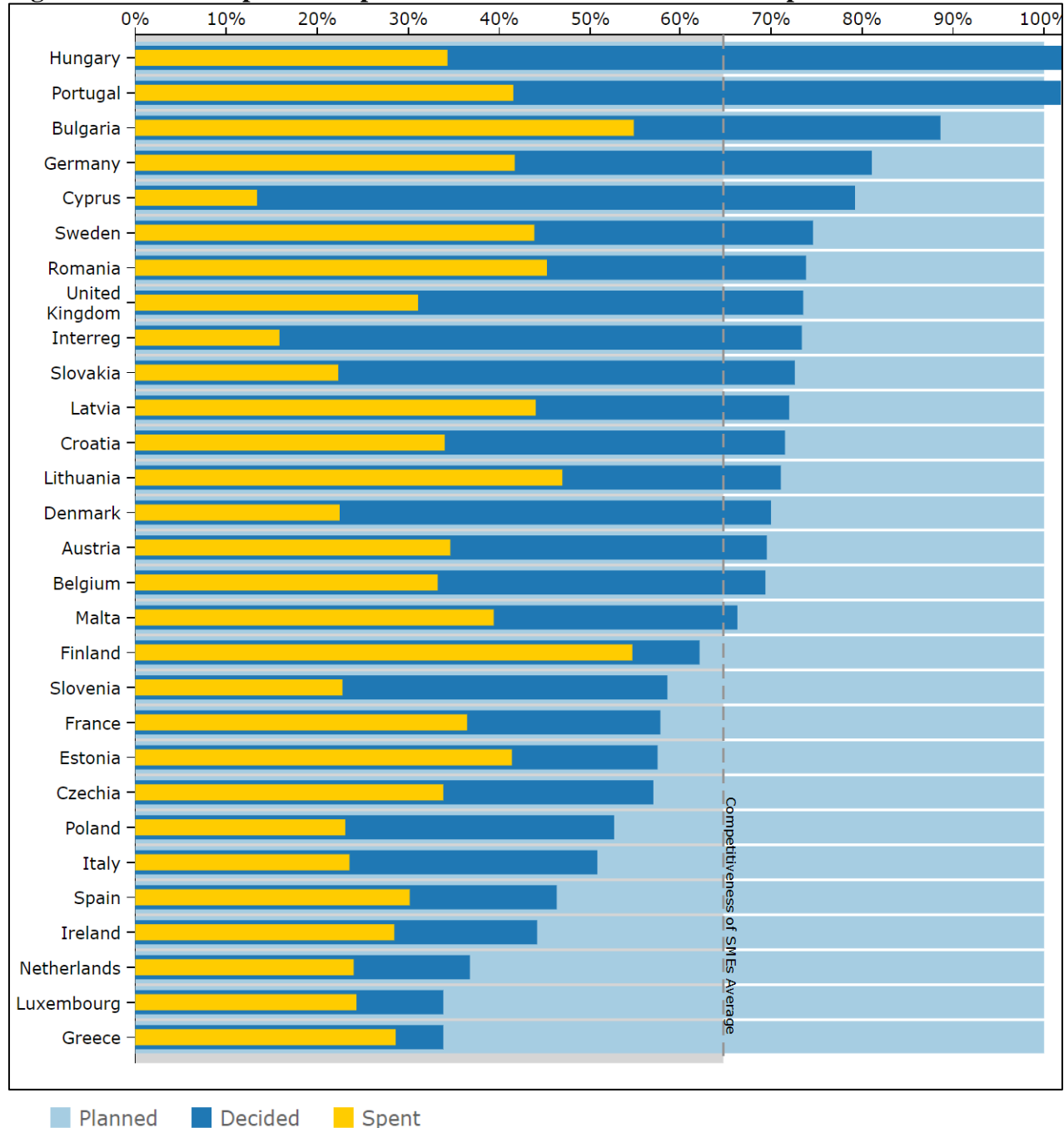
EMFF reflects thematic objectives for Common Fisheries Policy and Europe2020 targets. Theme two directly refers to enterprises: ‘the enhancement of the competitiveness and viability of fisheries enterprises, including of small-scale coastal fleet, and the improvement of safety and working conditions’ and ‘the enhancement of the competitiveness and viability of aquaculture enterprises, including the improvement of safety and working conditions, in particular of SMEs’.

EAFRD is based on the Common Strategic Framework and reflects EU priorities for rural development. The most relevant priorities for SMEs are ‘facilitating diversification, creation and development of small enterprises, as well as job creation’ ‘enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and the sustainable management of forests’, as farms are often SMEs. The fund includes the possibility to create sub-programmes, including farm and business development that supports start-ups for young farmers, non-agricultural activities in rural areas and the development of small farms. It also supports the creation and development of non-agricultural activities.

CF focuses on TOs 4-7 and 11. The only priority directly targeting SMEs is TO 4 ‘promoting energy efficiency and renewable energy use in enterprises.’

For **implementation**, ERDF, EAFRD, and EMFF **planned** to support 816 754 SMEs with almost EUR 96 billion in 2014-2020. At 31 December 2018, 32% (or EUR 27.8 billion) had been spent supporting 27 249 SMEs (source ESIF Open Data Platform). The picture below shows spending by Member States (snapshot from ESIF Open Data Platform).

Figure 1.21: ESIF expenditure per Member State for SMEs and competitiveness



Source: ESIF Open Data Platform.

1.4.2 EU directly managed programmes supporting SMEs

The programmes described below mainly refer to support for SME R&I (H2020), access to finance (COSME), environment and energy (LIFE) and the cultural and creative sector (Creative Europe). They are directly managed by the European Commission.

Under Regulation 1287/2013/EU⁴⁷ the programme for the **Competitiveness of Enterprises and small and medium-sized enterprises (COSME)** specifically addresses enterprises, especially SMEs, with a budget of EUR 2.3 billion of which 60% should be allocated to financial instruments. The programme is managed by EASME⁴⁸. COSME helps SMEs to access finance in all development phases and complements national and regional instruments and actions (e.g. H2020, ESIF).

In addition, the programme promotes cross-border and multi-country financing and helps SMEs to internationalise. This is done through financial instruments, such as the Loan Guarantee Facility that provides guarantees and counter-guarantees to financial institutions increasing their lending to SMEs.

Another example is the Equity Facility for Growth which provides risk capital to equity funds investing in SMEs. The programme also supports improved access to EU markets for SMEs, by providing information on barriers and obstacles related to new markets, public procurement and opportunities. It also facilitates the exchange of good practices and experiences. Actions also improve international cooperation especially for regulatory issues to reduce differences between Member States.

The third specific objective refers to avoiding complicated compliance and regulatory procedures for SMEs to access Union programme and funding.

COSME also promotes entrepreneurship through mobility programmes and measures to facilitate entrepreneurial education, skills and attitudes, especially for new, young and female entrepreneurs.

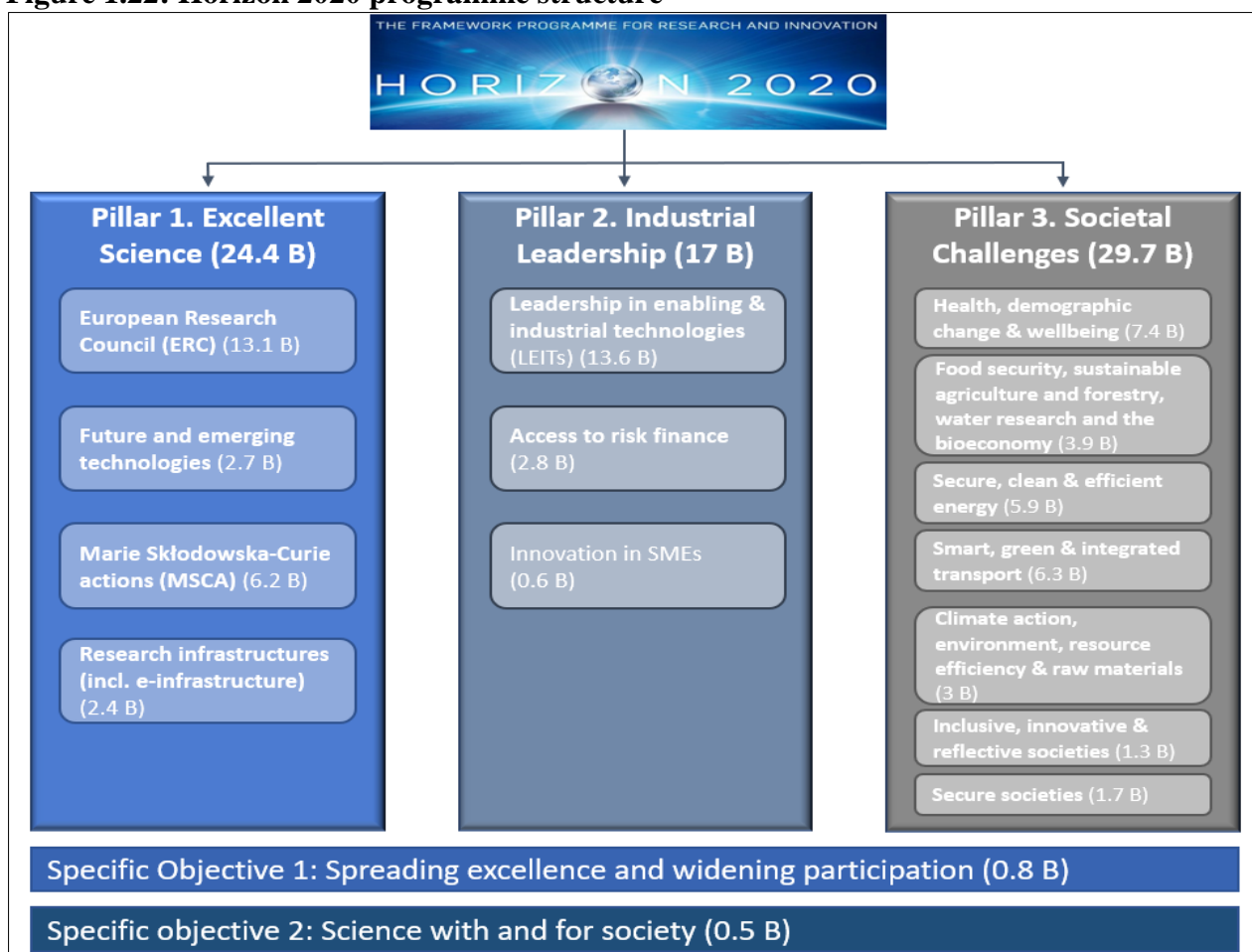
Horizon 2020 (Regulation 1291/2013/EU⁴⁹) is the most important EU programme for R&D and innovation, with a total budget of EUR 77.0 billion. The programme pays specific attention to SMEs as it helps them to translate R&D into innovation. The programme has three innovation pillars and two specific objectives, as shown in Figure 1.22.

⁴⁷ Regulation 2013/1287 of the European Parliament and of the Council establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 - 2020) and repealing Decision No 1639/2006/EC.

⁴⁸ The European Commission Executive Agency for SMEs.

⁴⁹ Regulation 2013/1291 of the European Parliament and of the Council establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC.

Figure 1.22: Horizon 2020 programme structure



As innovation plays a key role in fostering SME growth, the programme is strongly targeted at SMEs, especially pillar 2 ‘Industrial Leadership’. With a budget of EUR 17 billion this addresses problems for SMEs including a lack of proper technology, access to risk finance and innovation. According to the regulation, 20% of the budget allocated to specific objectives 1 and 2 should support SMEs. The programme pays specific attention to participation and R&I impact on SMEs and to adequate representation for SMEs in public-private partnerships. In addition, special conditions facilitate the participation of SMEs in H2020, such as the SME instrument that provides blended finance (grants combined with equity investments).

Other initiatives under H2020 include InnovFin, a joint initiative of the EIB and EC, financed by H2020, from which SMEs can benefit under the SME Guarantee Facility and SME Venture Capital.

The Employment and Social Innovation (EaSI) programme is an EU level financing instrument fostering high quality and sustainable employment and social protection as well as addressing social exclusion and looking to improve working conditions. The budget is EUR 919 million. It directly addresses SMEs especially with the third axis ‘Microfinance and Social Entrepreneurship’ that supports microenterprises and social

enterprises to access finance (micro-credit and microloans). This is mainly through the EaSI guarantee (with a EUR 96 million budget) that enables financial institutions to invest in high risk micro and social enterprises.

The **Enterprise Europe Network** is a one-stop-shop for SMEs providing access to market information, legal advice and potential business partners across Europe.

Other thematic programmes supporting SMEs are LIFE and CreativeEurope. LIFE⁵⁰ finances environment and climate actions, as with COSME it is managed by EASME. The budget is EUR 3.4 billion and though SMEs are not directly addressed by the programme, they are included in the potential beneficiaries. It offers the possibility for SMEs to receive funding through grants as well as financial instruments managed by the EIB. These include the Natural Capital Financing Facility, focusing on biodiversity and green infrastructure and Private Finance for Energy Efficiency, that finances energy efficiency projects.

For SMEs in the creative sector funding opportunities come from Creative Europe⁵¹. A specific objective of the programme is to strengthen the financial capacity of SMEs in the cultural and creative sector. The programme budget is EUR 1.46 billion.

1.4.3 EIB Group

The EIB Group does not generally directly support SMEs but works through financial intermediaries which invest, lend and offer guarantees to enterprises. As a fund of funds (i.e. entrusting other financial intermediaries working directly with final recipients), the EIB Group also implements financial instruments funded by ESIF. These offer financial products (loans, guarantees, equity and quasi-equity) targeting SMEs. Within the EIB Group, the EIF specifically supports SMEs by working with a wide range of funds, banks, guarantee and microfinance institutions across Europe. In 2018 alone, the EIB Group financed SMEs and mid-caps for EUR 23.3 billion supporting 374 000 smaller companies, which employ 5 million people⁵².

⁵⁰ Regulation 2013/1287 of the European Parliament and of the Council on the establishment of a Programme for the Environment and Climate Action (LIFE) and repealing Regulation (EC) No 614/2007.

⁵¹ Regulation 2013/1295 of the European Parliament and of the Council establishing the Creative Europe Programme (2014 to 2020) and repealing Decisions No 1718/2006/EC, No 1855/2006/EC and No 1041/2009/EC.

⁵² Data from EIB official web site www.eib.eu.

2. SBA implementation at regional level: impact and lessons learnt

This chapter analyses SBA implementation in the EU. The first section is based on document analysis and provides an overview of SBA application at national and regional levels, with specific focus on 30 regions awarded the EER label since 2011.

The second section is based on interviews with 11 LRAs, six of which are EER regions, using the questionnaire detailed in Annex I. The survey focuses on actions implementing the 10 SBA principles and results as well as the role and impact of the EU in supporting SME programmes and initiatives.

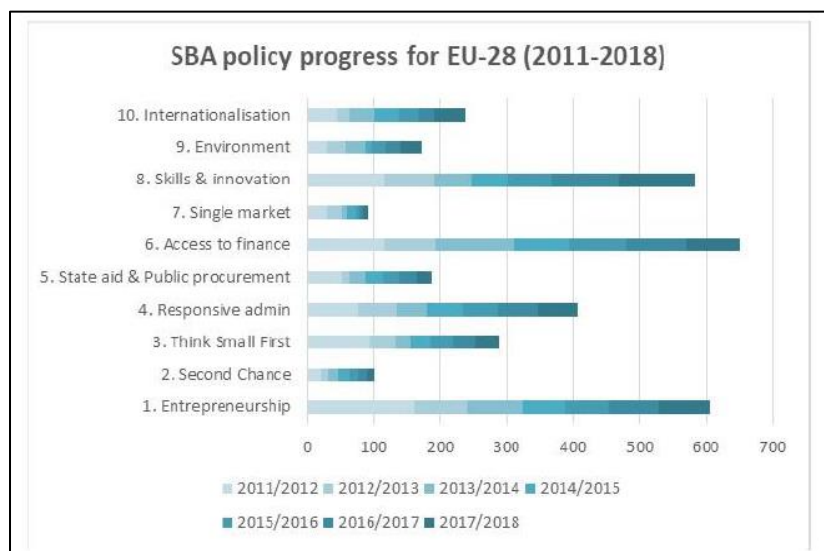
2.1 SBA application in the EU

At national level SBA implementation shows significant progress⁵³. From 2011 to 2018 almost 3 300 measures following SBA principles were adopted by EU Member States.

Many measures refer to three of the ten SBA principles (Figure 2.1):

- 1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded;
- 6. Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions;

Figure 2.1: SBA implementation (2011-2018)



Source: EU-28 SBA Fact Sheet 2018

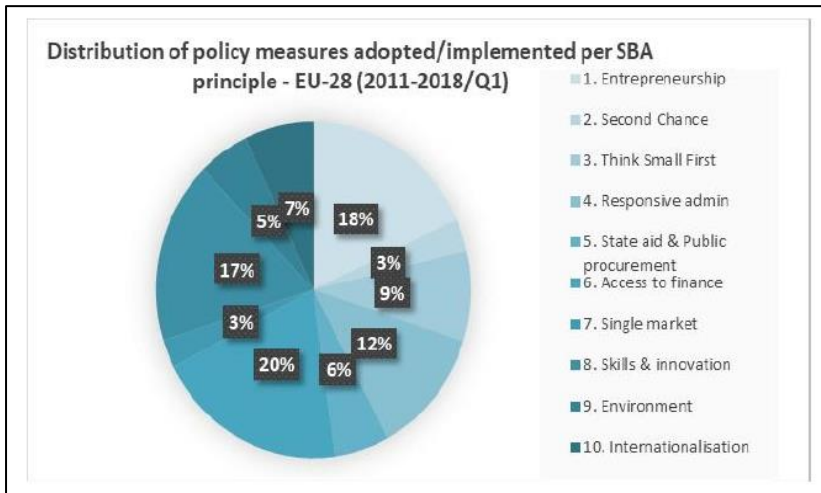
- 8. Promote the upgrading of skills in SMEs and all forms of innovation.

These three principles account for 55% of measures supporting SMEs (Figure 2.2). This result seems consistent with the key challenges of ‘access to finance’ and ‘lack of skilled labour’ and in line with the previous chapter (see section 1.2). Given the

⁵³ European Commission (2018a), p.24.

importance of these principles, more details of implementation are provided in the following pages.

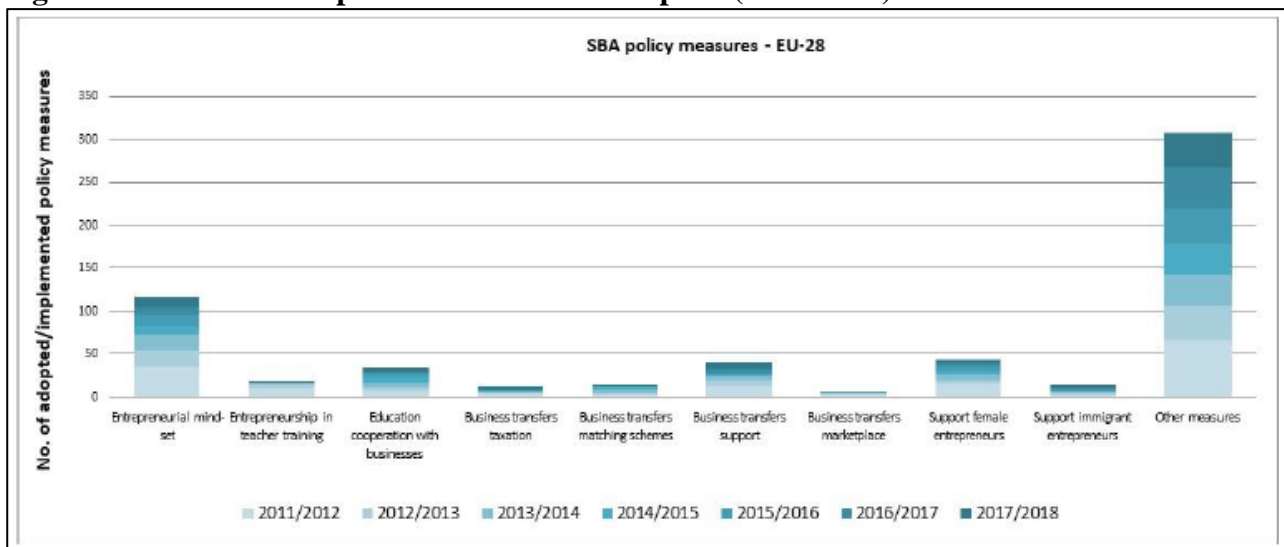
Figure 2.2: Measures implemented per principle (2011-2018)



Source: EU-28 SBA Fact Sheet 2018

For principle 1, entrepreneurship, over 600 policy measures have been adopted since 2011 (Figure 2.3). Most refer to the entrepreneurial mind-set and have been adopted in all Member States. Measures targeting female and immigrant employment and the sharing economy have been adopted in almost 50% of Member States while business transfer measures were adopted less.

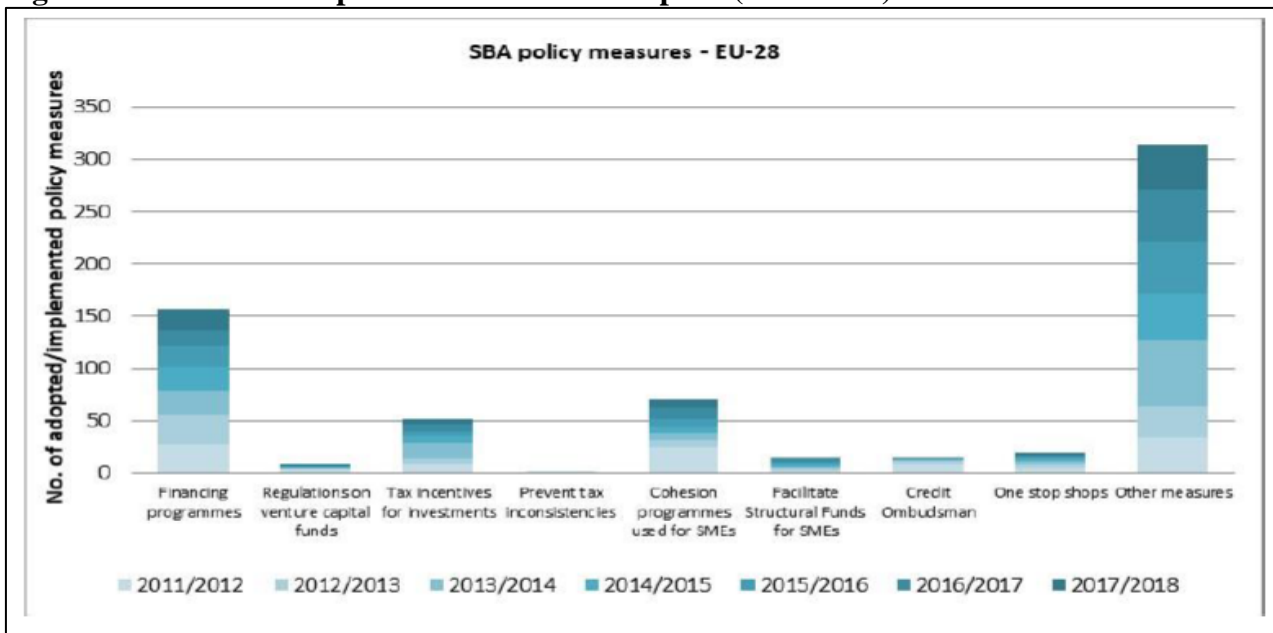
Figure 2.3: Measures implemented under Principle 1 (2011-2018)



Source: EU-28 SBA Fact Sheet 2018.

Important progress has been made in implementing SBA recommendations under Principle 6, access to finance. All Member States have funding specifically dedicated to start-up businesses and EU funds for SMEs are considered easily accessible at national level. More than 650 measures have been adopted under this principle and mainly relate to financing programmes (Figure 2.4). Only a few have been adopted to increase venture capital.

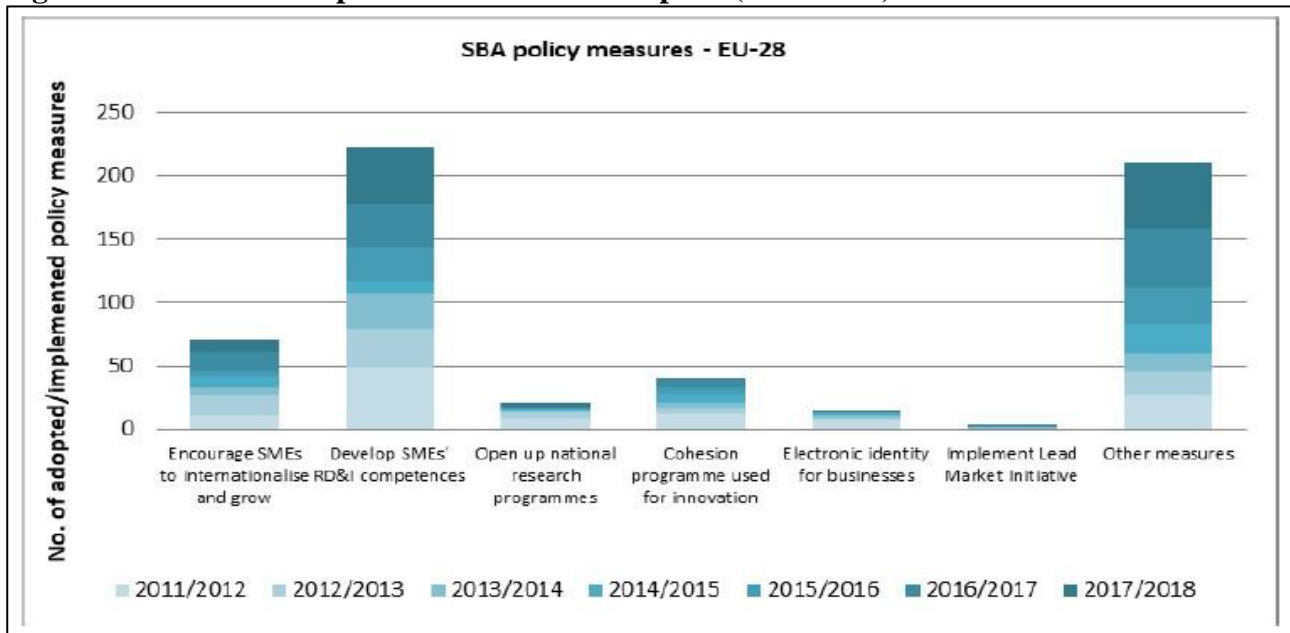
Figure 2.4: Measures implemented under Principle 6 (2011-2018)



Source: EU-28 SBA Fact Sheet 2018.

Progress has also been achieved for principle 8, skills and innovation, with almost 600 policy measures adopted. More than 30% of the measures refer to developing SME R&D and innovation skills (Figure 2.5).

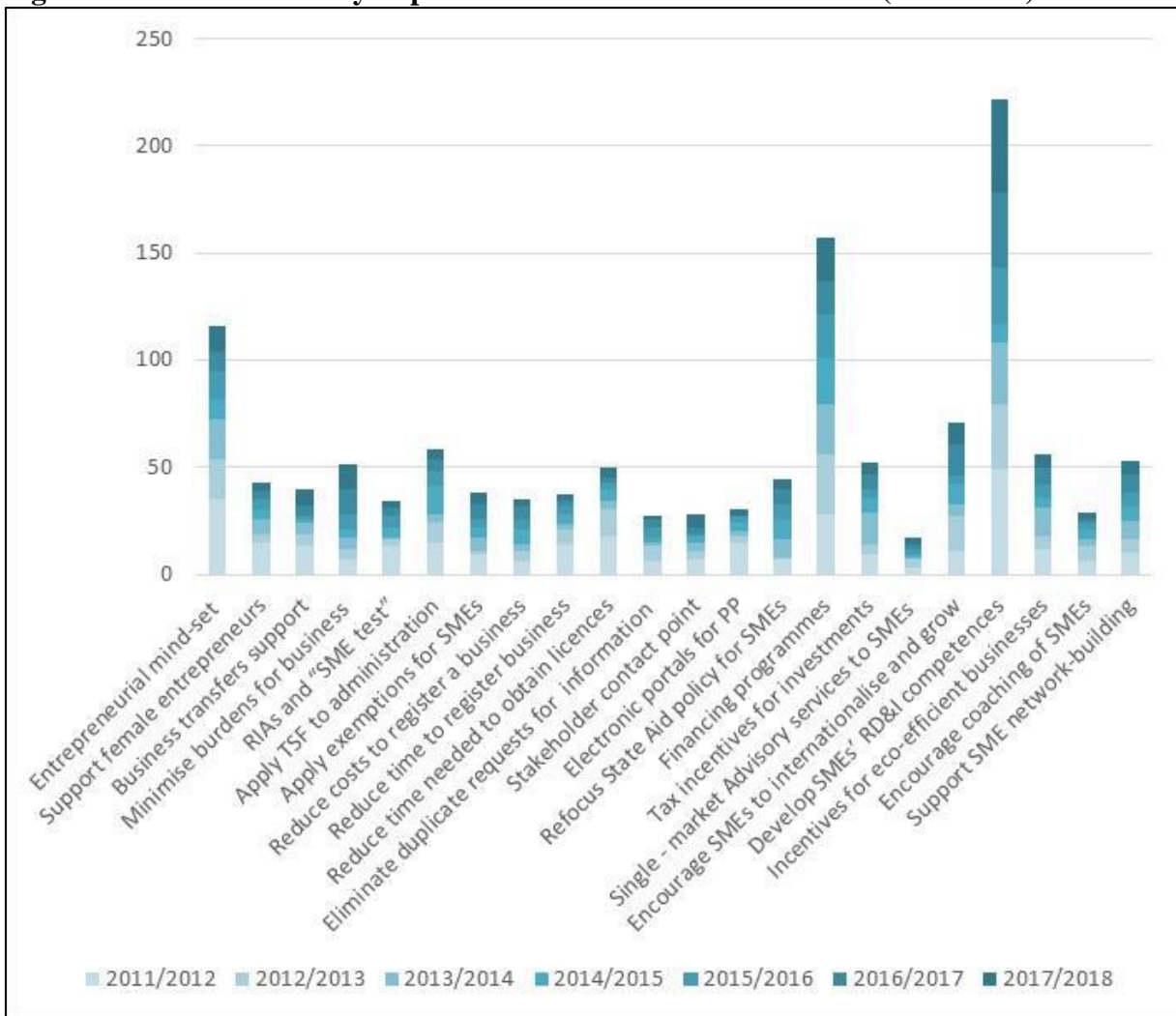
Figure 2.5: Measures implemented under Principle 8 (2011-2018)



Source: EU-28 SBA Fact Sheet 2018.

Figure 2.6 highlights the three most implemented measures, to develop R&D and innovation competencies in SMEs, finance programmes and to improve the entrepreneurial environment mind-set.

Figure 2.7: Most commonly implemented measures at EU-28 level (2011-2018)

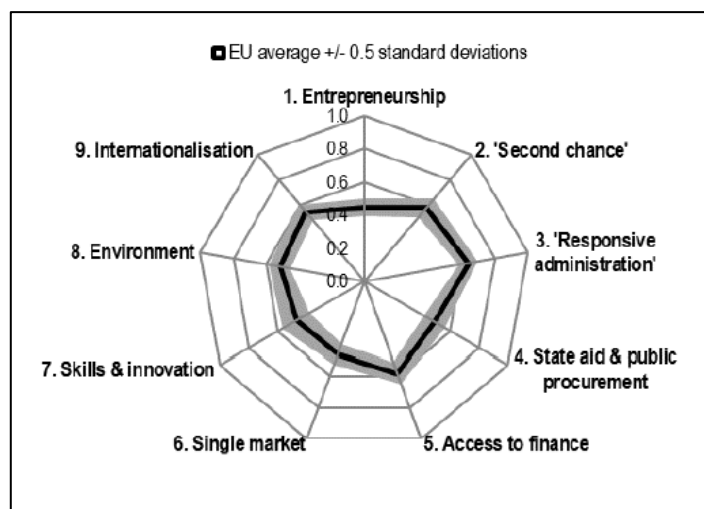


Source: EU-28 SBA Fact Sheet 2018

Looking at **performance**, three principles perform well: '2. Second chance', '3. Responsive administration' and '5. Access to finance'. It is worth noting that the most implemented '1. Entrepreneurship' has the poorest performance.

The clustering and correlation analysis in the Annual Report on European SMEs 2017-2018 by the Commission⁵⁴ highlights a positive and significant correlation between SBA-

Figure 2.6: Measures implemented under Principle 8 (2011-2018)



Source: EU-28 SBA Fact Sheet 2018.

⁵⁴ See Annex 15 in European Commission (2018a).

related interventions and the number and value added of SMEs. Positive effects on SME value added were encountered across a wide range of specifications and estimated with a relatively high level of precision. There is also a range of models where the effect of SBA policies on the number of SMEs appears positive and significant. SME employment results were mixed overall and none of the specifications yielded a very high level of statistical significance. However, it is not possible to estimate the net or direct contribution of SBA to these improvements, since many factors other than SBA measures may impact on the performance of SMEs⁵⁵.

At regional level, analysis of SBA implementation is more challenging since no data available on measures implemented by LRAs according to SBA principles. The analysis in this section considers two proxies: the state of play of ex-ante conditionality 3.1 '*Small Business Act*' and the experiences of all 30 EER Regions.

Box 2.1: Ex-ante conditionality 3.1

EU Regulation 1303/2013 introduced ex-ante conditionalities for ESIF to ensure an efficient institutional and administrative framework at national and regional level. Among the 36 conditionalities, the regulation proposes that TO3 'Enhancing the competitiveness of small and medium-sized enterprises (SMEs)' includes ex-ante conditionality 3.1 'Specific actions have been carried out to underpin the promotion of entrepreneurship taking into account the Small Business Act (SBA)'. This has two fulfilment criteria, with measures reducing:

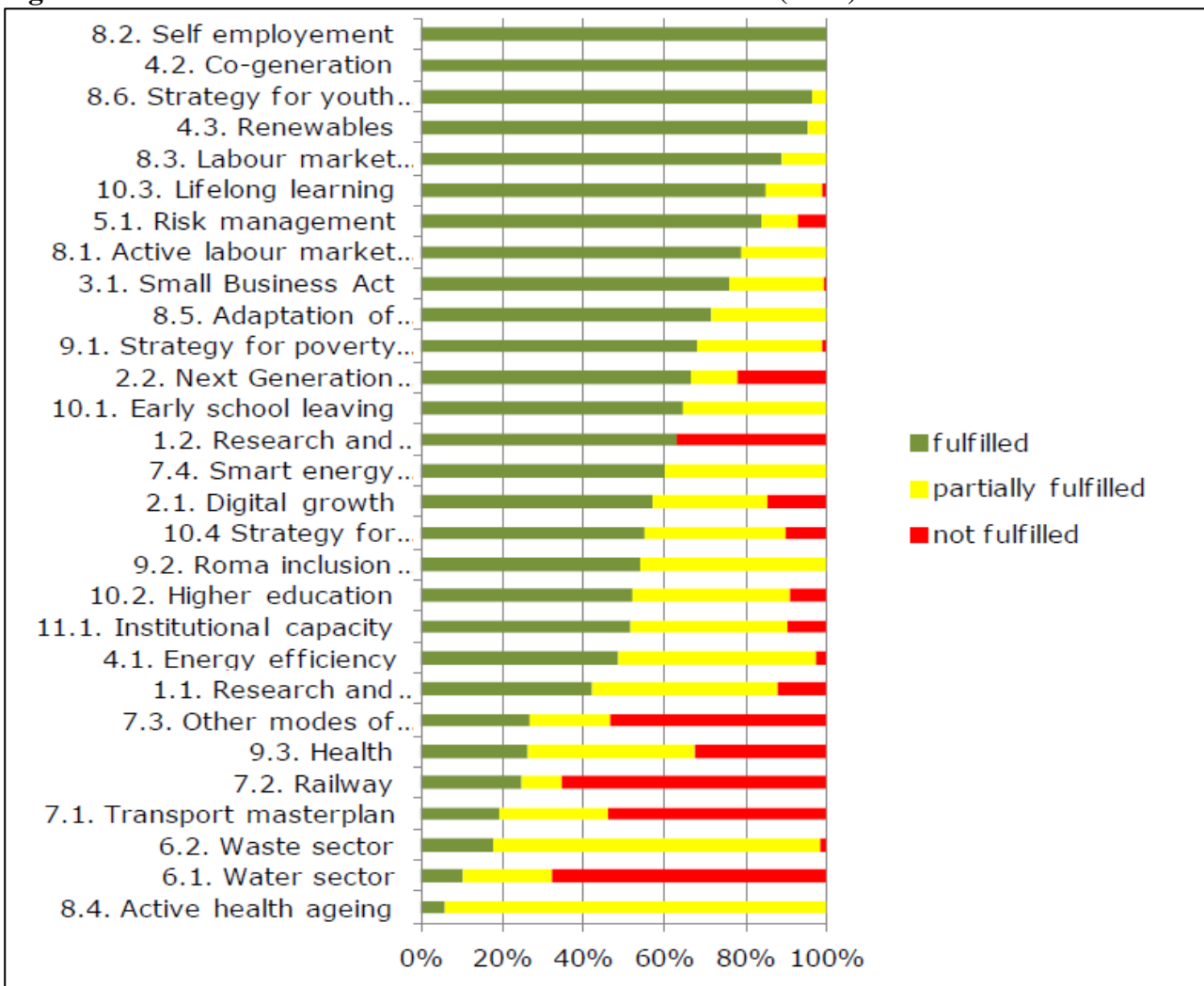
- the time and cost involved in setting-up a business taking account of SBA targets;
- the time needed to get licenses and permits to take up and perform the specific activity of an enterprise taking account of SBA targets.

As Figure 2.7 shows, with fulfilment above 70% thematic conditionality 3.1 has the highest performance (alongside 'Smart specialisation' and 'Energy efficiency') among the 36 ESIF conditionalities, according to the EC⁵⁶.

⁵⁵ European Commission (2018a - p.159) argues that the more SBA measures a country has adopted, the better the general environment for SMEs and hence SME performance should be better than in countries which have implemented fewer SBA measures. At the same time a country may adopt many SBA measures because its environment was not very SME-friendly to start with, so it is not clear whether SMEs would be performing better than in other Member States.

⁵⁶ See European Commission (2016b).

Figure 2.7: Fulfilment of ex-ante conditionalities at OP level (2016)



Source: European Commission (2016b).

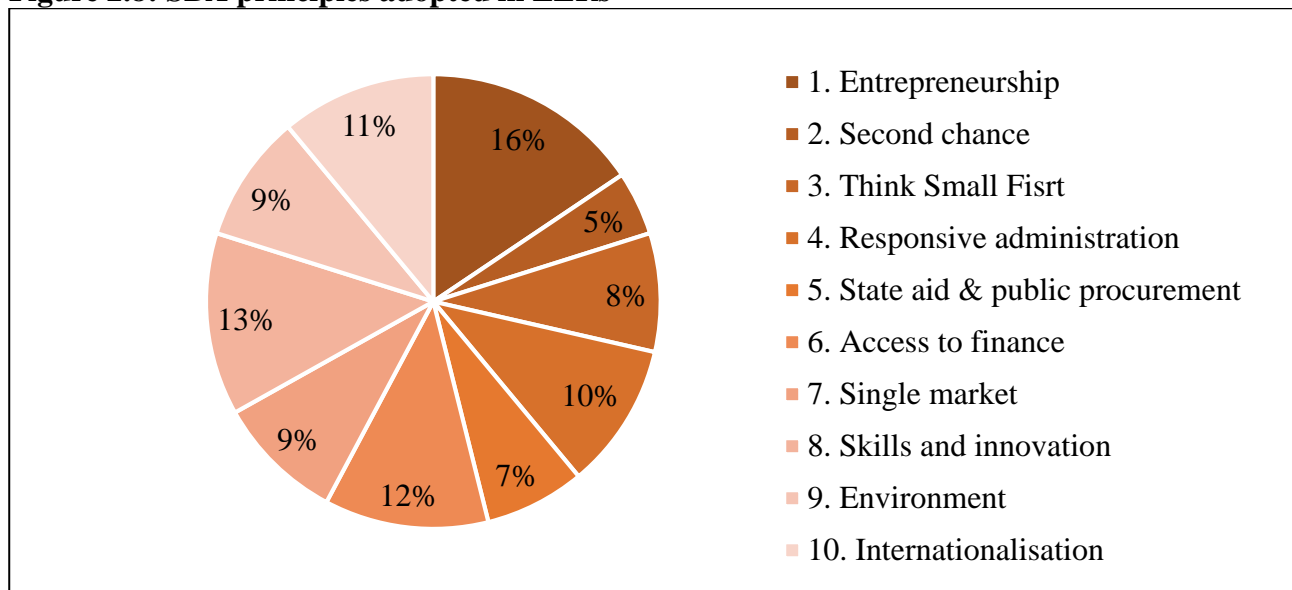
The strategic approaches of EER regions⁵⁷ provide further information on the most adopted principles and measures and their consistency with the national level.

EER regions' most adopted principle is '1. Entrepreneurship', followed by '8. Skills and innovation' and '6. Access to finance' (see Figure 2.8).

It seems there is full national and regional alignment as the three principles are the most adopted at both levels. Moreover, EER regions prefer Principles 6 and 8, which is in line with the key challenges faced by SMEs analysed in Chapter 1, the lack of skilled labour and difficulties in accessing finance.

⁵⁷ The analysis is based on all EER application forms.

Figure 2.8: SBA principles adopted in EERs



Source: t33 elaboration based on EER application forms.

2.2 Insights from the LRA survey

This section is based on questionnaires from:

- Southern Denmark (Denmark, EER 2013);
- Region of Valencia (Spain, EER 2015);
- Lombardy (Italy, EER 2016);
- Central Macedonia (Greece, EER 2018);
- Region of Thessaly (Greece, EER 2019);
- Gelderland (the Netherland, EER 2019);
- Latgale region (Latvia);
- Timis (Romania);
- Mazowieckie (Poland);
- Baden-Württemberg (Germany);
- Veneto (Italy).

Annex II contains the interview questionnaire while Annex III includes the answers.

Key results from the interviews

The SBA and regional strategies supporting SMEs:

- All the interviewed regions are aware of the SBA;
- In most cases, the SBA has impacted on regional policy for SMEs.
- In line with findings in the previous section, LRAs are more active in Principles 1, 6 and 8.
- Innovation and adoption of technologies is the most relevant policy area to support SMEs.
- New products and processes as well as new business opportunities are the strongest impact of regional strategies supporting SMEs.

The role of EU policy on SMEs:

- ESI Funds are have a significant role in supporting SMEs.
- Horizon 2020 notably contributes to SMEs by enhancing innovation and R&D processes.
- For EC actions supporting starting and scaling up companies, regions attach greater importance to support for clusters and entrepreneurial ecosystems.
- EU policies and programmes for SMEs are considered more efficient when support is through funding.

2.2.1 SBA and regional strategies supporting SMEs

All the interviewees are *aware of the SBA and its ten principles*⁵⁸. Seven regions of the 12 screened have fully adopted a strategy to implement SBA principles. In five of them, the perception is that SBA has impacted regional policy supporting SMEs⁵⁹. For instance, it has influenced ESIF implementation as well as strengthened the RIS3 strategy in Mazowieckie and Region of Valencia. In Thessaly, EER strategy supports the political objective of reigniting regional entrepreneurial activity and reorienting it towards higher value-added activities. In Lombardy, the regional authority has implemented a wide range of measures supporting the main issues faced by regional SMEs; access to credit, access to foreign markets, lack of innovation, enterprise networking, entrepreneurship and relationship with public authorities.

Looking at *actions implemented according to SBA principles*, all the regions have adopted some initiatives supporting SMEs (Figure 2.8).

⁵⁸ Based on Q.4, see Annex III and Annex IV.

⁵⁹ Based on Q.5, see Annex III and Annex IV.

Consistently with the approaches described in the previous section, regions are more active with **Principle 8 - Promote the upgrading of skills in SMEs and all forms of innovation**. This is in line with interviewee declarations on the most important challenges faced by SMEs, where a lack of competence and skilled labour is seen as the second most important problem (see Figure 1.8 in Chapter 1). Under this principle, actions include linking education with the labour market by investing in specific job competencies such as craftsmanship, or by encouraging new educational and labour market concepts (Gelderland). Other actions include promoting information events such as a youth business month (Latgale), reinforcing the bridge between research and enterprises especially favouring knowledge transfer partnerships (Thessaly), soft loans or co-financing with partner banks for R&D and SME innovation investments, also in partnership with research centres (Lombardy).

The other principles where regions are more active are Principles 1 and 6. Actions in line with **Principle 1 - Create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded** include a website that is a one-stop-shop for information on finance, advice, networks and starting a business or programme that supports entrepreneurs with coaching and education for a smooth start (Latgale). Other examples are a distributed business incubator providing cost-based access to facilities and business report services for two years (Thessaly) and the ‘Intraprendo’ initiative providing a combined loan-grant for start-ups and entrepreneurs managed by Finlombarda, the regional public-owned financial intermediary (Lombardy).

Access to finance was identified by interviewees as the most challenging problem faced by SMEs (see Figure 1.8 in Chapter 1). This can be addressed through Principle 2 - Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance and **Principle 6 - Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions**. While there are no actions implemented under Principle 2, which is often not within regional competence, under Principle 6 most respondents indicate initiatives to increase SME access to finance. These include, for instance, a growth accelerator offering loans to SMEs to realise their growth strategy and vouchers for external expertise (Gelderland), the design and set-up of financial instruments (Veneto), minimisation of late payments from public contracts (Thessaly) and the ‘CreditoInCassa’ and ‘CreditoInCassa b2b’ initiatives providing backed and subsidised factoring for enterprises, with better conditions for SMEs (Lombardy).

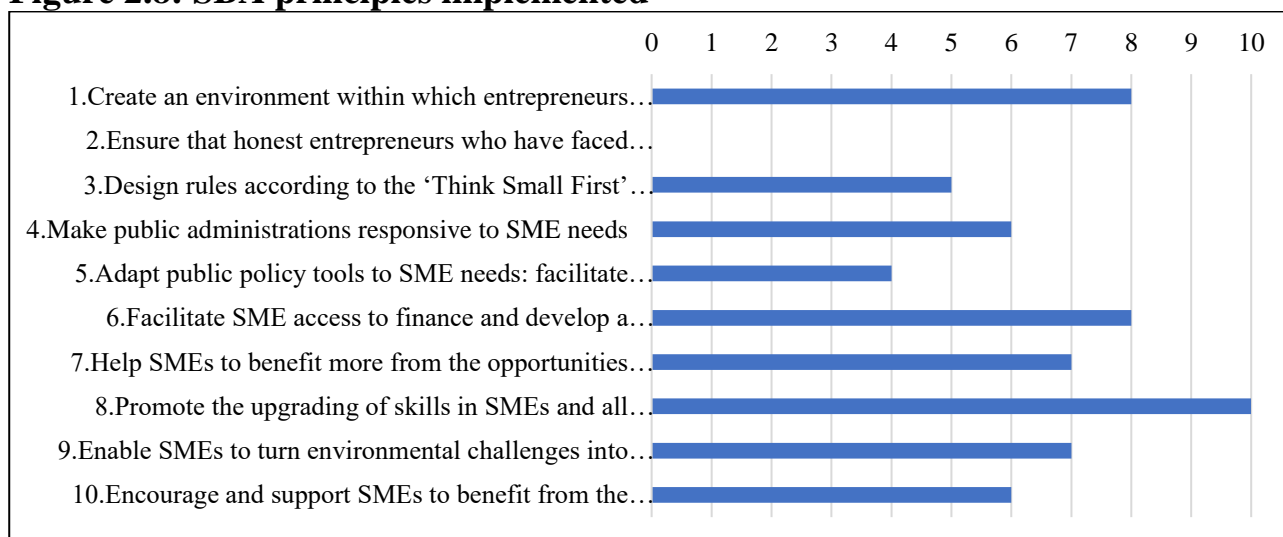
Regions are also active in implementing actions under Principles 7 and 9. For **Principle 7 - Help SMEs to benefit more from the opportunities offered by the Single Market**, actions include consultations, information seminars and trade missions (Latgale), participation in European Enterprise Network (Baden-Wurtemberg, Timis) and facilitating exports to emerging countries such as China (Gelderland). For **Principle 9 - Enable SMEs to turn environmental challenges into opportunities**,

actions include promotion of the circular economy (Gelderland, Central Macedonia) and the bioeconomy (Baden-Wurttemberg).

Regions also actively use Principles 4 and 10. Actions under **Principle 4 - Make public administrations responsive to SME needs** include, for example, the Normenkontrollrat in Baden-Wurttemberg. Here an independent panel of experts was established in 2017 under the government program for reducing bureaucracy and improving law-making through cost-benefit assessment and offering proposals. Another example is digital services dedicated to SMEs (Central Macedonia, Valencia).

Concerning **Principle 10 - Encourage and support SMEs to benefit from the growth of markets**, actions include assistance to investigate CIS markets by offering participation in business forums there (Latgale), participation in EEN networks (Timis) or other international networks such as the Extroversion of the Agrifood and Tourism Sector (central Macedonia).

Figure 2.8: SBA principles implemented



Source: based on Q.6, see Annex II and Annex III

For policy areas to support SMEs in the region (fig. 2.10), interviewees indicated that the most relevant is **innovation and adoption of technologies**. This is supported mainly by ERDF and is in line with the RIS3 Strategy. Examples include investing in specific sectors such as health and life science, agri-food, energy and environmental technology (Gelderland), and supporting SMEs through pre-seed investments and providing vouchers for innovation (Baden-Wurttemberg).

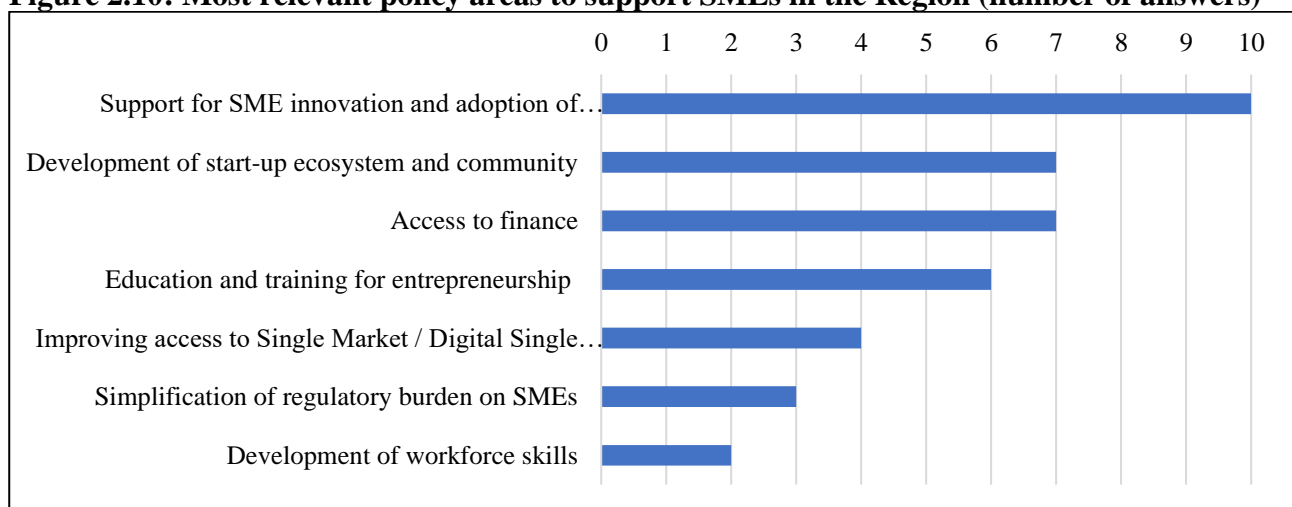
Also, **development of a start-up ecosystem and community** and **access to finance** are two policy areas considered particularly relevant by six regions. Start-up initiatives and development of digital skills for professionals and young entrepreneurship by seed, pre-incubation and incubation are actions for a start-up ecosystem (Thessaly). Grants under ESIF and financial instruments are tools used by regions to facilitate SME access

to finance (Gelderand, Lombardy and Veneto), while ‘Credito Adesso’ initiative provides Finlombarda loans combined with regional subsidised interest for SME working capital needs in Lombardy.

Another important policy area to support SMEs is **education and training for entrepreneurship**, considered very important for enterprise growth and internationalisation. Central to this is an enhancement of knowledge exchange between academia and industry (Thessaly).

Direct quotes from the LRA survey
<ul style="list-style-type: none"> • <i>Education and training are necessary for supporting internationalisation of companies (companies are not successful at international level, even though they are successful nationally), and are also necessary for growing/scaling-up.</i>
<ul style="list-style-type: none"> • <i>The problem with SMEs is that they tend to lower the staff costs and act towards short-term rather than medium- or long-term profits, there is a low level of social capital, SMEs are not flexible and reluctant to new business models. There is a low level of networking, investment, R&D. There is a low level of cooperation and partnership between different actors. Research institutions could have a more pro-business approach. There is a need to change the mentality and raise awareness of entrepreneurs and other relevant actors.</i>

Figure 2.10: Most relevant policy areas to support SMEs in the Region (number of answers)



Source: based on Q.7, see Annex II and Annex III.

Six regions indicate that beyond SBA other specific entrepreneurship strategies target SMEs⁶⁰. These are implemented, for instance, through integrated territorial investments within EU Structural funds 2014-2020 (Latgale Region) or through the RIS3 strategy (Timis or Mazowieckie).

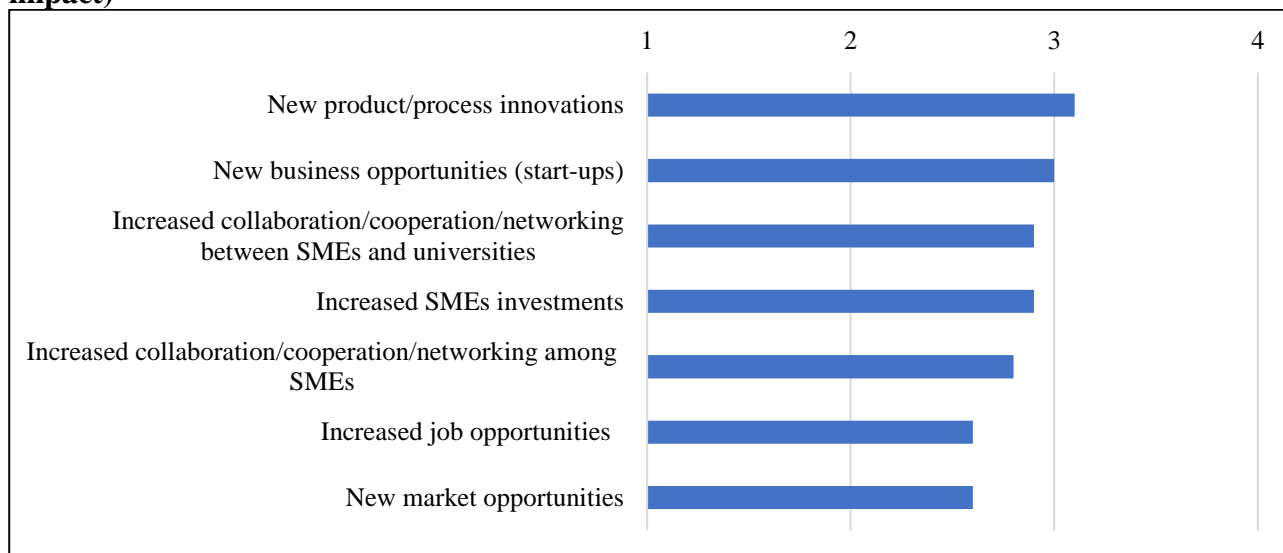
For results from strategies supporting SMEs in the regions (figure 2.10), such strategies highly impacted all the criteria used for this question. The strongest is on the

⁶⁰ Based on Q.8, see Annex II and Annex III.

creation of new business opportunities and the **introduction of new products and processes**.

Increased collaboration/cooperation/between networking among SMEs and universities and **increased SMEs investments** are also very significant.

Figure 2.10: Results of strategies in the regions (0 = No impact; 1 = Low impact; 4 = High impact)



Source: based on Q.13, see Annex III and Annex IV

*Monitoring SME intervention*⁶¹ highlights **results being systematically monitored in seven regions**: Mozawieckie, Thessaly and Timis monitor the OP, Latgale systematically prepares monitoring reports and statistics are collected and presented on the regional website. In Gelderland they are monitored by the regional development agency. Central Macedonia applies OSLO manual guidelines⁶² and Valencia uses RIS3 strategy indicators. Baden-Württemberg and Veneto do not monitor results with specific indicators but Baden Württemberg regularly analyses the state of SMEs.

2.2.2 The role of EU policy on SMEs

Questions on the broad role of EU policy supporting SMEs in the regions investigate the importance of ESIF, Horizon 2020, and COSME.

ESIF support to SMEs in the regions (Figure 2.11) covers all the categories, with a stronger focus on:

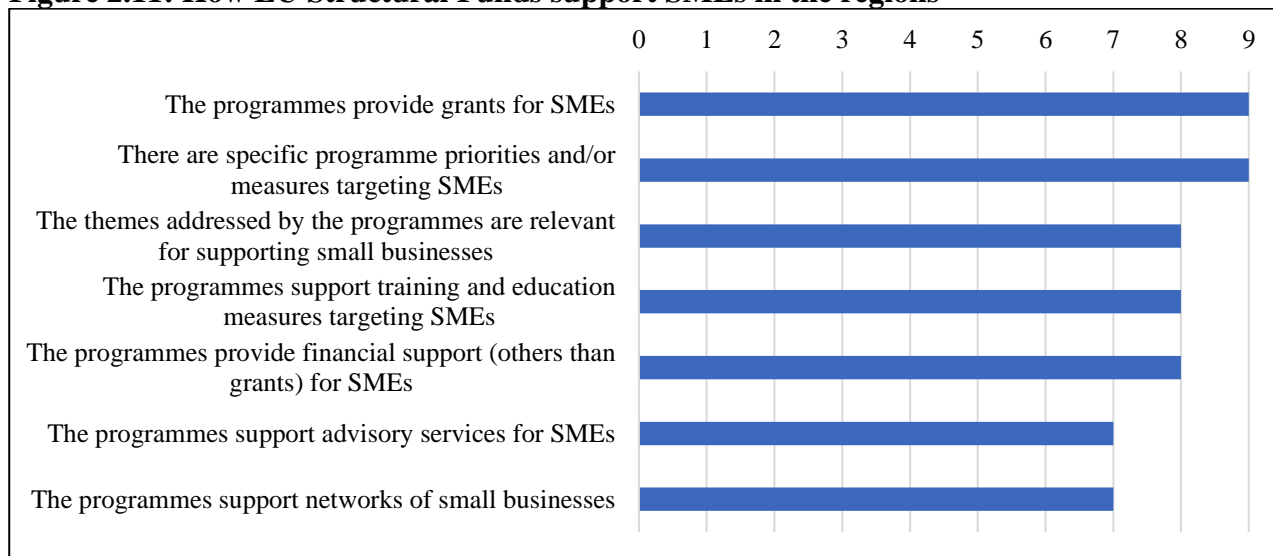
- **Providing grants;**
- **Including priorities/measures targeting SMEs.**

⁶¹ Source: based on Q.14, see Annex II and Annex III.

⁶² See OECD (2018b).

An interesting case of ESIF integration is in Gelderland, where the regional ERDF OP targets innovative SMEs in synergy with Interreg VA Netherlands-Germany and Interreg VB North-West Europe programmes. In the same region a financial instrument (ERDF OP) provides loans to SMEs.

Figure 2.11: How EU Structural Funds support SMEs in the regions



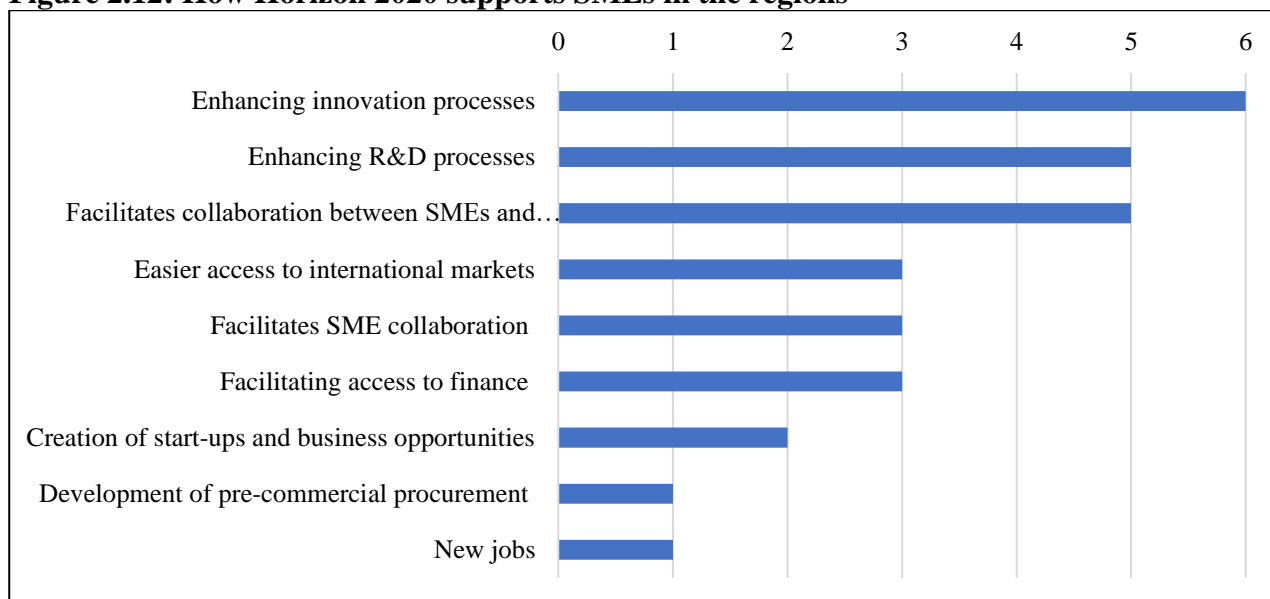
Source: based on Q.9, see Annex III and Annex IV.

COSME support is noted by five regions (Baden-Wurttemberg, Timis, Valencia, Lombardy and Thessaly)⁶³. The programme contribution to easier access to finance and easier access to market is indicated by three regions, while support for innovative SMEs and the contribution to strengthening entrepreneurship education are noted by two regions.

Horizon 2020 support (Figure 2.12) was highlighted by most regions. This support especially enhances innovation and R&D processes and facilitates collaboration between SMEs and universities.

⁶³ Based on Q.10, see Annex II and Annex III.

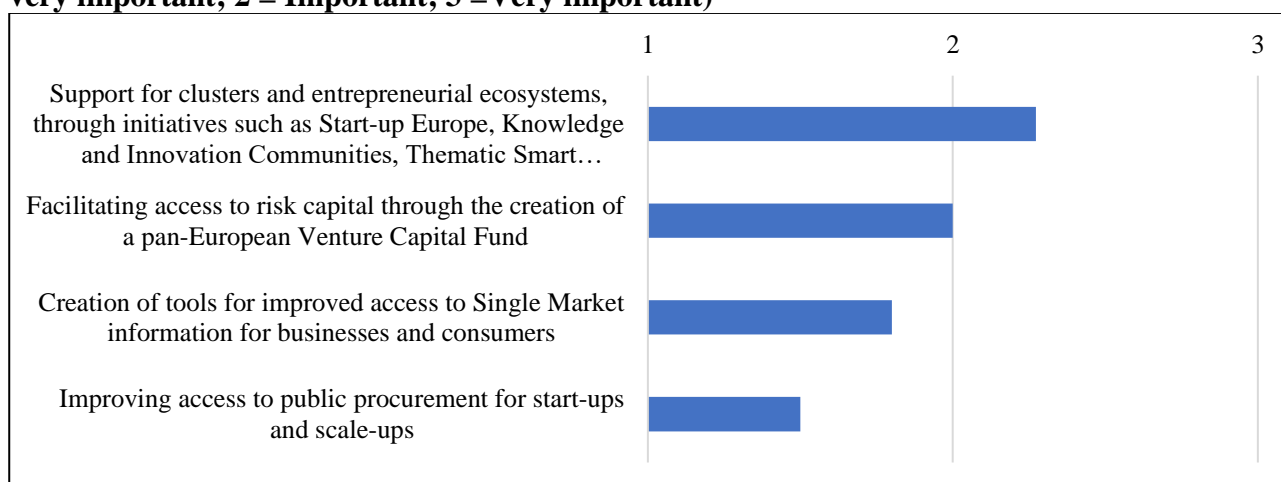
Figure 2.12: How Horizon 2020 supports SMEs in the regions



Source: based on Q.11, see Annex III and Annex IV.

In 2016 the European Commission proposed actions to make the EU single market more efficient for starting and scaling up companies. The regions attach greater importance to support for clusters and entrepreneurial ecosystems, through initiatives such as Start-up Europe, Knowledge and Innovation Communities and Thematic Smart Specialisation Platforms (Figure 2.13). Facilitating access to risk capital with a pan-European Venture Capital Fund and tools for improved access to Single Market information for businesses and consumers are also considered important.

Figure 2.13: Relevance for SMEs of initiatives proposed by the European Commission in 2016 to make the Single Market more efficient for starting up and scaling up companies (1 = Not very important; 2 = Important; 3 = Very important)



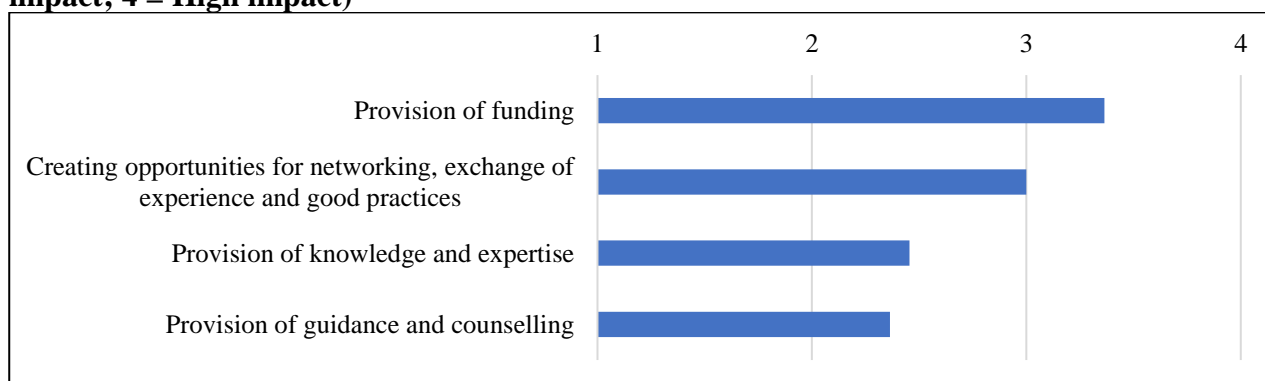
Source: based on Q.12, see Annex III and Annex IV.

The impact of EU policies (Figure 2.14) is considered more effective when **capitalising SMEs through funding**.

Other impacts include **creating opportunities for networking, exchanges of best practices and experience among SMEs**.

Finally, EU programmes are considered less important for **providing knowledge and expertise, guidance and counselling**.

Figure 2.14: Impact of EU policies and programmes in the regions (0 = No impact; 1 = Low impact; 4 = High impact)



Source: based on Q.15, see Annex III and Annex IV.

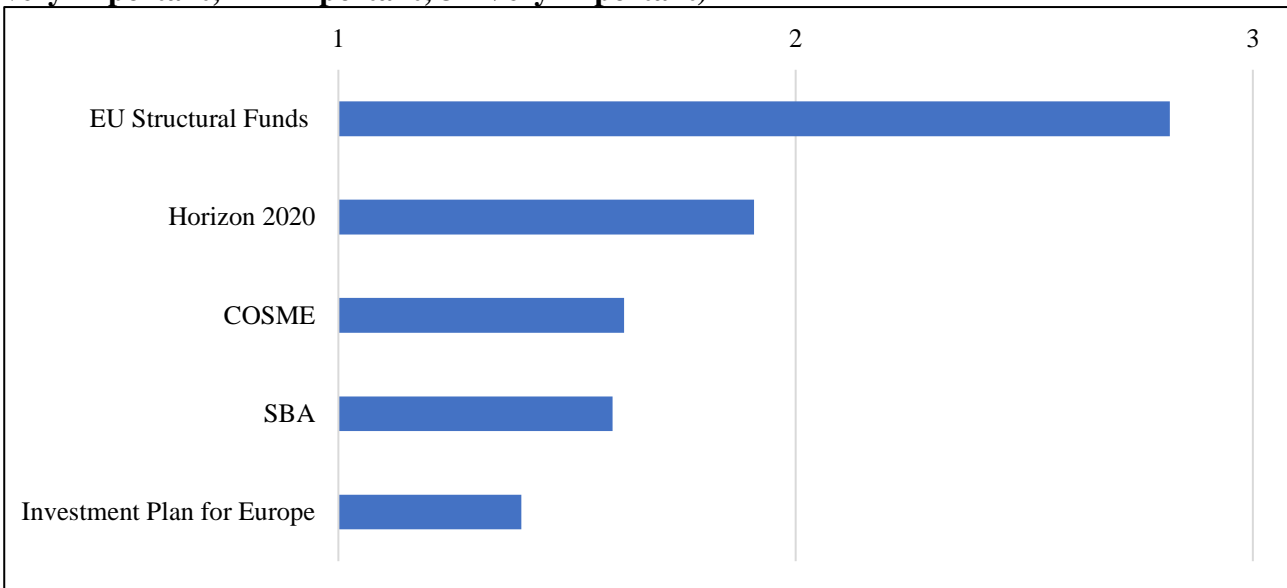
Direct quote from the LRA survey
EU programmes are mainly used to finance innovative SMEs in the region. Although some of the programmes, e.g. H2020 SME instrument comes with advice and support services, the main impact remains the funding.

To summarise the relevance of EU instruments (Figure 2.15), the regions confirm that **EU Structural Funds** are the primary source of funding to support SMEs, followed by **Horizon 2020**. **SBA** is considered important by four regions (Mazowieckie, Latgale, Valencia and Timis) and very important by one region (Thessaly). Interestingly, Mazowieckie considers SBA as relevant for designing policy instruments and strategies even if it cannot be a source of funding.

COSME is considered important in three regions (Baden Württemberg, Thessaly and Lombardy) and very important in one region (Timis).

The **Investment Plan for Europe** is very important in Lombardy and important in Thessaly and in Gelderland. One explanation (Latgale) is that it finances big projects beyond the capacity of the region.

Figure 2.15: Relevance of EU programmes/initiatives supporting SMEs in the regions (1 = Not very important; 2 = Important; 3 =Very important)



Source: based on Q.16, see Annex III and Annex IV.

To summarise, interviews with LRAs lead to the following preliminary conclusions: *SBA and regional strategies supporting SMEs:*

- **All the interviewed regions are aware of the SBA.** Although not all regions have adopted an SBA strategy, **they have some actions supporting SMEs in accordance with SBA principles.** These especially concern Principles 8 - Promote the upgrading of skills in SMEs and all forms of innovation, 1 - Create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded and 6 - Facilitate SME access to finance; **this in line with the findings in section 2.1.**
- In the majority of the cases, the **SBA has impacted regional policy** for SMEs. In addition, **it has influenced implementation of ESIF and/or RIS strategies.**
- **Innovation and adoption of technologies is the most relevant policy area to support SMEs,** implemented mainly through ERDF or RIS3 strategies.
- Regional strategies supporting SMEs produce several results, primarily **the introduction of new products and processes and creation of new business opportunities.**

For the role of EU policy on SMEs:

- **ESIF funds are perceived to have a significant role in supporting SMEs**, especially by providing grants and through priorities/measures;
- Five regions are aware of COSME and its contribution to SMEs but **the contribution of Horizon 2020 is considered greater** (eight regions of the 11 interviewed) especially in **enhancing innovation and R&D processes** and in facilitating collaboration between SMEs and universities or between SMEs;
- **EC proposed actions for starting and scaling up companies** are seen by regions as **more important when supporting clusters and entrepreneurial ecosystems**, while their contribution to improving access to public procurement for start-ups and scale-ups is considered less relevant.
- EU policies and programmes are considered more efficient when **capitalising SMEs through funding**.
- The regions confirm that **EU Structural Funds** are the primary source of funding to support SMEs, followed by **Horizon 2020**.

3. EU programmes for SMEs post-2020

EU programmes provide support for SMEs in many Member States through different channels. This chapter details expected support and changes for SMEs in 2021-2027 EU programmes in terms of thematic focus, scope, financial implications and expected impacts on SME challenges. Different instruments and provisions address limited access to finance, encourages R&D and innovation and aim to improve skills and (international) market access.

Assessment of expected support for SMEs in EU programmes post-2020 is primarily based on the regulation proposals from 2018, in particular recommendations for the post-2020 programming period, opinions and proposals for amendments.

The analysis includes proposals for ESIF and other EU programmes. Within ESIF the focus is on the Cohesion Fund and ERDF, ESF+ and EMFF. This is complemented with EAFRD which is currently not included in the Common Provision Regulation (CPR) proposal⁶⁴. The remaining three funds under ESIF, namely the Asylum and Migration Fund⁶⁵, the Internal Security Fund⁶⁶ and the Border Management and Visa Instrument⁶⁷ are not included in the analysis since they do not address SMEs even though ‘any legal entity created under Union law’ is eligible under these funds and instruments⁶⁸.

Also included in the analysis are EU proposals for (1) the Single Market Programme, which will be the principal replacement of COSME, (2) the Invest EU Programme, which will combine EFSI from the 2014-2020 period and COSME financial instrument interventions and (3) the Horizon Europe Programme as a follow-up to Horizon 2020.

The analysis generally shows that the proposed regulatory framework for 2021-2027 suggests greater leeway for SMEs to benefit from EU support. The new Multiannual Financial Framework proposes increased alignment of political priorities with EU programmes and funds. This implies some new programmes but mainly a continuation of existing programmes with renewed focus and shifts of budget allocation.

ESIF and other EU programmes will be discussed in detail and separately since the role of LRAs in fostering support for SMEs varies between these programmes. Depending on the specific roles, LRAs have more possibilities to support SMEs in ESIF programmes through the shared management system as other EU programmes are centrally managed at EU level.

⁶⁴ European Commission (2018*d*).

⁶⁵ European Commission (2018*e*).

⁶⁶ European Commission (2018*f*).

⁶⁷ European Commission (2018*g*).

⁶⁸ See Article 5 in European Commission (2018*f*), European Commission (2018*e*) and Article 5 in European Commission (2018*g*).

The following two sections separate EU programmes largely according to the management system applied – section 3.1 covers shared management and section 3.2 direct and indirect management. The chapter closes with tentative findings on support LRAs may provide to foster SME use of EU programmes.

3.1 ESIF support to SMEs and entrepreneurship

ESI Funds have a long tradition of supporting SMEs and entrepreneurship. This includes priorities and measures addressing SMEs explicitly and addressing them as potential beneficiaries. The scope of support for SMEs differs from fund to fund.

Expected ESIF support for SMEs proposed for 2021-2027 are compared with support in 2014-2020 below. This is differentiated by funds as required. Although EAFRD is currently not included in the CPR, potential SME support from EAFRD is also included in this section, since it falls under shared management rules. Despite the different management rules applied to ESF+, including not only shared management but direct and indirect management, such SME support is considered in this section, as most of it falls under shared management.

3.1.1 Thematic orientation, scope of support and financial considerations

Shifts in thematic orientation and policy objectives, as well as the scope of intervention and budget allocations determine the potential for ESIF support for SMEs.

Thematic orientation

Regulation proposals for ESIF programmes (CPR) differentiate five policy objectives (POs)⁶⁹, namely:

- PO1 – a smarter Europe by promoting innovative and smart economic transformation;
- PO2 – a greener, low-carbon Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management;
- PO3 – a more connected Europe by enhancing mobility and regional ICT connectivity;
- PO4 – a more social Europe implementing the European Pillar of Social Rights;
- PO5 – a Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives.

⁶⁹ Article 4 in European Commission (2018d).

PO1, a ‘smarter Europe’, provides considerable room for manoeuvre to support SMEs. ERDF and Cohesion Fund regulation includes SMEs explicitly in one specific objective under this PO, namely ‘Enhancing growth and competitiveness of SMEs’⁷⁰. More implicitly, SMEs are also addressed in two other specific objectives of PO1; ‘enhancing research and innovation capacities and the uptake of advanced technologies’ (PO1 i) and ‘developing skills for smart specialisation, industrial transition and entrepreneurship’ (PO1 iv). For these specific objectives proposals for common output and in particular common result indicators explicitly mention SMEs. For the remaining specific objectives under PO1 ‘Reaping the benefits of digitisation for citizens, companies and governments’ (PO1 ii) enterprises are addressed generally. SMEs are not specified as such in either the objective or in common indicators. ESF+ under shared management may also contribute to PO1 and the 4th specific objective in particular including explicit support for SMEs⁷¹.

Compared to the 2014-2020 programming period, the newly proposed regulatory framework hints at less specific opportunities to support SME competitiveness. For instance, the 2014-2020 regulation⁷² specified two intervention priorities to enhance SME competitiveness through internationalisation, whereas the proposed 2021-2027 regulation does not refer to internationalisation at all.

At the same time PO1 iv, in the proposed ERDF and Cohesion Fund regulation connects the development of skills directly with the ‘smarter Europe’ policy objective. For the 2014-2020 programming period, SME support and development of skills are considered under different thematic objectives (TO 3 and TO 10 respectively) that are usually covered by ERDF and ESF respectively. This may lead to more integrated SME support for R&D, competitiveness and skills development in the future.

Other policy objectives target SMEs implicitly. No proposed specific objective explicitly targets SMEs or entrepreneurship, though SMEs may also be beneficiaries under the ‘greener, low-carbon Europe’ (PO2) with specific objectives targeting energy efficiency and renewable energy.

To some extent, SMEs may also benefit from measures under the ‘more connected Europe’ policy objective (PO3) with regard to ICT connectivity. To enhance SME focus, programmes may use common result indicators under PO1 for other POs. By doing so, programme authorities can indicate that SMEs are an important target group of their programme.

⁷⁰ Article 2(1)a)iii in European Commission (2018*h*).

⁷¹ Article 4(2) in European Commission (2018*i*).

⁷² Article 5(3) in Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006.

The contribution of the Cohesion Fund to SME support may be limited as it focuses on PO2 and parts of PO3⁷³, where SMEs are not explicitly mentioned. So, opportunities for SME support have become less visible with the proposed regulations whereas in 2014-2020 enterprises were explicitly targeted under the investment priority ‘Promoting energy efficiency and renewable energy use in enterprises’⁷⁴.

ESF+ under direct and indirect management may also support SMEs under the ‘Employment and social innovation’ strand. This replaces the 2014-2020 EaSI programme promoting employment and social innovation⁷⁵. This strand includes specific objectives to support (a) services to employers and jobseekers that support integrated European labour markets and (b) the development of market ecosystems providing microfinance for micro-enterprises in start-up and development phases⁷⁶. In consequence, ESF+ support for SMEs will combine support for skills development and micro-finance, so far covered under different programmes. However, the strands and forms of management will continue to differ.

EMFF and EAFRD focus on specific territorial areas and sectors. This implies a different thematic coverage for these funds. The regulation proposal for EMFF⁷⁷ defines four priorities complementing objectives of the Common Fisheries Policy (CFP)⁷⁸. Three relate to enterprises, addressing small-scale fishing, sustainable aquaculture, fishery and aquaculture product processing as well as Community Led Local Development (CLLD) to better exploit potential for a sustainable blue economy⁷⁹. The proposal contains very detailed descriptions of eligibility, referring to age limits for recipients, or vessel sizes. Overall, small-scale fishing and aquaculture support seems to be similar to support under the 2014-2020 programming period⁸⁰.

EAFRD support may be targeted towards farms and other enterprises in rural areas contributing to diversified economic activities, which may include SMEs. Specific objectives in the proposed EAFRD regulation contribute to fostering a smart, resilient and diversified agricultural sector and strengthening the socio-economic fabric of rural areas⁸¹.

⁷³ Article 2(2) in European Commission (2013*h*).

⁷⁴ Article 4(a)(ii) in Regulation (EU) No 1300/2013 of the European Parliament and of the Council of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006.

⁷⁵ European Commission (2018*i*), p.4.

⁷⁶ Article 23 in European Commission (2018*i*).

⁷⁷ Focus is only on support proposed under shared management since support under direct and indirect management does not address SMEs or other enterprises.

⁷⁸ Article 4 in European Commission (2018*j*).

⁷⁹ Article 15-26 in European Commission (2018*j*).

⁸⁰ Regulation (EU) No 508/2014 of the European Parliament and of the Council of 15 May 2014 on the European Maritime and Fisheries Fund and repealing Council Regulations (EC) No 2328/2003, (EC) No 861/2006, (EC) No 1198/2006 and (EC) No 791/2007 and Regulation (EU) No 1255/2011 of the European Parliament and of the Council.

⁸¹ Article 5 in European Commission (2013*k*).

Five of nine specific objectives in Article 6⁸² target farm and/or enterprise development in rural areas, thereby including SMEs. They are however, not explicitly addressed in the specific objectives, only in the type of interventions (see below). In contrast, small farms and young farmers were addressed in 2014-2020 programmes through sub-programmes addressing specific needs⁸³.

SME support is not very prominent under thematic focus. However, the amendment of Article 4 of the CPR proposed by the European Parliament is similar to the CoR proposal and suggests an explicit competitiveness and SME-related formulation of the ‘smarter Europe’ policy objective. This is ‘a *more competitive and smarter Europe* by promoting innovative and smart economic transformation *and strengthening small and medium-sized enterprises*’⁸⁴. At the same time, open formulations leave room for manoeuvre for programme authorities to explicitly focus on SMEs if considered appropriate. However, it is not certain whether programme authorities may specify this at the level of specific objectives in their programmes or only through developing interventions and indicators accordingly.

Scope of support

The scope of support details the types of interventions that SMEs may expect from ESIF in the 2021-2027 programming period⁸⁵, but these remain mostly unchanged. Nevertheless, the most notable change for SMEs may be the more open formulation for the scope as proposed for ERDF.

ERDF intervention have been generally widened in the proposed regulation⁸⁶ compared to the 2014-2020 regulation (Article 3). This also includes the scope of support for SMEs, which are mentioned explicitly only in relation to ‘productive investments’ but which could also benefit from other interventions. Similarly to the themes and objectives, this may provide more room for manoeuvre but would depend on programme authorities.

The proposal for ESF+ under shared management does not specify interventions particularly relevant for SMEs. The ‘Employment and Social Innovation’ strand mentions support for microfinance as specifically relevant for SMEs.

⁸² European Commission (2013k).

⁸³ Article 7(1) in Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005.

⁸⁴ Amendment 63 in European Parliament (2019b).

⁸⁵ Since the Cohesion Fund may contribute relatively little support for SMEs the scope focuses on the other funds under shared management.

⁸⁶ Article 4 in European Commission (2018h).

The EMFF scope is detailed through thematic specification of support as mentioned above and outlined in Articles 15 to 26 of the proposed regulation⁸⁷. Finally, EAFRD details the scope through several interventions, of which one has a specific focus on SMEs. This covers rural development interventions for the ‘installation of young farmers and rural business start-up’⁸⁸, which was also included in the 2014-2020 programming period, via sub-programmes and measures⁸⁹.

For thematic orientation and scope of support, opinions from CoR and the European Parliament suggest several specifications for SMEs and entrepreneurship in the proposed regulations. These can be understood as indications for how SME support could be tailored. However, if formulated too closely, this could restrict the above indicated leeway for programmes.

Funding SME support

The finances available for support in the post-2020 programming period are highly relevant for SMEs. Programme specific choices will determine the amount of ESIF SME support, but the overall budget for ESIF, funding for specific policy objectives, individual fund budgets, types of support and co-financing rates will matter for SMEs post-2020.

Total funding

ESIF and EAFRD funding will be reduced by some 22% in current prices⁹⁰. The decrease will be most pronounced for the Cohesion Fund (over one third) and EMFF (nearly a quarter) although for EMFF this implies a small reduction in total amount. In addition, ESF+ will also suffer from a severe reduction given its wider focus to include several other programmes. These reductions will lead to changes in Cohesion Policy funding in Member States, since some may see an increase in funding whereas others may have to bear decreases of up to 25%.

Earmarking for priorities and types of regions

Thematic concentration and earmarking are ways to tailor support for top policy priorities. Support for SMEs and entrepreneurship and in particular thematic

⁸⁷ European Commission (2018j).

⁸⁸ Article 64 in European Commission (2018k).

⁸⁹ Article 7 and Article 19 in Article 7(1) in Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005.

⁹⁰ Calculation based on data from the Open Data Portal for ESIF (03.05.2019), the MFF 2014-2020, European Court of Auditors: Rapid case review: Allocation of Cohesion policy funding to Member States for 2021-2027 and the Communication from the Commission on 'A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021-2027 (COM(2018) 321 final).

concentration will matter⁹¹. Thematic concentration should ensure that ‘in a context of budget reduction, there is still a critical mass of investment’⁹².

Several funds in both programming periods include earmarking for certain policy priorities. However, thematic concentration and earmarking in the proposals for ESF+, EMFF and EAFRD do not consider SME interventions⁹³. So these funds do not focus on support for SMEs and entrepreneurship.

Thus, within ESIF the ERDF is the only fund with a pronounced potential for SME support that can be further enhanced through earmarking funds to policy objectives. Table 3.1 below gives an overview of proposed changes for thematic concentration according to types of regions. The new concentration of thematic objectives into fewer policy objectives and change in the attribution of regions in groups 1 and 2 hampers unambiguous assessment of earmarking related to SMEs and entrepreneurship.

Overall, thematic concentration tends to be strengthened slightly for regions with a GNI ratio above the EU average (group 1) and remains more or less unchanged for groups 2 and 3. At the same time regions with a GNI ratio between 90% and 100% of EU average will now be included in group 1, whereas they were transition regions in the previous programming period. For such regions thematic concentration will become stronger.

Thematic concentration remains relatively unchanged for SMEs with a dedicated thematic objective under the four thematic objectives (2014-2020) or which will be considered as one target group within the wider policy objective ‘smarter Europe’ which includes R&D and ICT related specific objectives.

Table 3.1: Comparison of thematic concentration in ERDF for the programming periods 2014-2020 and 2021-2027

ERDF	2014-2020	2021-2027
More developed regions / group 1	Minimum 80% to any two or more TOs of ‘R&D’, ‘ICT’, ‘SMEs’ and ‘low-carbon’; of which at least 20% to ‘low-carbon’	Minimum 60% to ‘smarter Europe’ Minimum 85% to ‘smarter Europe & ‘greener, low-carbon Europe’ together
Transition regions / group 2	Minimum 60% to any two or more TOs of ‘R&D’, ‘ICT’, ‘SMEs’ and ‘low-carbon’;	Minimum 45% to ‘smarter Europe

⁹¹ For instance, earmarking for sustainable urban development is no longer included.

⁹² European Commission (2018j), p.8.

⁹³ Article 13 in European Commission (2018i), Article 6 in European Commission (2018i) and European Commission (2018k).

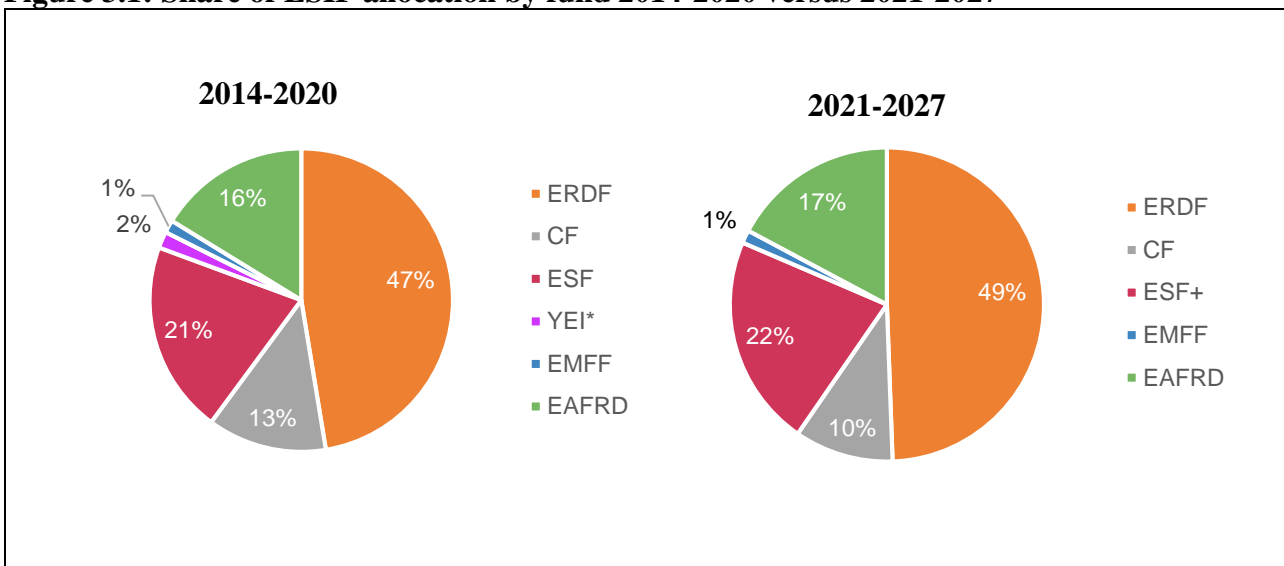
Less developed regions / group 3	of which at least 15% to 'low-carbon'	Minimum 'greener, Europe'	30% to low-carbon
	Minimum 50% to any two or more TOs of 'R&D', 'ICT', 'SMEs' and 'low-carbon'; of which at least 12% to 'low-carbon'	Minimum 35% to 'smarter Europe'	Minimum 30% to 'greener, low-carbon Europe'

Source: Spatial Foresight based on Regulation 1301/2013 Article 4 and Article 3 in European Commission (2018h).

Shares between funds

Given above considerations on themes addressed by ESI Funds and thematic concentration on SME relevant policy objectives, ERDF has the greatest impact on SME support. EMFF and EAFRD also could provide considerable support to SMEs for fishery and farming, but their scope is limited in territorial and sectoral terms. ERDF, Cohesion Fund and ESF+ may provide SME support generally to SMEs irrespective of the sector (apart from sectors excluded from ESIF support in general). This role of the ERDF is confirmed when reviewing the distribution of budget for ESIF and EAFRD (see Figure 3.1). The relative share of ERDF increases slightly.

Figure 3.1: Share of ESIF allocation by fund 2014-2020 versus 2021-2027

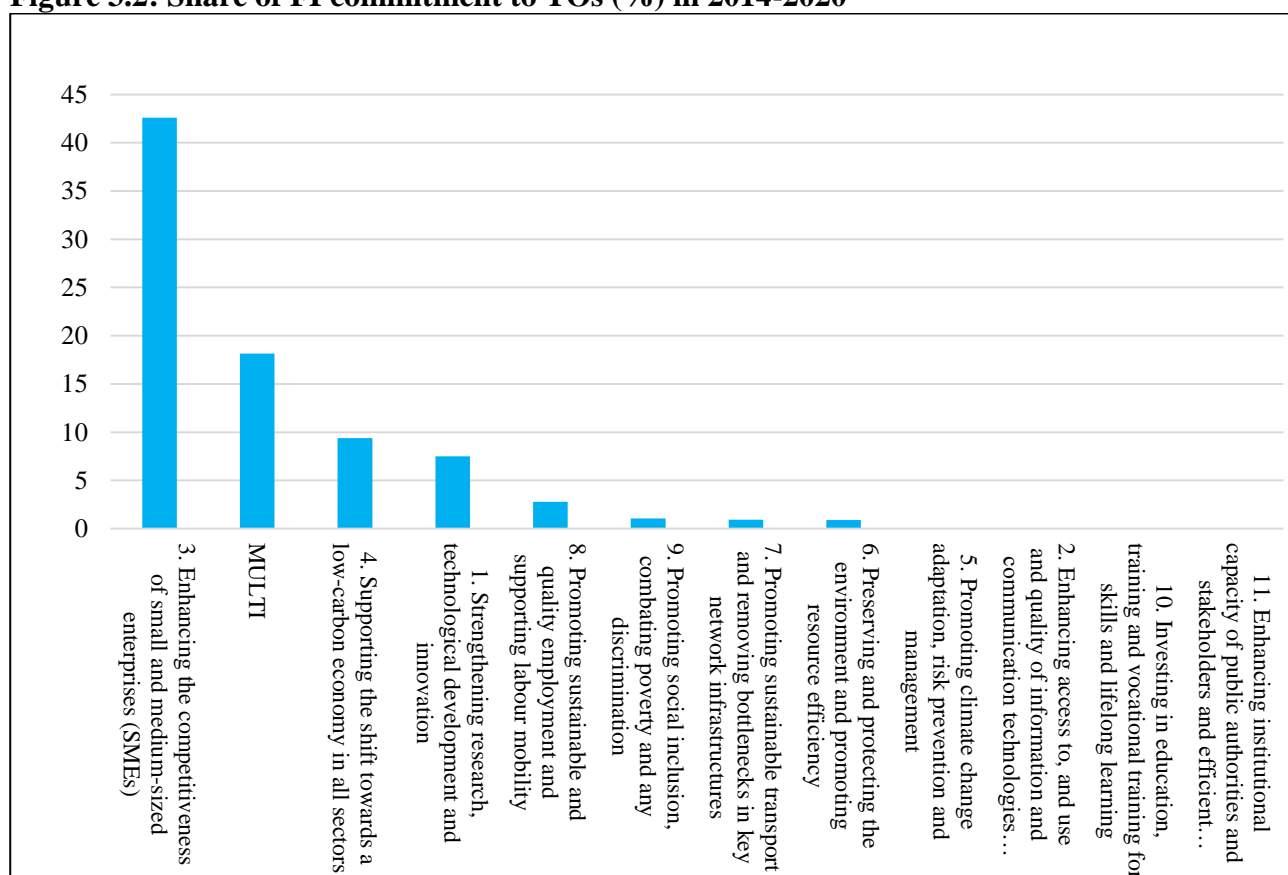


Source: Spatial Foresight elaboration based on data from the Open Data Portal for ESIF (03.05.2019), the MFF 2014-2020, European Court of Auditors: Rapid case review: Allocation of Cohesion policy funding to Member States for 2021-2027 and the Communication from the Commission on 'A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021-2027 (COM(2018) 321 final).

Type of financial support

Apart from grants, economically viable activities have been increasingly addressed through financial instruments. In the 2014-2020 programming period a clear focus is on financial instruments supporting the competitiveness of SMEs (Figure 3.2). All ESI Funds may make use of financial instruments in the post-2020 period. SMEs may thus benefit from better access to finance not only from the ERDF but also EMFF, EAFRD and ESF+. For example, funding for productive aquaculture investments may only be provided through financial instruments⁹⁴ (COM(2018) 390 final, Article 23). Within the ESF+, in particular ‘Employment and social innovation’ shall provide microfinance support that may also be relevant for small and especially micro enterprises to improve access to finance.

Figure 3.2: Share of FI commitment to TOs (%) in 2014-2020



Source: Spatial Foresight elaboration based on European Commission, data for research, *Financial Instruments implementation (Finances)*, <https://cohesiondata.ec.europa.eu/2014-2020/ESIF-2014-2020-Financial-Instruments-Implementatio/dcsc-7x87>, accessed 08.04.2019.

Co-financing

Co-financing rates vary between funds and regions and partly also between measures. The table below compares co-financing rates for ESI Funds as proposed for 2021-2027 and applied in 2014-2020. The comparison indicates reduced co-financing rates for

⁹⁴ Article 23 in European Commission (2018j).

post-2020 programmes compared to the 2014-2020 programming period for the ERDF, including Interreg, the Cohesion Fund and ESF+ under shared management. Thus, co-financing for SMEs and entrepreneurship under these programmes will decrease, implying decreasing attractiveness of support from these funds. This risk affects SMEs with a lack of capital resources and access to finance. At the same time lower co-financing rates will mitigate part of the reduced funding post-2020.

Table 3.2: Comparison of maximum co-financing rates for 2014-2020 and 2021-2027 by fund

Fund	Maximum co-financing: 2014-2020	Maximum co-financing: 2021-2027
ERDF	80% / 85% for less developed regions; 60% for transition regions; 50% for more developed regions	70% for less developed regions; 55% for transition regions; 40% for more developed regions
Interreg within ERDF	85%	70% except for external borders & outermost regions
Cohesion Fund	85% at the level of each priority axis	70% at the level of each priority
ESF / ESF+ under shared management	As ERDF but up to 10% higher for priority axes dedicated solely to social innovation and/or transnational cooperation	As ERDF & up to 95% for innovative actions
EMFF	Principally 50% but complemented by additional co-funding leading to individual rates by type of measure	75% for all SME related measures
EAFRD	Different rates and maximum amounts by type of measure	Different rates and maximum amounts by type of measure

Source: Spatial Foresight elaboration based on Regulation 1303/2013 Art.120, Regulation 1304/2013 Art.11, COM(2018) 375 final Art.106, COM(2018) 374 final Art.13, Regulation 508/2014 Art.95, COM(2018) 390 final Annex II, Regulation 1305/2013 and COM(2018) 392 final.

For the EMFF and EAFRD proposed changes for co-financing are not straightforward, since the rates and conditions vary for different measures. For instance, EMFF co-financing of start-up support for young fishermen in the 2014-2020 programming period was a maximum of 25% of vessel costs or EUR 75 000 (EMFF Regulation, Art. 31). Also in 2014-2020 small-scale coastal fisheries operations may benefit from an additional 30% on top of the principal 50% co-financing, implying total co-financing of 80% (EMFF Regulation, Art. 95 and Annex I). The proposal for maximum co-financing of 75% for the post-2020 period may thus affect individual SME support differently but simplify the calculation of SME-related EMFF support.

Key conclusions

The analysis of policy objectives addressed, scope of support and funding available suggests that ERDF will be the main source of support for SMEs and entrepreneurship in general. This will be complemented by EMFF and EAFRD in coastal and rural areas for fishery and aquaculture, agriculture and rural sector business development. Overall support will decrease, with both reduced funds and lower co-financing rates.

The proposed regulations enable programme authorities, especially for ERDF, to focus on SME development and entrepreneurship. However, strong SME support is not a necessity given thematic earmarking where the focus could also be on a stronger public research sector rather than SMEs, for example. At the same time, combining skills development with other SME related measures to support innovation and competitiveness is possible, since they are all part of the same ERDF policy objective.

3.1.2 Administrative changes

The proposed CPR regulation⁹⁵ puts a strong focus on simplification. Most practices for ESIF beneficiaries such as project application, monitoring, reporting and financial management will remain unchanged. Even though SMEs are not explicitly mentioned some simplification measures impact on the use of ESIF by SMEs and other beneficiaries. This may also affect SMEs in the 2021-2027 programming period.

The CPR proposes an extended use of simplified costs options (SCOs), such as unit costs, lump sums and flat rates⁹⁶. This includes the requirement to use SCOs for operations below EUR 200 000. Extended use of SCOs implies reducing control and audit activities. Reporting on financial information and data as well as financial management and payment claims become less burdensome for ESIF beneficiaries. Smaller SMEs could benefit significantly from these changes as they have the highest relative administrative burden⁹⁷.

In addition, the proposal suggests fewer verifications and a focus on risk-based and proportional controls as well as a single audit arrangement⁹⁸. Management verifications will be risk-based instead of covering 100% of operations and may follow national procedures only⁹⁹. Moreover, ERDF and Cohesion Fund projects below EUR 400 000 eligible cost, ESF projects below EUR 300 000 and EMFF below EUR 200 000 will be audited once only prior to completion¹⁰⁰. This should mean fewer information requests for beneficiaries, which will reduce their administrative burden.

⁹⁵ European Commission (2018*d*).

⁹⁶ Article 48-51 and Article 88 in European Commission (2018*d*).

⁹⁷ European Commission (2018*r*).

⁹⁸ Article 68 and Article 74 in European Commission (2018*d*).

⁹⁹ Article 77-79 in European Commission (2018*d*).

¹⁰⁰ Article 74(3) in European Commission (2018*d*).

Simultaneously, some measures in the CPR proposal may increase administrative tasks for beneficiaries and thus SMEs, including the frequency of reporting and grounds for programme reimbursement by the European Commission. The proposed CPR asks programme authorities to report their progress six times per year. Depending on the e-cohesion systems this may imply more frequent submissions of data by beneficiaries to the programme¹⁰¹.

Tasks may also increase when programmes propose parts of their budget to be financed against performance rather than costs. This allows for payments from the Commission to a Member State or region, linked to the achievement of pre-agreed results/outputs or completion of policy actions¹⁰². This option is correspondingly outlined in the Financial Regulation¹⁰³, which indicates linking payments to the ‘fulfilment of conditions set out in sector-specific rules or Commission decisions’.

This is an option to shift from compliance to performance in implementation by changing the focus from costs, reimbursement and checks for individual projects to tracking deliverables and results of projects or parts of a programme. Depending on the details this could substantially refocus Cohesion Policy implementation and change administrative procedures for programme bodies and beneficiaries. The degree of such refocusing depends on how much programmes link payments based on performance rather than costs. This option means:

- Programmes may not make use of the option to avoid uncertainty for themselves, which would not affect beneficiaries such as SMEs.
- Programmes make use of the option and define indicators, results or conditions for types of operations that do not affect reporting for beneficiaries. This may be for types of operations where programmes have sufficient experience and can build on established indicators. In this case, setting adequate dates for deliverables in line with Commission and reporting requirements may be crucial. If this is possible, SMEs may have to report achievements as in the 2014-2020 programming period.
- Programmes make use of the option but want to avoid risks at programme level, i.e. transferring the performance risks to the beneficiaries. Here, programme authorities are likely to demand more detailed information on achievements by beneficiaries, who may face additional reporting requirements, for both performance and timing of activities. The elements detailed in the CPR proposal (Art. 46 (1)) and the description in Annex V of the CPR for finance not linked

¹⁰¹ Article 37 in European Commission (2018*d*).

¹⁰² Articles 46 and 89 in European Commission (2018*d*).

¹⁰³ Article 125 in Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

to costs suggest that programmes may request considerable information from beneficiaries implementing activities under the ‘performance’ frame. This includes information about conditions to be fulfilled, deadlines, indicator definitions and measurement, definitions for intermediate deliverables, their timing and verification for achieving the conditions.

3.1.3 Expected impact of support

Apart from EMFF and EAFRD, which are territorial and sector specific, in the post-2020 programming period SMEs may benefit most from ERDF interventions. The ERDF targets SMEs more explicitly through thematic orientation, scope of support, financial volume and earmarking as compared to other ESIF.

As outlined above ESIF and EAFRD may provide support for SMEs and entrepreneurship in the post-2020 period through different types of interventions and thematic focus. This can address several key issues of SME development. The above considerations imply impacts on four key issues; access to finance, support for R&D and innovation, skills development as well as access to markets and internationalisation.

Access to finance

As in the 2014-2020 period addressing market failures and improving access to finance for SMEs will be supported, especially through increased use of financial instruments. Depending on the administrative burden and attractiveness of the instruments, different SMEs may benefit from better access to finance. In addition, financial instrument implementation and demand from recipients will be decisive for improving SME access to finance. Finally, lower co-financing rates may hamper financially weak SMEs in accessing ESIF financial instruments.

Support for R&D and innovation

Support for SMEs and entrepreneurship under the ERDF will be provided under the same policy objective as R&D and innovation support. SMEs can also benefit from this, though they are not specified in the proposed regulation¹⁰⁴. Leeway for R&D and innovation support for SMEs is provided through:

- Productive investments in any enterprise if this involves cooperation with SMEs in R&D and innovation activities¹⁰⁵. This may enhance the combined use of capacities in all sizes of enterprise.

¹⁰⁴ Article 2(1)(a) in European Commission (2018h).

¹⁰⁵ Article 4(1) in European Commission (2018j).

- Common output and result indicators for the specific objective ‘Enhancing research and innovation capacities and the uptake of advanced technologies’. Annex in COM(2018) 390 final¹⁰⁶ suggests common output indicators including ‘Start-ups supported’ and common result indicators such as ‘SMEs introducing product or process innovation’, ‘SMEs introducing marketing or organisational innovation’ and ‘SMEs innovating in-house’. Programme authorities may choose these indicators from a wider list of common indicators.

Support for R&D and innovation in SMEs may also benefit from skills development that could be funded under the same policy objective and through ERDF.

Skills development

In the 2014-2020 programming period skills development mostly relates to ESF activities, not least due to the thematic concentration mandated for ERDF programmes. By moving skills development to the policy objective ‘smarter Europe’ not only ESF+ but in particular ERDF funding may provide more support for SME relevant skills development post-2020. ESF+ under shared management may nevertheless also contribute to skills development through the specific objective ‘a smarter Europe through the development of skills for smart specialisation, skills for key enabling technologies, industrial transition, sectorial cooperation on skills and entrepreneurship, the training of researchers, networking activities and partnerships between ... and enterprises and clusters, support to micro, small and medium sized enterprises...’¹⁰⁷.

Including skills development in the policy objective most strongly earmarked for the ERDF enhances support for skills development in general and in particular for SMEs and entrepreneurship. It remains to be seen how the shift is taken up by programme authorities and how it is combined with ESF+ support.

Access to markets and internationalisation

Openly formulating the objective to support SME competitiveness as proposed in the ERDF and Cohesion Fund regulation means market access and internationalisation are not explicitly targeted in either specific objectives or common indicators. This contrasts with investment priorities in the 2014-2020 regulatory framework, which also target ‘developing and implementing new business models for SMEs, in particular with regard to internationalisation’ and ‘supporting the capacity of SMEs to grow in regional, national and international markets, and to engage in innovation processes’¹⁰⁸.

¹⁰⁶ European Commission (2018j).

¹⁰⁷ Article 4(2) in European Commission (2018i).

¹⁰⁸ Article 5(3)(a) and (b) in European Commission (2018h).

The proposed common result indicators for the specific objective ‘Enhancing growth and competitiveness of SMEs’ are all growth and turnover related without specifying new markets or internationalisation¹⁰⁹.

In contrast, the EMFF proposal includes market access with the priority ‘Contributing to food security in the Union through competitive and sustainable aquaculture and markets’¹¹⁰ but also with interventions to improve market access such as ‘Marketing of fishery and aquaculture products’¹¹¹.

3.2 Other EU support to SMEs

The European Commission supports SMEs through various directly and partially indirectly managed programmes which offer consistent and coherent support. This encourages competition at European level and creates a critical mass for efficient programme delivery. Notable EU programmes for SME support in 2021-2027 will be the Single Market Programme, Horizon Europe and InvestEU. Each has a different focus for SME support.

SMEs can also benefit from support through other European programmes, however their volumes and explicit focus on SMEs is relatively limited in the detailed analysis. Among these, the LIFE programme which is the European Programme for the Environment and Climate Action¹¹², may impact SMEs most. Managed by the Executive Agency for SMEs (EASME) the LIFE programme contributes to the shift towards a clean, circular, energy-efficient, low-carbon, climate-resilient economy. It aims to protect and improve environmental quality and to halt and reverse biodiversity loss. SMEs are one of the main beneficiaries and may benefit from sub-programmes on the circular economy and clean energy transition. Indeed, 33% of the beneficiaries of previous LIFE programmes were SMEs¹¹³. Although the budget is expected to increase by 50% the overall volume remains small at roughly 0.4% of the total EU budget for the EU-27¹¹⁴.

The following sections discuss SME support under the abovementioned programmes in-depth with a specific focus on the expected impact for SMEs.

¹⁰⁹ Annex I in European Commission (2018*h*).

¹¹⁰ Article 4 in European Commission (2018*j*).

¹¹¹ Article 24 in European Commission (2018*j*).

¹¹² European Commission (2018*l*).

¹¹³ European Commission (2018*l*), p.37.

¹¹⁴ European Parliament (2018*c*).

3.2.1 Single Market Programme

EU managed SME support for the single market is less explicit in the 2021-2027 regulatory framework. The Single Market Programme coordinates single market activities that were previously detailed in separate regulations. SME support is one of many activities that now fall under this programme, which also tackles standardisation, consumer rights, human, animal and plant health and establishing a framework for financing European statistics.

Nevertheless, the Single Market Programme continues parts of the COSME programme. To streamline the management of financial instruments it excludes COSME financial instruments, which will be continued under InvestEU instead. All non-financial instrument activities of the COSME programme will now be supported under the Single Market Programme.

The proposed total value for the Single Market Programme is about EUR 4 billion for seven years. One quarter of these funds will be pre-allocated to a specific objective which aims to improve the competitiveness of enterprises with special emphasis on SMEs¹¹⁵. A reliable comparison between similar SME support under COSME and the Single Market Programme is not feasible due to a lack of detailed allocation data.

Overall, the proposal differentiates six specific objectives. Of these the previously mentioned specific objective and the one to make the internal market more effective¹¹⁶ are the most relevant for SMEs.

The first specific objective aims to make the internal market work more effectively including by removing obstacles. It provides the legal basis for the Commission to develop, implement and enforce EU laws covering the internal market for goods and services, public procurement, market surveillance, company law, contract and extra-contractual law, anti-money laundering, free movement of capital, financial services and competition, including the development of governance tools¹¹⁷. This implies a continuation of the governance tools Your Europe Portal, Your Europe Advice, SOLVIT, Internal market information system and single market scoreboard¹¹⁸. These provide information and advice to SMEs to enhance their benefits from the single market.

The second specific objective targets SMEs explicitly by aiming to improve the competitiveness of enterprises generally and of SMEs in particular. The focus on SMEs is pronounced in this specific objective through specific formulations of the objective, which also aims at adding value with various forms of support for SMEs, access to

¹¹⁵ Article 3(2)(b) in European Commission (2018*m*).

¹¹⁶ Article 3(2)(a) in European Commission (2018*m*).

¹¹⁷ Article 3(2)(a) in European Commission (2018*m*).

¹¹⁸ Recital 16 in European Commission (2018*m*).

markets including internationalisation, a favourable business environment, sector competitiveness, industry modernisation and by promoting entrepreneurship¹¹⁹.

Eligible actions under this specific objective aim to strengthen SME capacities, particularly by enhancing skills and competences to access markets and internationalisation. Apart from various forms of support this specifically includes¹²⁰:

- facilitating SME access to markets, supporting them in addressing global and societal challenges and business internationalisation, and strengthening EU leadership in global value chains, including the Enterprise Europe Network;
- addressing market barriers, administrative burden and creating a favourable business environment to empower SMEs to benefit from the internal market;
- facilitating business growth, including skills development, and industrial transformation across manufacturing and service sectors;
- supporting the competitiveness of enterprises and whole sectors, supporting SME uptake of innovation and value chain collaboration through strategically connecting ecosystems and clusters, including the joint cluster initiative;
- fostering an entrepreneurial business environment and entrepreneurial culture, including the mentoring scheme for new entrepreneurs and supporting start-ups, business sustainability and scale-ups.

The first bullet point secures continuation of the Enterprise Europe Network (EEN), which helps SMEs find business and technology partners and understand EU legislation. The last bullet points continue the scale-up and start-up initiatives that are currently running under COSME.

An executive agency, probably the Executive Agency for SMEs (EASME) will remain responsible for implementing these actions and detailing specific support schemes in their yearly work programme¹²¹.

Despite mentioning SMEs in the regulation, the actions and measures could be more specific. Including a reference to the SBA would explicitly ensure that principles spelled out in the SBA are also followed by the Single Market Programme¹²².

¹¹⁹ Article 3(2)(b) in European Commission (2018*m*).

¹²⁰ Article 8 (3) in European Commission (2018*m*).

¹²¹ European Commission (2018*m*), p. 14 legislative statement.

¹²² Committee of the Regions (2019) recommendation 27 and UEAPME (2018*a*).

Furthermore, the CoR and European Parliament suggest increasing the amount of SME support under the Single Market Programme¹²³. This should reflect the importance of SMEs in the single market. The European Parliament proposes increasing the Single Market Programme budget with a significant increase for the second objective to EUR 3.1 billion¹²⁴. This should cover additional actions that the European Parliament proposes¹²⁵, namely to promote:

- entrepreneurial culture and contribute to high-quality training for SME staff; and
- new business opportunities for SMEs overcoming structural changes through targeted measures, and other innovative actions such as worker buy-outs facilitating job creation and the continuity of businesses in territories affected by these changes.

In line with these proposals the European Parliament suggests two additional points under the eligible actions that expand the activities of the EEN. This meets a request by CoR to further detail the future role and ambition of the EEN¹²⁶. The CoR proposes extending activities to the EEN by including scale-up and start-up advisors who could form the basis for interregional scale-up partnerships. These would offer matchmaking services and foster inter-regional cooperation and cross-border investment. In addition, the number of EEN contact points should be extended to ensure broader geographical coverage¹²⁷. Both changes should contribute to enhancing SME access to markets and internationalisation.

In short, the Single Market Programme provides broad support to SMEs with a focus on enhancing access to markets and internationalisation and skills development particularly for entrepreneurship.

Compared to similar activities under the COSME programme, SME support will become less visible in the regulations. Whether this impacts such support in practice remains to be seen. Since EASME will remain responsible for the management of Single Market Programme support for SMEs and has to detail the scope of support in its work programme, SMEs may expect little change in most practices.

3.2.2 InvestEU

InvestEU will be managed directly by the European Commission and indirectly by entrusted bodies. It aims to increase the use of financial investments in the EU. European Partnerships can apply for funding in the form of loans, guarantees, or equity

¹²³ Committee of the Regions (2017*c*).

¹²⁴ Amendments 87 and 90 in European Parliament (2019*b*).

¹²⁵ Amendment 79 in European Parliament (2019*b*).

¹²⁶ Committee of the Regions (2019) recommendation 28.

¹²⁷ Committee of the Regions (2017*c*).

provided by the EIB, EIF, or financial intermediaries. These financial instruments shall increase the access to and the availability of finance for SMEs.

More specifically, SMEs may benefit from financial support through funding for working capital and investment and risk finance from seed to expansion stages concerning technological leadership in innovative and sustainable sectors¹²⁸.

SME support is explicitly mentioned as one of the four key areas of investment, the ‘policy windows’. The SME policy window has a proposed budget of EUR 11.25 billion. The other policy windows focus on sustainable infrastructure (EUR 11.5 billion), research, innovation and digitisation (EUR 11.25 billion), and social investments and skills (EUR 4 billion)¹²⁹. In addition to the SME policy window financial instruments under the policy windows for research, innovation and digitisation as well as social investments and skills are also relevant for SMEs, although not explicitly mentioned.

Each of the four windows can be implemented through an EU compartment or a Member State compartment. The Member State compartment will be defined by proposals, commitment and transfer of Member State funding to InvestEU, following specific allocations mentioned in the Partnership Agreement, with a maximum of 5% of total ESIF funding¹³⁰. Subsequently the money will be invested following InvestEU rules, with small changes under the Member State compartment. For example¹³¹:

- Member States and regions may participate in monitoring and implementing the guarantee agreement;
- Member States, including regions can participate in the advisory board which also communicates with citizens.

The EU compartment offers financial instruments addressing EU level and new market failures. Thus, the compartment will succeed financial instruments¹³² such as:

- the Loan Guarantee Facility and Equity Facility for Growth that are part of COSME in the 2014-2020 period;
- the European Technology Facility; and
- TTP including four pilots of Erasmus for young entrepreneurs.

Each of these funds specifically mentions SME support.

¹²⁸ Annex 2 in European Commission (2018*n*).

¹²⁹ Article 4, 7(1) and Annex 1 in European Commission (2018*n*).

¹³⁰ Article 10 (1) in European Commission (2018*d*).

¹³¹ Article 9 in European Commission (2018*n*).

¹³² Annex 4 in European Commission (2018*n*).

Although SME support is one of the four main investment areas of InvestEU with a considerable allocation, actual support may be limited. Markedly, SMEs are always mentioned together with mid-caps in the regulation. These are firms with up to 3 000 employees. These larger firms have generally more capacity to apply for funding under InvestEU, especially for equity, but also for loans and guarantees.

To overcome this challenge, InvestEU foresees the InvestEU Advisory Hub and InvestEU Portal¹³³ and has allocated EUR 525 million to these two measures¹³⁴.

The InvestEU Advisory Hub will be a single-entry point for assistance to project promoters. It will provide advisory support for identifying, preparing, developing, structuring, procuring and implementing investment projects, or enhancing the capacity of promoters and financial intermediaries to implement financing and investment operations. Its support may cover any stage of the lifecycle of a project or financing of a supported entity. Assistance will include supporting actions and leveraging local knowledge, establishing a peer-to-peer learning platform, investment platforms, particularly cross-border, and supporting capacity building to develop organisational capacities, skills and processes.

The InvestEU Portal will be established by the Commission. Complementing services provided by the Advisory Hub it will be an easily accessible and user-friendly project database, providing information on each project. The portal will be an information channel for investors that can provide additional funding to projects. This will support final recipients such as SMEs who can receive additional financing.

To summarise, InvestEU will support SMEs by improving their access to finance. This will be similar to current financial instruments under specific thematic programmes and EFSI. The merger of thematic instruments under InvestEU risks making SME support less visible, in particular since the regulation targets SMEs and mid-cap enterprises under the same conditions. However, a single entry point for loans, guarantees and equity with support from the EU will offer easier access to this support with better harmonisation of rules for such funding and additional advisory support.

3.2.3 Horizon Europe

As with Horizon 2020 and its predecessors, Horizon Europe will be an important programme for R&D and innovation investments in SMEs, but also for enhancing SME internationalisation and access to markets. As partners in research and innovation projects SMEs can receive funding to develop and test new processes, products and services. Partnerships allow this beyond a local territorial context.

¹³³ Article 20 and 21 in European Commission (2018*n*).

¹³⁴ Article 4(3) in European Commission (2018*n*).

Horizon Europe will be implemented through actions under three ‘pillars’¹³⁵. The first, ‘open science’ focuses on equipping researchers with new knowledge and skills through mobility and exposure across borders, sectors and disciplines, as well as structuring and improving institutional and national recruitment, training and career development systems.

The second pillar ‘global challenges and industrial competitiveness’ supports research and innovation in specific clusters, namely health, inclusive and secure society, digital and industry, climate, energy and mobility, food and natural resources, as well as non-nuclear direct action of the Joint Research Centre (JRC).

The third pillar, ‘open innovation’ fosters all forms of innovation, including breakthrough innovation, and strengthens market deployment of innovative solutions. This thematic scope implies a continuation of Horizon 2020. SMEs can participate in all three pillars but are particularly foreseen under the third pillar providing integrated support to entrepreneurs and entrepreneurship, realising and accelerating breakthrough innovation for rapid market growth. This should attract innovative companies with potential for scaling up internationally and offer fast, flexible grants and co-investments, including private investment. These objectives should be pursued through the European Innovation Council (EIC). This Pillar should also support the European Institute of Innovation and Technology (EIT) and European innovation ecosystems generally, notably through co-funding partnerships with national and regional innovation support actors, complementing ERDF funding.

The EIC aims to fill the financing gap in public support and private investment for breakthrough innovation. EUR 10.5 billion of the total EUR 94.1 billion for Horizon Europe will be allocated to the EIC budget for 2021-2027¹³⁶. This is an increase of 10-15% over the current programming period. Two new instruments will implement the EIC objectives: the EIC pathfinder and the EIC Accelerator¹³⁷. These will be complemented by EIC business support services, providing coaching, mentoring and technical assistance and pairing innovators with peers, industrial partners and investors¹³⁸.

The EIC Pathfinder will build on the experience of Future and Emerging Technology (FET) schemes supported under FP7 and Horizon 2020, including the Horizon 2020 FET-Innovation Launchpad, as well as the Horizon 2020 SME Instrument Phase 1¹³⁹. The EIC pathfinder will offer grants to high-risk cutting-edge projects exploring new territories so they can develop into potentially radical innovative technologies of the future and new market opportunities. This implies that SMEs in early stages of

¹³⁵ Article 4 and Annex I in European Commission (2018*o*).

¹³⁶ Article 9 in European Commission (2018*o*).

¹³⁷ Recital 21 in European Commission (2018*o*).

¹³⁸ European Commission (2018*p*), Annex I, p. 61.

¹³⁹ European Commission (2018*p*), Annex I, p. 62.

technological development can benefit from grants. This includes proof-of-concept and technology validation and at an early commercial stage when demonstrating the innovation and developing a business case and strategy¹⁴⁰.

The EIC Accelerator will build on experiences from Phases 2 and 3 of the Horizon 2020 SME Instrument and Horizon 2020 InnovFin. It will provide funding to start-ups, SMEs or mid-cap enterprises in the form of blended finance, a specific combination of a grant or a reimbursable advance with an investment in equity¹⁴¹. The Accelerator will concentrate on innovation generated within the EIC Pathfinder. The Accelerator will support the further development and market deployment of breakthrough and market-creating innovations, to where these can be financed under commercial terms by investors e.g. for demonstrations, user testing or pre-commercial production, including scaling-up.

The EIT will facilitate and empower entrepreneurs, innovators, educators, students and other innovation actors to work together in cross-disciplinary teams to generate ideas and transform them into both incremental and disruptive innovations¹⁴².

Finally, European Innovation Ecosystems will promote and co-fund joint innovation programmes managed by authorities in charge of public national, regional or local innovation policies and programmes. SMEs supporting innovations can be associated with these.

Financial and non-financial support, such as mentoring, coaching, technical assistance and other services that are delivered close to innovators by networks such as EEN, clusters, pan-European platforms such as Startup Europe, as well as local public and private innovation actors, including in particular incubators and innovation hubs. Support may also promote soft skills for innovation, including networks of vocational institutions and together with EIT¹⁴³.

The potential impact of Horizon Europe on SME support is limited and may be lower than under Horizon 2020. Although SMEs are occasionally referred to in the draft regulation¹⁴⁴ and in the specific programme for implementing Horizon Europe¹⁴⁵, these do not indicate a specific target for SME involvement unlike the Horizon 2020 programme (20%)¹⁴⁶. A specific target would secure involvement of SMEs in partnerships. This is particularly relevant when projects aim to valorise their research results.

¹⁴⁰ European Commission (2018*p*), p. 4.

¹⁴¹ Article 42 in European Commission (2018*o*).

¹⁴² European Commission (2018*p*), Annex I, p.70.

¹⁴³ European Commission (2018*p*), Annex I, p.69.

¹⁴⁴ European Commission (2018*o*).

¹⁴⁵ European Commission (2018*p*).

¹⁴⁶ UEAPME (2018*b*).

Furthermore, mentioning SMEs together with mid-cap enterprises may hamper a focus on SMEs since mid-caps have usually more capacity to apply for funding.

Since EIC instruments have a broader target group than the SME instrument in the 2014-2020 period, they do not directly continue the SME instrument as suggested in the draft regulation¹⁴⁷. This may further limit SME benefits from Horizon Europe.

Lastly, EU Framework Programmes are highly competitive. The success rate over the first three years of Horizon 2020 was 11.6%¹⁴⁸. BusinessEurope proposes to increase the programme budget to increase its overall impact¹⁴⁹. While competition in Horizon Europe may limit SME support, awarding Seals of Excellence may counter-balance this effect at least partially. Unsuccessful partnerships with adequate quality requirements can be awarded a Seal of Excellence¹⁵⁰, as in the 2014-2020 programming period. This should make it easier for unsuccessful Horizon Europe applicants to apply for other European funding schemes, such as ERDF.

3.3 Possibilities for LRAs to optimise SME support

SMEs across Europe have different needs. These needs depend on SME specifics as well as various framework conditions. The box below gives a few examples.

Examples of specific SME needs

In **Gelderland** SMEs need external expertise on IT and digitalisation, innovation and bringing products to market including through internationalisation and sustainability.

In **Latgale** a lack of access to markets beyond the region, high production costs including high energy costs and a lack of human capital hamper SME development.

In **Mazowieckie** limited social capital, networking, investment and R&D activity hamper flexibility and adjustment to new business models. The focus is on short-term rather than long-term enterprise development.

In **Timiș** international market access, scaling-up and enterprise growth present problems that are linked to capacity limitations regarding entrepreneurship and overall value chain development.

Source: based on interviews, see Annex III and Annex IV.

In addition to these needs, SMEs in many regions face a lack of skilled human resources. This may be due to high demand not matching the labour force available, the general level of skills, or insufficient sector or theme specific skills, for instance on funding opportunities or digitalisation.

¹⁴⁷ CEA-PME and VIU (2018).

¹⁴⁸ European Commission (2018*q*), Part 1/3, p.43.

¹⁴⁹ BusinessEurope (2018).

¹⁵⁰ Article 11 in European Commission (2018*o*).

Given these needs, SMEs can benefit from EU support targeting them explicitly or implicitly in different ways. The often burdensome use of EU support optimising LRA support for SMEs may also depend on the availability of other regional or national support programmes and measures for SMEs. If national and regional programmes are not sufficient, LRAs should acquire knowledge about EU support for SMEs and especially smaller SMEs and micro-enterprises. There may be support for SMEs that have neither the capacity to access commercial financial markets nor EU programmes themselves. Generally speaking, LRAs need to build capacity for informing SMEs in their region and may act as a knowledge hub, one-stop shop or matchmaker.

Enhancing EU support for SMEs means LRAs should first understand typical and crucial needs of SMEs in their region. Based on this LRAs can adopt two roles:

- enhance the bottom-up principle by intensifying collaboration with EU institutions. Information on local and regional needs means they can lobby for tailored approaches at Member State and EU levels. Options within programmes may also become more apparent if needs are discussed with EU institutions.
- tailor their SME focussed activities, including acting as a knowledge hub or matchmaker. Making better use of EU support for SMEs will involve focusing on certain programmes or even aspects and measures of single programmes. National and regional ESIF programming and implementation may offer the best opportunities, with a focus on ERDF.

To address the differences in managing EU programmes, further recommendations for LRAs to enhance EU support for SMEs differentiate between ESIF programmes and EU programmes managed directly or indirectly at EU level.

3.3.1 Tailoring ESIF support

At least from the perspective of LRAs, ESIF and particularly ERDF, tends to be most important for SME support from EU programmes.¹⁵¹ Since ESIF programmes are mostly implemented under shared management, LRAs can have different roles:

- If acting as managing authority or sector policy (in federal states) LRAs can directly influence programming and implementation through different channels:
 - Programme support can include tailored financial or non-financial measures such as voucher systems, preparatory study support and partner search support. There can also be an explicit focus on SME needs such as start-up, growth, or internationalisation.

¹⁵¹ All interviews to date mention ESIF as one of, or the most important EU support for SMEs (see section 2.2).

- LRAs acting as managing authority can improve accessibility of ESIF by avoiding gold plating practices that impose additional efforts for beneficiaries and by making implementation rules as simple as possible.
- Simplified operational implementation of projects and monitoring requires sound but simple digital approaches that do not burden beneficiaries but can be automated as much as possible.
- LRAs may be part of the monitoring committees (MCs) of ESIF programmes. According to Art. 34 of the proposed CPR regulation¹⁵² the MC ‘shall ensure a balanced representation of the relevant Member State authorities and intermediate bodies ...’. Playing an active role in the MC, especially when programming new ESIF programmes, helps include local and regional needs into operational programme objectives.
- ESIF programmes apply the partnership principle beyond MCs. The partnership explicitly includes LRAs and shall be based on multi-level governance and comply with the European code of conduct on partnerships¹⁵³. If not appointed as an MC member LRAs should actively communicate regional and local SME needs.
- LRAs should raise SME awareness of EU support opportunities. For ESIF this requires not only knowledge of SME needs but the relevant programmes, especially ERDF. To acquire the necessary capacity and knowledge and provide corresponding services LRAs may make use of ESIF support.
- Finally, LRAs may be beneficiaries of ESIF programmes in support of specific objectives. For example, enhancing growth and competitiveness of SMEs under ERDF¹⁵⁴ could include information services for SMEs. Complementing measures under any specific objective, ERDF also foresees support to capacity building in programme authorities, authorities implementing funds and cooperation between partners¹⁵⁵ LRAs could use this to develop their knowledge by teaming up with Chambers of Commerce, which can then be translated into tailored advisory support for SMEs in the region.

EU programmes should create synergies within and between funds and programmes. Compared to previous programming periods the call for synergies has been further strengthened. Using ESIF support for capacity building does not need to be restricted to a single fund or even ESIF but should include other programmes as well. For

¹⁵² European Commission (2018*d*).

¹⁵³ Article 6 in European Commission (2018*d*).

¹⁵⁴ Article 2(1)(a)(iii) in European Commission (2018*h*).

¹⁵⁵ Article 2(3) in European Commission (2018*h*).

instance, SME and entrepreneurship capacity building should include at least the programmes addressed in section 3.2 above.

For LRAs, such focused capacity building should result in a better overview of SME support from EU programmes. Detailed information on SME support is currently scattered between different Directorates General, agencies and networks such as EEN, although some overview information is provided by EASME. Apart from creating the one-stop-shops for SMEs at regional level, this may also improve the visibility of EU programmes that are not as well known as ESIF.

To name just a few examples, tailoring EU programme support to the needs of regional SMEs could mean:

- considering regional differences in the design of financial instruments, e.g. with respect to volumes and collateral;
- offering additional regional or national co-financing to SMEs in view of reduced EU co-funding;
- providing knowledge creation support for technical and management know how, including knowledge to access SME support schemes, or market access;
- combining funding with advisory support enhancing the social capital of SMEs including possibilities to exchange good practices;
- offering programme measures to clusters or SMEs along a value chain to enhance their collaboration and systemic development.

3.3.2 Programmes managed at EU-level

Complementing the general possibilities for LRAs to enhance EU programme support for SMEs and synergies between ESIF and other EU programmes, LRAs may act as contributors, facilitators and beneficiaries¹⁵⁶.

LRAs can contribute through direct involvement, including concrete inputs for engagement (human resources), financing (financial resources) or policy making (strategic planning)¹⁵⁷. As indicated above for ESIF, LRAs can also seek to create synergies between EU programmes by taking Horizon Europe, the Single Market Programme or Invest EU as access points. An example is the possible involvement of regional authorities in the advisory board of instruments under the InvestEU Member State compartment.

LRAs may facilitate EU programme implementation by involving third parties, such as SMEs already benefiting from the programme. LRAs applying integrated

¹⁵⁶ These roles have been suggested for LRAs in Horizon 2020. They are nevertheless in principle relevant for any other EU programme offering support for SMEs. See Committee of the Regions (2017e).

¹⁵⁷ Committee of the Regions (2017e), p.20.

governance approaches as required for RIS3 can create synergies across policies and programmes¹⁵⁸.

Finally, LRAs can also be beneficiaries of EU programmes other than ESIF. For instance within the Single Market Programme, support is anticipated for actions that create conditions for empowering internal market actors. This can be through transparent information and awareness raising campaigns, best practice exchange, promotion of good practices, exchange and dissemination of expertise and knowledge and training. This also concerns public authorities¹⁵⁹.

Tailoring support to regional SME needs requires LRAs to be aware of the objectives and differences between programmes which include:

- The Single Market Programme will support SME competitiveness in the internal market by addressing access to markets, internationalisation and skills development through advice and grants;
- InvestEU will address access to finance by bundling EU-wide offers for SME financial instruments;
- Horizon Europe will offer financial and non-financial support for innovations, in particular to realise and accelerate innovations.

¹⁵⁸ Committee of the Regions (2017*e*), p.20.

¹⁵⁹ Article 8(2)(a) in European Commission (2018*m*).

4. Policy recommendations for EU SME policy in the next political cycle

This chapter provides recommendations for EU SME policy for the next programming period. The first section summarises the main findings of the report identified in the first two chapters. The second section analyses the most recent opinions on the need to strengthen EU policy for SMEs provided by the CoR, European Parliament, Eurochamber and SMEUnited. It also assesses how the suggested actions are linked to the challenges for SMEs analysed in Chapter 1 and 2 . The last section complements section 4.2 by providing additional specific recommendations.

4.1 Key findings of the report

1. SMEs are crucial for the EU economy but limited access to finance, a lack of skilled labour and administrative burden hinder their growth potential. Even if these three factors are common across the EU, their intensity varies very much between European regions.

As evidenced in Chapter 1, SMEs are still the main EU engine for economic development and growth. Much of EU GDP and employment is made from SMEs which have played a crucial role in the recovery of the continent from the financial crisis. SMEs also have a strategic importance for EU competitiveness.

However, SME growth potential is not fully exploited as three problems persist:

- difficulties in accessing finance;
- lack of skilled labour forces;
- administrative/ regulatory burden.

The interviewed LRAs are all very aware of these weaknesses and highlight that financial constraints are the biggest challenge affecting growth.

Direct quote from the LRA survey

Hardly any financial products are available for the small businesses (...). It is mostly the required collateral (usually property of the entrepreneur which is assessed too low to cover the amount of the loan application) that impede small entrepreneurs from obtaining loans.

Even if the challenges are common for SMEs across the EU, the intensity and impact on competitiveness varies significantly not only among Member States but also among regions.

2. EU support for SMEs is financial and institutional. At LRA level, ERDF is the most important EU financial source while SBA contributes in shaping policy to support SMEs.

The EU supports SMEs through centralised and de-centralised (mainly ESIF) programmes as described in Chapter 1. In the 2014-2020 period, ESIF Programmes allocated EUR 96 billion to assist SMEs. Centralised Programmes also target SMEs specifically: COSME (EUR 2.3 billion), EaSI (EUR 1 billion) and HORIZON (EUR 17 billion). The EIB group and other public banks contribute to SME support through financial instruments within the above programmes. The EIB group is adding another EUR 23 billion to SME funding through financial instruments.

The Commission is also developing central services directly for SMEs to support scale up and internationalisation.

The interviewed LRAs reckon ERDF is by far the most important source of finance for local and regional policies supporting SME. Most of the LRAs recognised the importance of Horizon and COSME, but largely see ESIF as the most effective intervention instrument.

Direct quote from the LRA survey

From the five ESIF programmes, ERDF support is most important for SMEs in the region, followed by H2020 (SME instrument) and EFSI. The other programmes are less known and thus less used. The programmes are important due to their visibility (people are aware) and their use.

Through ESIF Programmes, the regions co-finance activities related to:

- grants,
- financial instruments,
- advisory services,
- training and education targeting SMEs,
- networks of small businesses.

3. Regions see themselves having an active role in addressing the needs of SMEs in different areas. However, they perceive a lack of internal capacity as the main constraint to supporting enterprises.

From the interviews, the LRAs see their role in several policy areas to support SMEs, especially:

- education and training for entrepreneurship;
- development of a start-up ecosystem and community;
- improving access to the Single Market / Digital Single Market.

As important local partners in boosting SME development, they also identify banks and financial institutions, entities or offices created by regional or local governments, regional development agencies, chambers of commerce and industry associations. Regions indicate banks and financial institutions as the most important actors, confirming the importance of access to finance.

However, the interviewed regions identify issues they have in supporting SMEs. A lack of internal skills and an appropriate institutional framework are more challenging than the availability of financial resources. In other words, the LRAs face more difficulties in terms of capacity building than financial constraints in addressing the needs of SMEs.

Direct quote from the LRA survey

Most visible are funds under shared management, the regional ERDF programme and Interreg programmes, that directly target SMEs. EU funded programmes are hardly known by SMEs according the interviewee.
Also the representative of the regional authority is not aware of all possibilities for SMEs at EU level. Therefore the information could be more clustered and programmes and initiatives could be more coordinated. This would also support the LRA's role towards these programmes.

4. SBA has a recognised role in shaping policies to support SMEs.

Beyond financial support, EU policy is relevant for institutions and planning. The main policy tool is the SBA which sets ten principles for building a friendly and favourable environment for SMEs. SBA principles are incrementally applied at regional and national levels (see chapter 2.1), also empowered by the ex-ante conditionality.

At national and regional level, the most adopted principles are:

- **Principle 1:** create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded;
- **Principle 6:** facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions;
- **Principle 8:** promote the upgrading of skills in SMEs and all forms of innovation.

These three principles cover 55% of measures supporting SMEs.

The relevance of the SBA principles was confirmed in the interviews as respondents are not only aware, but also see that SBA shaped local SME support.

Direct quote from the LRA survey

The strategy supports the political objective of reigniting regional entrepreneurial activity and reorienting it towards higher value-added activities by addressing three specific objectives: 1) Nurturing entrepreneurial spirit: this specific objective is achieved through actions that address SBA Principle I; 2) Supporting smart entrepreneurship, implemented through actions addressing SBA principles 1, 6 and 8; 3) catering to SME needs, implemented through actions addressing SBA principles 4 and 6.

It is also interesting that the Smart Regional Innovation Strategies (RIS3) and SBA are mutually reinforced in the opinion of some respondents.

Direct quote from the LRA survey

RIS3 is the most consistent regional strategy supporting innovation and entrepreneurship. The Regional Development Agency took the initiative to develop its own RIS3 before all other regions with technical support from the World Bank. The project was financed by the technical assistance fund. The Regional OP is also supporting SMEs.

5. In the 2021-2027 period, less ESIF resources will be available to support SMEs compared to 2014-2020. Earmarking for SMEs will be less visible and compared to other ESIF, the ERDF will target SMEs more explicitly, with thematic orientation, scope of support, financial volume and earmarking.

In the next programming period, total support will decrease, both from reduced funds available and lower co-financing rates. The analysis of policy objectives, scope of support and funding suggests that ERDF will be the main source of support for SMEs and entrepreneurship in general. This will be complemented by EMFF and EAFRD support in coastal and rural areas with a focus on fishery and aquaculture, agriculture and rural business development.

More explicit ERDF support for SMEs may impact four key issues, namely access to finance, support for R&D and innovation, skills development as well as access to markets and internationalisation.

Direct quote from the LRA survey

Building capacities for entrepreneurship support and ecosystem development is very important. SMEs are supported through EU funds but the ecosystem is not supported systematically and as a whole. It needs to take into consideration the entire value chain. Other problems SMEs face is competing at the international market as well as growing/scaling-up. Also, it was observed that some companies do not find the capacities to access EU funds, as accessing becomes more complicated. The ones who can apply for EU funds are those which also have the capacity to apply for financial support from banks.

It is therefore suggested that three issues - digitalization, innovation and internationalization - should be a requirement for SMEs applying for EU funds. Addressing or accounting for these should help them become successful (rather than making their application even more difficult).

6. In 2021-2027, SME programmes managed at EU level will be the Single Market Programme, Horizon Europe, and InvestEU. Even without considerable change, the support may become less accessible for SMEs.

At EU level, outside ESIF, the most notable programmes in 2021-2027 focusing on SME support are:

- **The Single Market Programme.** This is a new programme that combines five programmes which operated separately in the 2014-2020 programming period, including the COSME programme. The Single Market Programme tackles the functioning of the single market. It aims to strengthen this by supporting industrial competitiveness, in particular SME competitiveness, by promoting human, animal and plant health and welfare and by financing improved European statistics. SMEs are thus an important target group of the programme.
- **Horizon Europe** is the ninth framework programme for research and innovation and will succeed Horizon2020. The programme focuses on R&D, innovations and research. SMEs are an important beneficiary and participant in research projects. However, they are not the core target of the programme.
- **InvestEU** is the successor to EFSI and addresses market failures or sub-optimal investment situations. The programme will provide financing to enterprises with a risk profile that private financiers are not always able or willing to address. InvestEU aims to promote competitiveness of the EU economy, sustainable growth, social resilience, inclusiveness and the integration of capital markets in the EU in line with EU policy objectives in different sectors. SMEs may benefit from the programme as it improves their access to finance.

Compared to 2014-2020, proposed EU support schemes and programmes do not seem to signify considerable change for SMEs. However, parts of the schemes will become parts of other programmes. The COSME programme will be divided. Most non-financial and grant based support will be provided through the Single Market Programme and funding through financial instruments will be provided through InvestEU. Current EIC pilots such as the SME instrument will be continued under Horizon Europe. This approach to SME support at EU level ensures continuity. While the continuation of support is beneficial for SMEs, shifting specific schemes to other programmes and implementing some of them under new names may make the support less accessible for SMEs.

Direct quote from the LRA survey

From the point of view of the region, the main improvement at EU level would concern the communication and accessibility of the possibilities for SME support.

Currently the information on SME support schemes is scattered between different DGs, agencies and networks such as EEN. More coordination would help to make more use of the programmes and get the support to where it is most needed. This may imply a single entry point with information on SME support schemes. Part of the communication should also be clear and explicit explanation on the aim, objectives and targets of the programme. This makes it for the regions and SMEs easier to estimate / judge whether the programme is relevant for them.

7. In 2021-2027, LRAs can have important roles and functions in ESIF and EU Programmes to optimise the use of resources and facilitate the involvement of SMEs. However, they need adequate skills and know-how.

In the ESIF programme, since the resources will be reduced, LRAs will play a more important role in optimising intervention, taking different functions in programme design and implementation:

- tailoring programme support to the specific needs of local/ regional SMEs;
- improving access of ESIF by avoiding gold plating practices;
- teaming up with Chambers of Commerce to provide tailored advisory support for SMEs including technical and management know-how such as how to access SME support schemes, or market access knowledge;
- offering additional regional or national co-financing to SMEs;
- combining funding with advisory support enhancing the social capital of SMEs, such as possibilities to exchange good practices;
- offering measures to clusters or SMEs along a value chain to enhance their collaboration and systemic development.

At EU programme level, LRAs can play a crucial role creating synergies between ESIF and other EU programmes. They may act as:

- Contributors, through inputs in terms of engagement (human resources), financing (financial resources) or policy making (strategic planning);
- Facilitators, creating synergies between EU programmes by taking Horizon Europe, the Single Market Programme or Invest EU as access points;

- Beneficiaries, for example in best practice exchange, promoting good practices, exchange and dissemination of expertise and knowledge as well as organising training.

For both ESIF and centralised EU programmes, the possibility to efficiently fulfil different functions requires specialised skills and capacities from LRAs.

Direct quote from the LRA survey
<i>A deeper involvement of regional/local actors (regional government, regional public financial institutions) in EU programmes (i.e. InvestEU) is needed to ensure use of resources suitable with regional/local policies and needs.</i>

4.2 Opinions from EU Institutions and SME stakeholders

The table below synthesises the recent recommendations from the CoR, the European Parliament, Eurochamber and SMEUnited on enhancing EU policy supporting SMEs. It also offers recommendations based on the finding of this study.

Table 4.1: Assessment of recent documents providing recommendations on EU SME policy

Policy document	Main recommendations	Comment
Committee of the Regions (2017), <i>Smart Regulation for SMEs</i>	<ul style="list-style-type: none"> • European regulatory environment more SME-friendly also in relation to Public Procurement and VAT; • Revised and strengthened SBA and a stronger role for LRAs in implementing SBA principles; • Mainstreaming the ‘Think Small First’ principle across EU policies and the entire decision-making process; • Enhanced role of clusters in helping small businesses to scale up; • Better access to finance for SMEs; • Simplification of ESIF programmes; • Better balance between SME needs and labour, consumer and environmental protection; • More harmonised regulatory framework creating a European passport for crowdfunding platforms; • Creation of a European ‘Take One’ funded through the COSME programme. • Simplifying Public Procurement. 	All points raised by the Opinion are consistent with the report findings, especially the need for a better institutional framework, access to finance and the role of SBA.
Committee of the Regions (2017), <i>The</i>	<ul style="list-style-type: none"> • Increased budget for the COSME Programme; • Support before setting up business through accessible and ‘à la carte’ training; 	The document aims to make COSME more suitable for the needs of

<p><i>future of COSME beyond 2020</i></p>	<ul style="list-style-type: none"> • Better adjusted innovative financial products; • More agile combination with ESIF; • Possibility for regional agencies to complement the support. 	<p>SME and increase the role of LRAs. Therefore, the recommendations are in line with the key findings of the report. For the ESIF combination, the new CPR will provide full compatibility between centralised programmes and ESIF.</p>
<p>Committee of the Regions (2017), <i>Boosting start-ups and scale-ups in Europe: regional and local perspective</i></p>	<ul style="list-style-type: none"> • Updated Small Business Act; • More involvement of LRAs in reviewing the SBA; • More protection of intellectual property rights and incubators to help start-ups; • Administrative simplification for start-ups; • Set up local and regional mixed teams of experienced business people and public servants; • Analyse the possibility of bringing in local venture capital of local and regional authorities; • A new EU non-financial support programme for start-ups and scale-ups; • Analyse the opportunities and risks of crowdfunding for European society. 	<p>The Opinion recommends diminishing administrative burden, better framework conditions, specific financial and non-financial services, improved advisory capacity and enhanced collaboration between entrepreneurs and public officers. This is in line with the need to empower LRAs to understand their SMEs.</p>
<p>European Parliament (2018), <i>The definition of SMEs</i></p>	<ul style="list-style-type: none"> • New definition of SMEs which takes into account economic forecasts and prevents artificial corporate structures; • More EU support for aggregating undertakings, particularly clusters and business networks; • Improved information for internationalisation and additional support to SMEs with high export potential; • COSME, Horizon 2020 and Structural Funds programmes for 2021-2027 to earmark amounts for SME support; • ‘Think Small First’ principle mandatory for all EU legislative proposals. 	<p>All recommendations aim to reinforce support for SMEs (for internationalisation and R&D) but also to improve the legislative framework, which is in line with this report’s findings.</p>
<p>Eurochambers (2017), <i>SME Test Benchmark 2017 - Assessment of the application</i></p>	<ul style="list-style-type: none"> • More accurate analysis (quantitative) of impacts on SMEs in the SME Test; • Better consultation of SMEs and their representatives; • More attention to different size-classes within the SMEs. 	<p>The recommendations improve the SME Test as an important tool for more SME-friendly legislation and limiting administrative burden.</p>

<i>of the SME test by the European Commission</i>		
Eurochambers (2018), <i>A future Europe that is open for business</i>	<ul style="list-style-type: none"> • More friendly drafting, implementing and monitoring of EU legislation; • Full endorsement of Public procurement Action Plan with procurement interoperability; • Favourable trading conditions beyond Europe. 	The Position Paper focuses on the need to cut red tape which is one of the main hinderances to SME growth.
SMEUnited (2019), <i>Memorandum for the European Elections 2019 - Strengthening crafts and SMEs for the future of the European Union</i>	<ul style="list-style-type: none"> • A holistic approach in taking into consideration new rules impacting SMEs and recommendations of the SBA included in the European Semester process; • Reforms of labour policies and social protection systems for a balance between flexibility and security; • Stronger support for ‘on-the-job’ learning, including digital skills; • Better framework conditions and financing to spur digital transformation within SMEs; • Greater use of debt/capital and innovative public financial instrument at Member State and EU levels; • More focused European policy to switch from a traditional to a greener and more circular economy; • Support SMEs competing in international markets, especially for a future relationship with the UK after Brexit; • Stronger enforcement of current EU legislation to have a level playing field with other actors (large companies and employees); • Tackling gold plating at national level and reducing barriers within the Single Market; • More involvement of SMEs in the EU impact assessment. 	The priorities are all consistent with the analysis in Chapter 1. Very interesting is the attention to new SMEs needs related to new production processes and new market opportunities (digitalisation, cyber security, circular economy).

The recommendations proposed by the CoR, the European Parliament, Eurochamber and SMEUnited are coherent with the findings of this report and underpinned by the evidence. Furthermore, they suggest very similar remedies and solutions. The table below shows the three main difficulties affecting SMEs and their link with recommendations in the documentation. The table shows that the proposed recommendations are shared across the documents. Moreover, the table also indicates which recommendations are also shared by the interviewed LRAs.

Table 4.2: Links between key limiting factors for SMEs and recommendations in the documentation and from the LRAs

Key limiting factors for SMEs	Recommendation	Mentioned in the document:				Mentioned by the LRAs
		CoR	European Parliament	Eurochambers	SMEunited	
Access to finance	Easier access to financial instruments				X	X
	Resource specifically earmarked for SMEs in the EU Programme	X				X
	Implementation of more innovative financial instruments	X			X	
	EU support to enhance SME clusters and networks	X				X
Lack of skilled labour	More vocational training especially for ‘digital’ skills	X		X		X
	More guidance for internationalisation	X		X	X	X
	More non-financial assistance for SMEs empowering intangible assets	X				X
Administrative constrains	Revisions of SBA	X		X		
	Deeper embedding of the ‘think small’ principle in EU legislative process and policy making	X	X	X	X	
	Further simplification of ESIF implementation	X				X
	Simplifying Public Procurement	X		X	X	
	More harmonised and SME- friendly legislation	X		X	X	X
	Deeper impact analysis of SMEs in the EU Impact Assessment	X	X	X	X	

4.3 Additional specific recommendations

The analysis of opinions and documentation in the previous section underlines that EU institutions as well as SME stakeholders share the common opinion that there is significant room for improvement in EU support for SMEs, especially to tackle the three key challenges they currently face. All the interviewed LRAs agree too that the EU can do more for SMEs¹⁶⁰.

¹⁶⁰ Based on Q.18 in Annex II and Annex III.

The next two sections aim to present additional recommendations complementing those in the previous section on how to boost EU support for SMEs focusing on the role of LRAs. Based on the overall analysis in previous chapters, section 4.3.1 provides recommendations for each of the three key challenges identified in Chapter 1 (access to finance, lack of skilled labour and administrative/legislative burden). Suggestions from LRA interviews enable the recommendation to be further defined.

Section 4.3.2 provides indications on how the EU can help LRAs support SMEs. SMEs face three common obstacles but the intensity and the combination of these vary significantly across the EU. More importantly, each region has a specific development path as underlined in Chapter 1 (see figure 1.6). Therefore a ‘one-size-fits-all’ approach is not appropriate for LRAs supporting SMEs. A tailored and closer approach is needed, so LRAs play a key role in implementing the SBA¹⁶¹. Moreover, the survey highlights that LRAs are already committed to supporting SMEs in many different ways.

4.3.1 Recommendations on tackling obstacles of administrative/legislative burden, access to finance, and lack of skilled workers

Obstacle: administrative regulatory burden

The suggestions on tackling administrative burden are widely shared by EU institutions (i.e. CoR and European Parliament) and are:

- A. Revisions of the SBA;
- B. Deeper embedment of ‘think small principle’ in EU legislative process and policy making;
- C. Further simplification of ESIF implementation;
- D. Simplification of Public Procurement;
- E. More harmonised and friendly legislation towards SME;
- F. Deeper ‘impact’ analysis of SMEs in the EU Impact Assessment.

Since most of those recommendations focus on the EU legislative framework (above points C, D, and E) or legislation making (B and F), they can become the object of a **joint SME memorandum**. This could be presented and advocated in front of the Council and the European Commission. The memorandum will be much more powerful in terms of institutional/political force and much more visible for European public opinion.

For the first recommendation (A), more detailed suggestions for SBA revision (updating), ‘regionalisation’ and monitoring are presented below.

¹⁶¹ European Commission (2014), p.13.

Recommendation and rationale	Specification
<p>Update of SBA. SBA is a holistic policy tool embedding the need for SME-friendly legislation (related to principles 3, 4, 5 and 6). It is important to update these principles linking to the most recent policy developments (the last review was in 2011). More importantly, the revised SBA should fit new SME needs (new production processes, new markets, etc.) and the current economic environment which differs to the financial crisis years when the SBA was designed.</p>	<p>Update of SBA:</p> <p><u>Principle 5</u> - State aid and procurement should be better linked with new EU legislation, i.e. the 2014 procurement directives;</p> <p><u>‘Principle 8 - Skills and innovation’</u> should have a strong connection with the RIS3 strategy;</p> <p><u>Principle ‘9 - Environment’</u> should focus more on the circular economy;</p> <p><u>‘Principle 7 - Single market’</u> and <u>‘Principle 10 - Internationalisation’</u> should refer not only to the benefit of growing markets, but also to new opportunities provided by the evolution of industry towards new production systems (such as industry 4.0, the Internet of Things, 3d-printing and global supply chains).</p>
<p>LRAs are important for supporting SMEs, so a new ‘regional SBA’ could be articulated around principles closer to LRA capabilities and competence (i.e. removing or reshaping principles that fall under national competences, such as ‘Principle 2 - Second chance’). This will offer the regions a blueprint to develop their own strategy.</p>	<p>Regional SBA principles (i.e. where LRAs can be more responsive and active):</p> <ul style="list-style-type: none"> • Principle 1 - Create an environment within which entrepreneurs and family businesses can thrive; • Principle 4 - Make public administrations responsive to SME needs; • Principle 6 - Facilitate SME access to finance; • Principle 7 - Help SMEs to benefit more from the opportunities offered by the Single Market; • Principle 8 - Promote the upgrading of skills in SMEs and all forms of innovation;

	<ul style="list-style-type: none"> • Principle 9 - Enable SMEs to turn environmental challenges into opportunities.
<p>In connection with the previous suggestion, monitoring SBA at regional level may be important. The application of SBA principles is currently limited to the national level. The SME Performance Review implemented by the European Commission monitors and assesses progresses only at national level (i.e. the Small Business Act factsheets). An overview of the application of SBA was also given by applying ex-ante conditionalities in ESIF Programmes. But this activity has finished and there is no information on the SME test (application of the third SBA principle).</p>	<p>SBA regional factsheets should benchmark the application of each principle across EU regions. Regional factsheets can be slimmer than national ones and compilation automated (most indicators are from Eurostat). As with the EER, these could be voluntary.</p>

Obstacle: access to finance

The documentation and LRA interviews put much emphasis on the role of financial instruments. The European Commission has already established several financial instruments supporting SMEs such as InvestEU, COSME and EaSI. It also advocates a cultural change at national and regional levels with a shift from grant dependency. An example of this is the *fi-compass*¹⁶² platform jointly established by the EU and the EIB. In the next programming period, even more financial instruments are planned at central level.

However, the risk is that shifting to central financial instruments may discriminate against slower growth local SMEs. Therefore, it is important that regional financial instruments are also supported by ESIF. These should involve local partners including regional financial institutions and regional agencies¹⁶³. LRAs can design and implement more tailored instruments, but, as strongly suggested by the European Court of Auditors, a robust market assessment and financial gap analysis is needed. Indeed, quantifying the financial gap is a key precondition to assessing a market failure to be addressed by financial instruments.

¹⁶² <https://www.fi-compass.eu/>

¹⁶³ In the current programming period ESIF financial instruments are partly provided through EIB group and partly through national or regional development banks.

The experience from 2014-2020 suggests that these exercises can be complex and costly for regional authorities and in the new regulation for 2021-2027, there is no obligation for an analysis such as the ex-ante assessment in Article 37 of Regulation(CE)1303/13. Furthermore, there is no updated EU quantification of the financial gap for SMEs at national or regional levels. At EU level, the most recent estimate the financial gap for SMEs is for 2012 provided by the European Commission in the ex-ante assessment of the EU SME Initiative¹⁶⁴. Moreover, the SAFE database¹⁶⁵ provides only national data.

The recommendation is for a **yearly quantification of the financial gap for SMEs at EU, national and regional levels; a regional level database on SME access to finance** could provide useful information to LRAs. Such information should detail financial product and enterprise size, sector, start-up and age of entrepreneur. This would enable better matching of the financial supply to demand, especially for volume and collateral requirements. The methodology should be standardised across the EU and defined by the European Commission.

Obstacle: lack of skilled labour

SMEs need skilled workers and the EU already provides support through ESF and activities linked to the European Agenda for Adult Learning (e.g. Upskilling Pathways - New opportunities for adults).

In addition, the European Commission has set up:

- Working groups on vocational education and training (one specifically for vocational training) at EU and national level. These assist policy making and exchanges of experience and good practice.
- The network of National Coordinators supporting adult learning in Member States, giving policy advice and facilitating exchanges of good practice.

As a first recommendation, it is important that the working groups shaping the agenda for adult learning involve SME stakeholders at EU, national and regional levels. It is crucial for improved matching of labour supply and demand, that the skills needed by SMEs are better identified and tackled. SME needs expressed in these groups offer the opportunity to better grasp rapid evolutions in global and local markets.

¹⁶⁴ See European Commission (2013b). *fi-compass* has recently published a survey across more than 7 600 farmers in 24 Member States investigating EU agricultural financial needs from the point of view of farmers using in-depth data from a Computer-Assisted Telephone Interviewing survey (CATI) based on a questionnaire developed by the Directorate-General for Agriculture and Rural Development (DG AGRI) and the European Investment Bank (EIB). See *fi-compass* (2019), *Survey on financial needs and access to finance of EU agricultural enterprises*.

¹⁶⁵ https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html.

A second recommendation is to re-establish an EU Programme such as **Leonardo** for workers. Rapid market evolution requires skills linked, for example, to the circular economy, global supply chains, cyber security and advanced financial instruments. These skills and training facilities are not always available at regional or national levels (e.g. in the vocational training offered by ESF OPs). The ‘new Leonardo’ could also find synergies with the new HORIZON and involve the Joint Research Centre. The ‘New Leonardo’ could address only specific skills completing national and regional vocational training schemes. Eventually, the new programme could also have a specific window for young entrepreneurs to encourage their further education and development of skills. As evidenced in LRA interviews, there is an unmet need to change mentalities and raise awareness of entrepreneurs and others.

4.3.2 Helping LRAs support SMEs

A key issue that deserves attention is the capacity of LRAs to support SMEs. As seen in Chapter 3, LRAs are requested to play an important role for ESIF and EU programmes in terms of synergies, coordination and tailoring support. However, as underlined by the interviews, most LRAs are aware they lack internal skills and institutional tools to provide full support for SMEs. Furthermore, as evidenced in the last CoR Report on Capacity Building¹⁶⁶, resources for capacity building will diminish in the next period. Thematic objective 11 focusing on enhancing institutional capacity of public authorities and stakeholders and efficient public administration will disappear and resources for technical assistance will decrease as well.

In short, LRAs are important to channel EU support to SMEs but feel they have inadequate skills and few resources to be empowered. Without measures to enhance LRA capabilities, support for SMEs risks not producing the expected results due to potential administrative bottlenecks.

Recommendations on capacity building are:

- **EU platform for LRAs with specific training** for administrators designing and setting up a SME strategy. This should also consider the recent development of the industry towards new markets and new production systems (such as digitalisation and the circular economy).
- Better **capitalisation and dissemination of successful practices**, in particular of EER experiences, sharing across regional policy makers of materials such as EER applications and SBA strategies.
- A specific interregional activity under **European Territorial Cooperation for implementing SBA principles**.

¹⁶⁶ Committee of the Regions (2018).

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Annex II: Questionnaire

Background information

Interviewee's name _____

What level is your organisation representing?

- Regional
 Local
 Other, please specify _____

Context

Question 1: What are the key challenges/problems SMEs in your Region/territory are currently facing?

	<i>Not very important</i>	<i>Important</i>	<i>Very important</i>
Financial constraints (access to finance)			
Access to market / outlets / shops			
High cost of production			
Increasing competition			
Lack of competence and skilled labour			
Constraints affecting the capacity to innovate			
Other, please specify _____			

Question 2: What are the key challenges/problems does your LRA currently face in supporting SMEs? Please indicate the level of importance.

	<i>Not very important</i>	<i>Important</i>	<i>Very important</i>
Public administration unresponsive to SME needs			
Lack of appropriate regulatory and legal frameworks (at regional and/or national levels)			
Lack of personnel resources/competences in the public sector			
Lack of funding/resources for SMEs			
Other, please specify _____			

Question 3: To what extent are the following types of organisations/bodies involved in supporting SMEs in your Region? Please indicate the level of importance.

	<i>Not very important</i>	<i>Important</i>	<i>Very important</i>
Banks and financial institutions			
Entities or offices created by regional or local governments			
Regional development agencies			
Chambers of commerce and/or industry associations			
Science and technology parks or other research/innovation centres or universities			
Other, please specify _____			

SME policy in the region

Question 4: Is the Region aware of the Small Business Act (SBA) and/or its ten principles?

- Yes
 No

If yes, has the Region adopted a strategy to implement the SBA principles?

- Yes
 No

(if no, go to question 6)

Question 5: Has the SBA altered the SME policy of the Regional authority in any way? If yes, in what way?

- Yes
 No

Question 6: Which SBA principles are being implemented in your Region and how? Please provide a brief description of the key initiatives for each one.

SBA principle		Tick box if relevant	Key initiatives
1	Create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	<input type="checkbox"/>	
2	Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	<input type="checkbox"/>	
3	Design rules according to the 'Think Small First' principle	<input type="checkbox"/>	
4	Make public administrations responsive to SME needs	<input type="checkbox"/>	
5	Adapt public policy tools to SME needs: facilitate SME participation in public procurement and use State aid possibilities for SMEs	<input type="checkbox"/>	
6	Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions	<input type="checkbox"/>	
7	Help SMEs to benefit more from the opportunities offered by the Single Market	<input type="checkbox"/>	
8	Promote the upgrading of skills in SMEs and all forms of innovation	<input type="checkbox"/>	
9	Enable SMEs to turn environmental challenges into opportunities	<input type="checkbox"/>	
10	Encourage and support SMEs to benefit from the growth of markets	<input type="checkbox"/>	

Question 7: Which policy areas are most relevant to support SMEs in your Region? Please indicate a maximum of 3 and explain what types of actions your Region implements for each of them

Policy area	Tick box if relevant	Explanation
Education and training for entrepreneurship	<input type="checkbox"/>	
Development of start-up ecosystem and community	<input type="checkbox"/>	
Simplification of regulatory burden on SMEs	<input type="checkbox"/>	
Development of workforce skills	<input type="checkbox"/>	
Improving access to Single Market / Digital Single Market	<input type="checkbox"/>	
Access to finance	<input type="checkbox"/>	
Support for SME innovation and adoption of technologies	<input type="checkbox"/>	

Question 8: Are there - other than SBA - any specific entrepreneurship strategies or measures applied in your region that target SMEs?

- Yes
 No
 Don't know/ not aware

If yes, please briefly describe them (i.e. any example of good practices)?

Question 9: How do EU Structural Funds support SMEs in your Region?

	Tick box if you agree
There are specific programme priorities and/or measures targeting SMEs	<input type="checkbox"/>
The themes addressed by the programmes are relevant for supporting small businesses	<input type="checkbox"/>
The programmes provide grants for SMEs	<input type="checkbox"/>
The programmes provide financial support (others than grants) for SMEs	<input type="checkbox"/>
The programmes support advisory services for SMEs	<input type="checkbox"/>
The programmes support training and education measures targeting SMEs	<input type="checkbox"/>
The programmes support networks of small businesses	<input type="checkbox"/>
Other _____	<input type="checkbox"/>

Question 10: COSME is the main EU programme implementing the SBA. Does COSME support SMEs in your Region?

- Yes
 No
 Don't know/ not aware

If yes, how does COSME support SMEs in your Region?

	Tick box if support is provided
Easier access to finance through loan guarantee schemes and risk capital	<input type="checkbox"/>
Easier access to market, notably through the activities of the Enterprise Europe Network	<input type="checkbox"/>
Strengthening entrepreneurship education, culture, mentoring, guidance also for specific groups who may find it difficult to reach their full potential, e.g. through initiatives such the Erasmus for Young Entrepreneurs.	<input type="checkbox"/>
Reducing the administrative and regulatory burden on SMEs by creating a business-friendly environment.	<input type="checkbox"/>
Support for innovative SMEs through collaboration and clustering, e.g. through initiatives such as the European Cluster Collaboration Platform	<input type="checkbox"/>
Sectoral support for SME competitiveness, in particular through COSME projects in the Tourism sector	<input type="checkbox"/>
Other _____	<input type="checkbox"/>

Question 11: Does the Horizon 2020 programme support SMEs in your Region?

- Yes
 No
 Don't know/ not aware

If yes, in what way does Horizon 2020 support SMEs in your Region?

	Tick box if support is provided
Facilitates SME collaboration	<input type="checkbox"/>
Facilitates collaboration between SMEs and universities/research centres	<input type="checkbox"/>
Easier access to international markets	<input type="checkbox"/>
Enhancing innovation processes	<input type="checkbox"/>

Enhancing R&D processes	<input type="checkbox"/>
Creation of start-ups and business opportunities	<input type="checkbox"/>
New jobs	<input type="checkbox"/>
Development of pre-commercial procurement	<input type="checkbox"/>
Facilitating access to finance	<input type="checkbox"/>
Other _____	<input type="checkbox"/>

Question 12: In 2016 the European Commission proposed actions intended to make the EU single market more efficient for starting up and scaling up companies. Which of the following initiatives are the most relevant for SMEs in your territory?

	<i>Not relevant</i>	<i>Relevant</i>	<i>Very relevant</i>
Facilitating access to risk capital through the creation of a pan-European Venture Capital Fund			
Support for clusters and entrepreneurial ecosystems, through initiatives such as Start-up Europe, Knowledge and Innovation Communities, Thematic Smart Specialisation Platforms, etc.			
Improving access to public procurement for start-ups and scale-ups			
Creation of tools for improved access to Single Market information for businesses and consumers			
Other _____			

Main achievements of the regional strategy for SMEs

Question 13: Which are the main direct results achieved by the SBA strategy (or the SME strategy if there is no SBA strategy) at level of SMEs? 1= low impact, 4= high impact; no= no impact

	<i>no</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Increased job opportunities					
New market opportunities					
New business opportunities (start-ups)					
New product/process innovations					
Increased collaboration/cooperation/networking among SMEs					
Increased collaboration/cooperation/networking between SMEs and universities					
Increased SMEs investments					
Other, please specify _____					

Question 14: Are these result indicators systematically monitored? If yes, please describe how?

- Yes
 No

Future EU policy on SMEs

Question 15: *What is the impact of existing EU policies and programmes on supporting SME policy in your Region in each of the following categories? 1= low impact, 4= high impact; no= no impact*

	no	1	2	3	4
Provision of funding					
Provision of knowledge and expertise					
Provision of guidance and counselling					
Creating opportunities for networking, exchange of experience and good practices					
Other, please specify _____					

Question 16: *What is the importance of each of the following programmes/initiatives in supporting SMEs in your region?*

	Not very important	Important	Very important
EU Structural Funds			
COSME			
Horizon 2020			
SBA			
Investment Plan for Europe			
Other, please specify _____			

Question 17: *What are the key unresolved issues for SMEs at regional level that would merit further assistance/guidance /funding from the EU level?*

Question 18: *Do you see room for further improvement of EU policy support for SMEs / entrepreneurship?*

Yes

No

If yes, what kind of actions would you like to see in the next EU political cycle in each of the following areas:

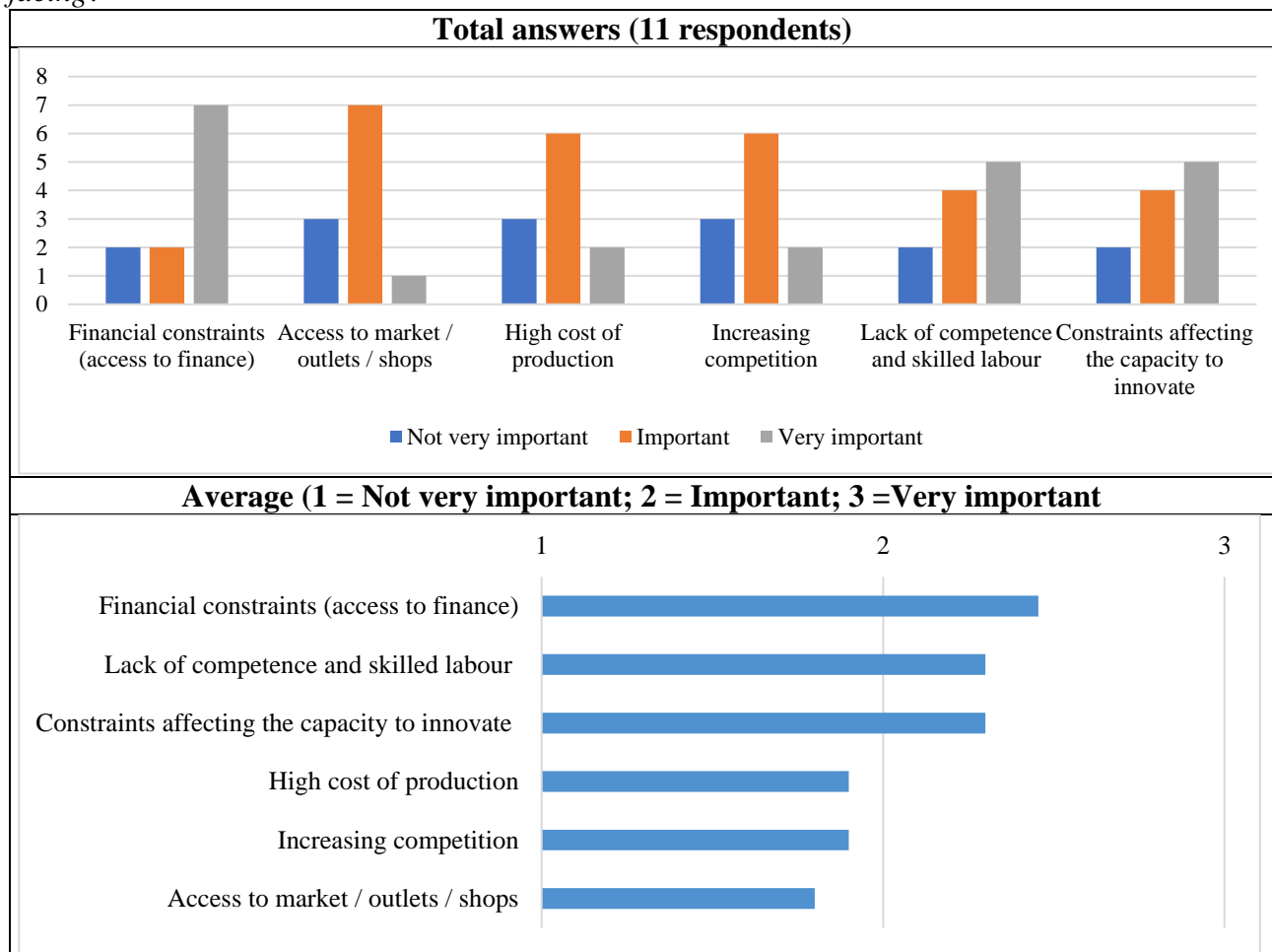
Policy area	Suggested actions
Regulatory environment	
Access to finance	
Access to markets	
Support for R&D and innovation	
Support for labour skills	
Other, please specify _____	

Annex III: LRAs survey key results

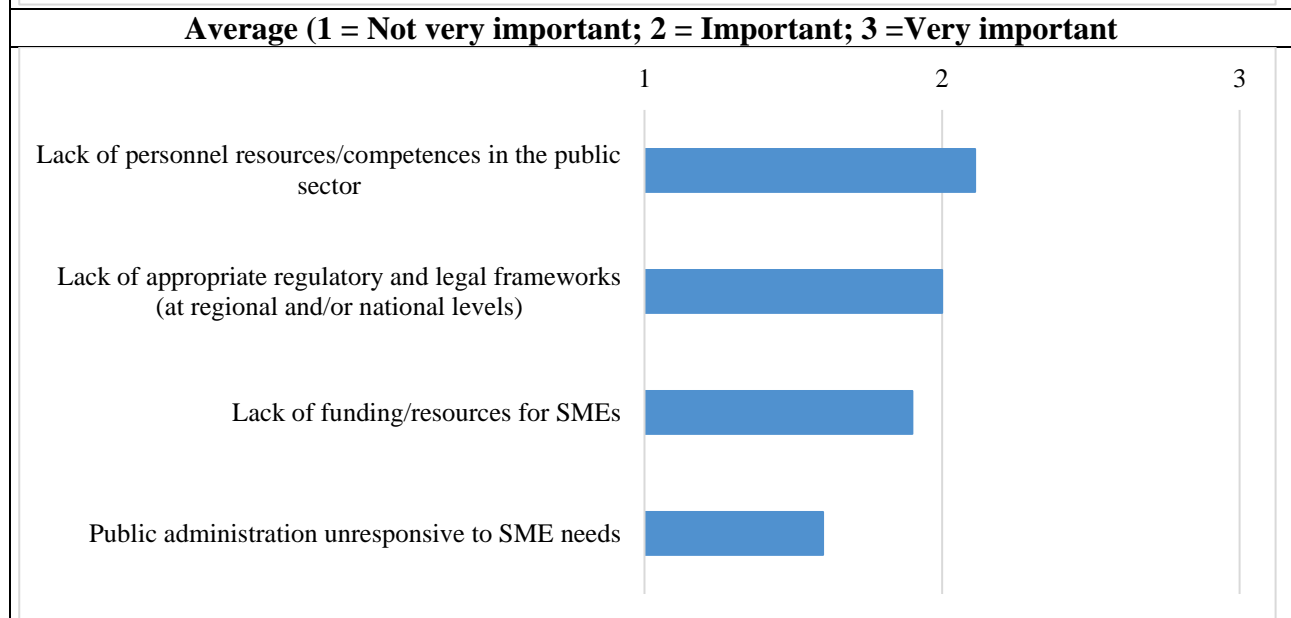
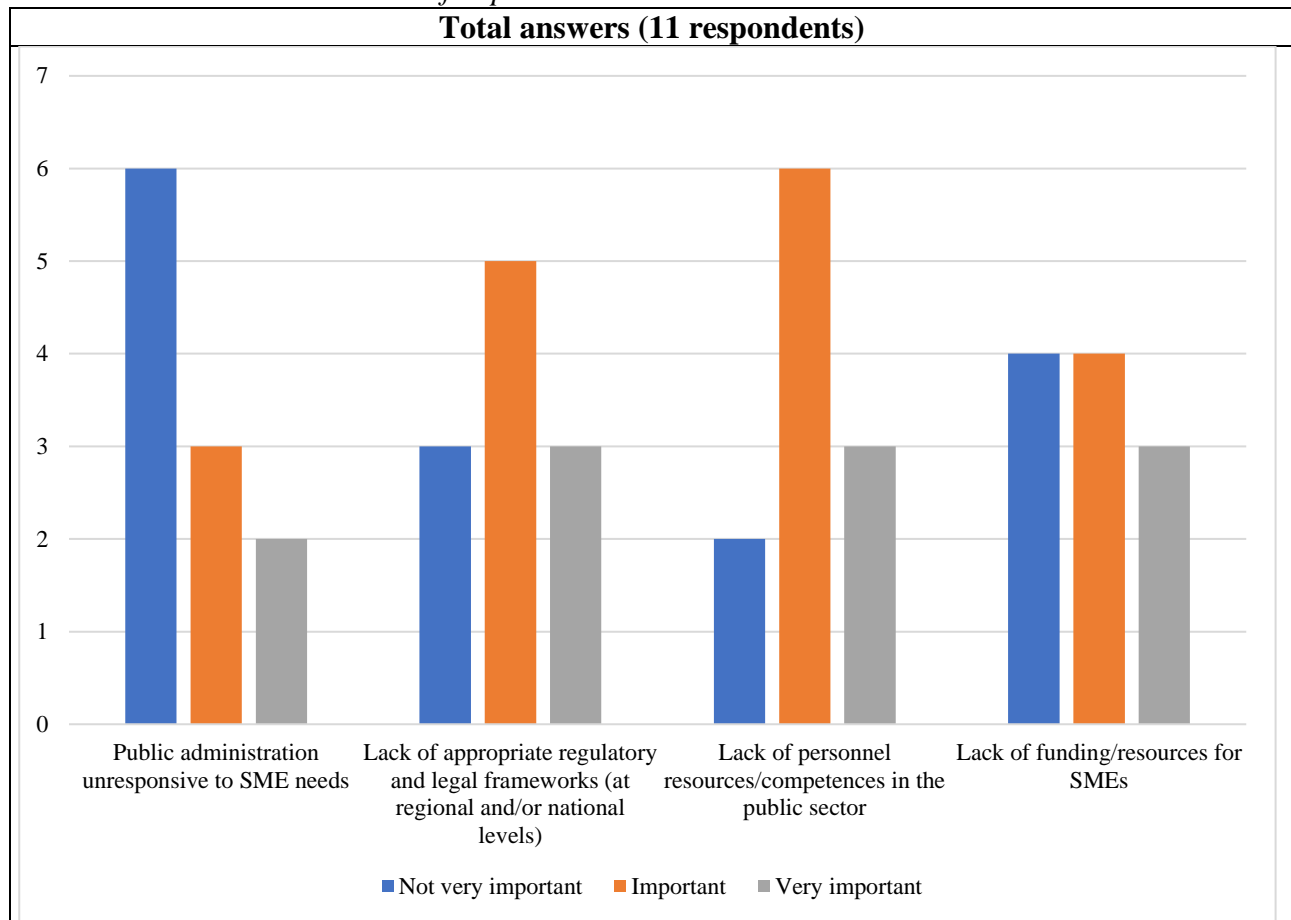
The survey has involved the following regions:

- Southern Denmark (Denmark, EER 2013);
- Region of Valencia (Spain, EER 2015);
- Central Macedonia (Greece, EER 2018);
- Lombardy (Italy, EER 2016);
- Region of Thessaly (Greece, EER 2019);
- Gelderland (the Netherland, EER 2019)
- Latgale region (Latvia);
- Timis (Romania);
- Mazowieckie (Poland);
- Baden-Württemberg (Germany);
- Veneto (Italy).

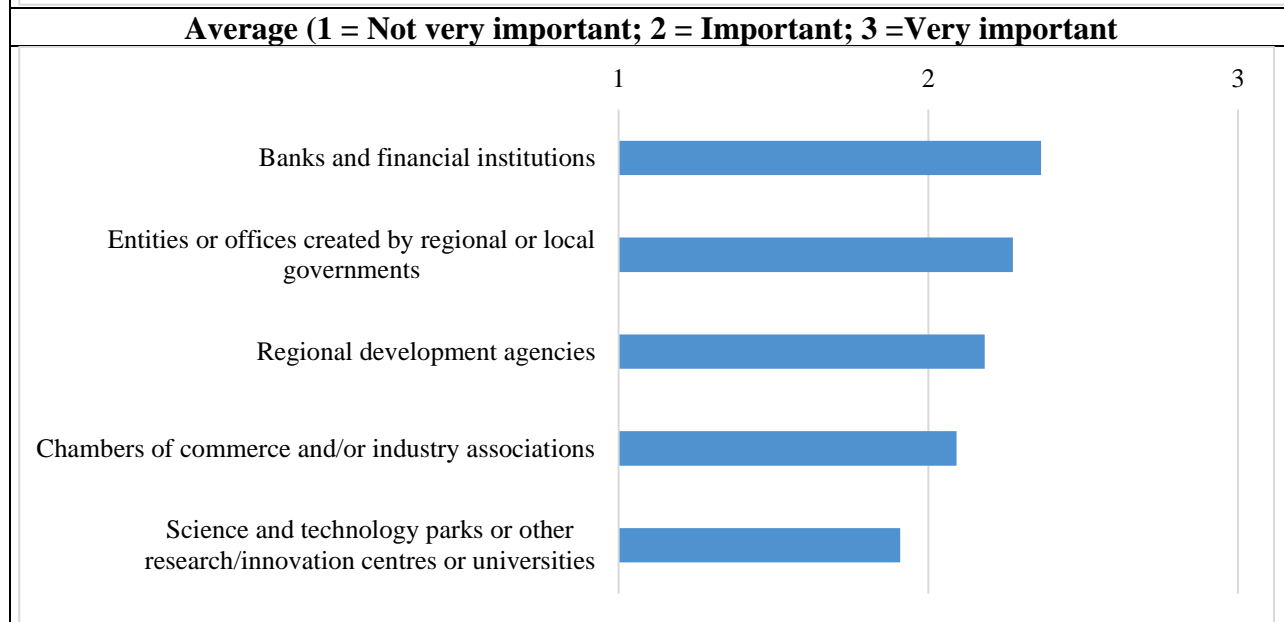
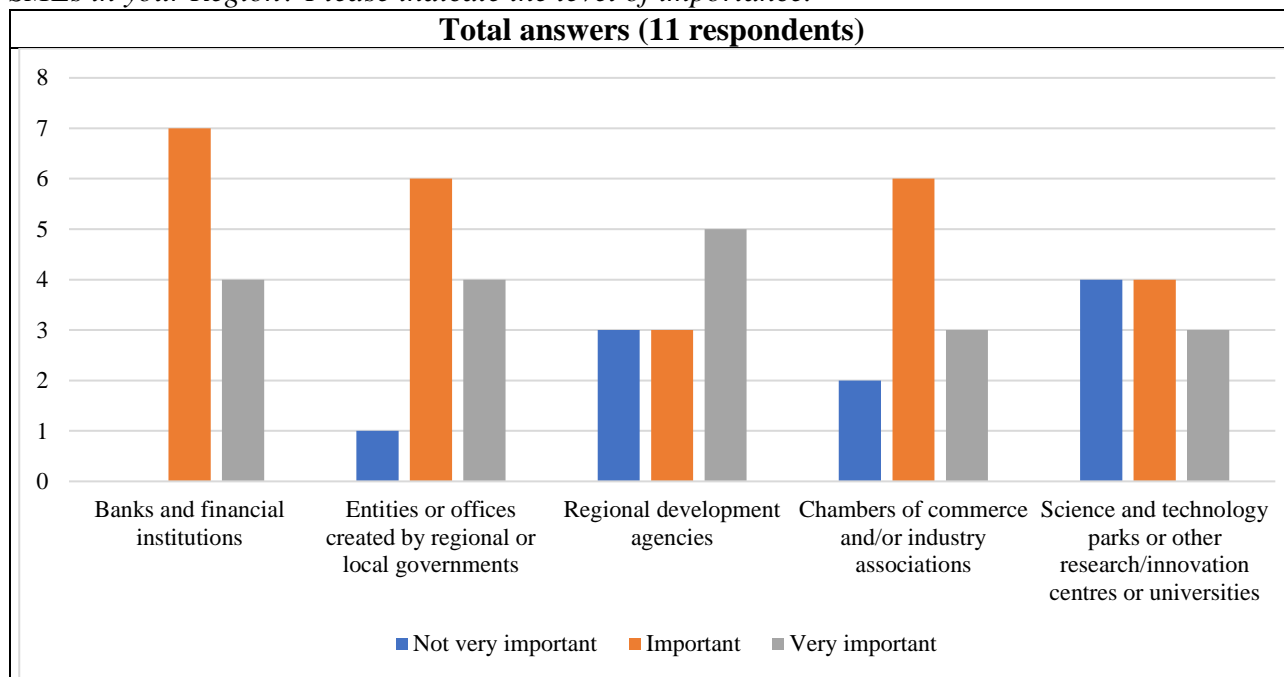
Question 1: *What are the key challenges/problems SMEs in your Region/territory are currently facing?*

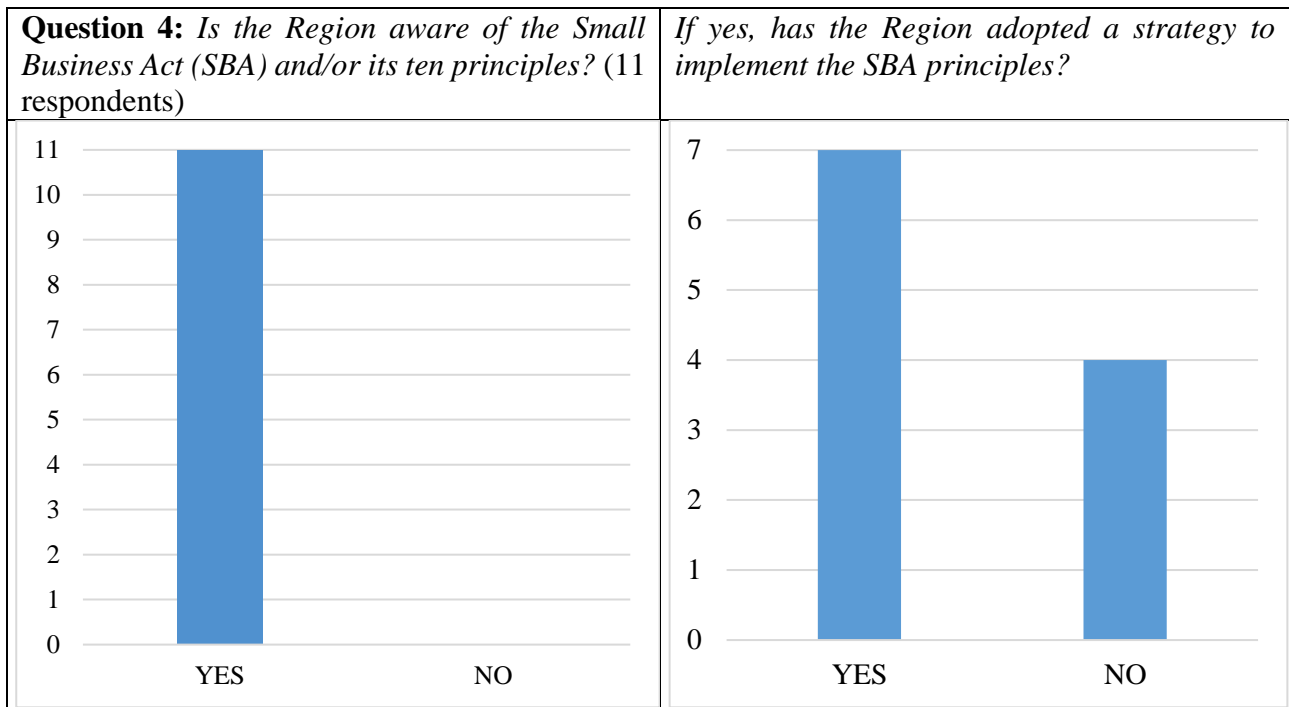


Question 2: *What are the key challenges/problems does your LRA currently face in supporting SMEs? Please indicate the level of importance.*

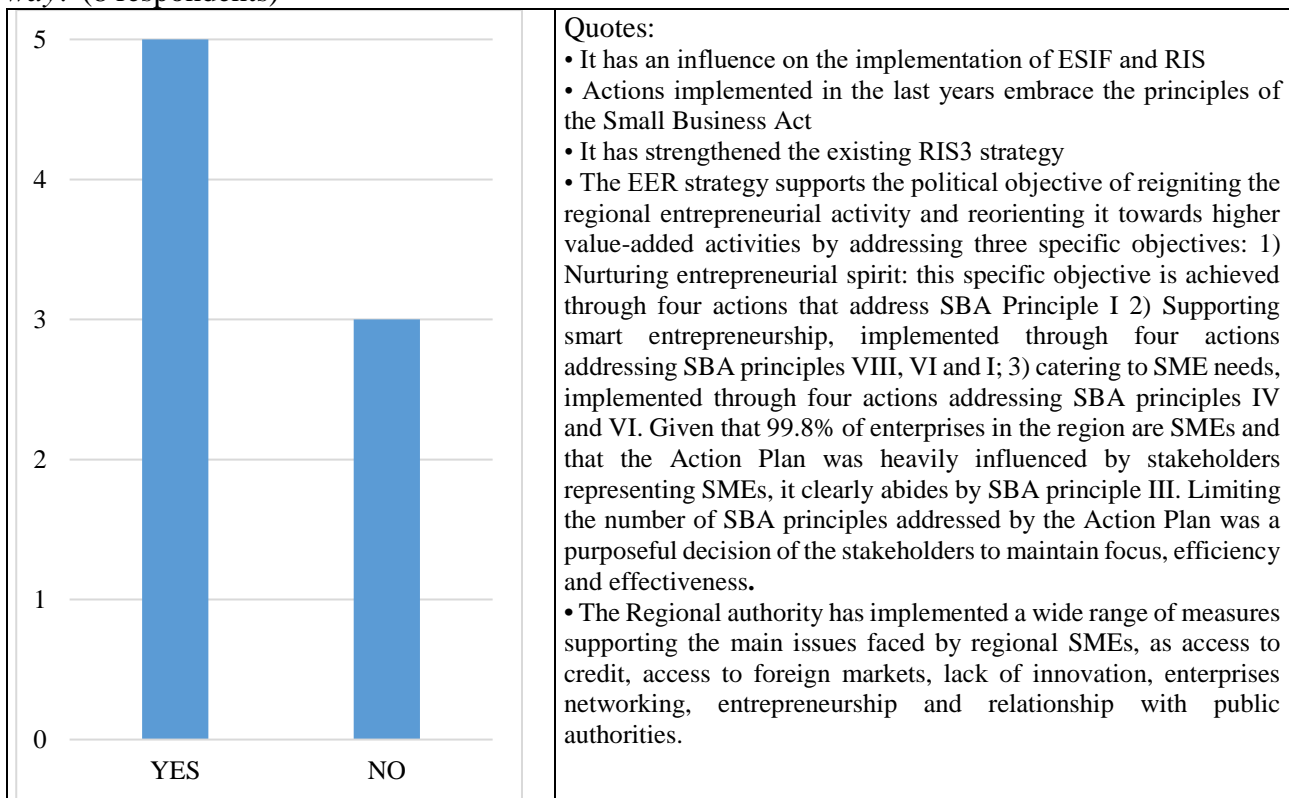


Question 3: *To what extent are the following types of organisations/bodies involved in supporting SMEs in your Region? Please indicate the level of importance.*

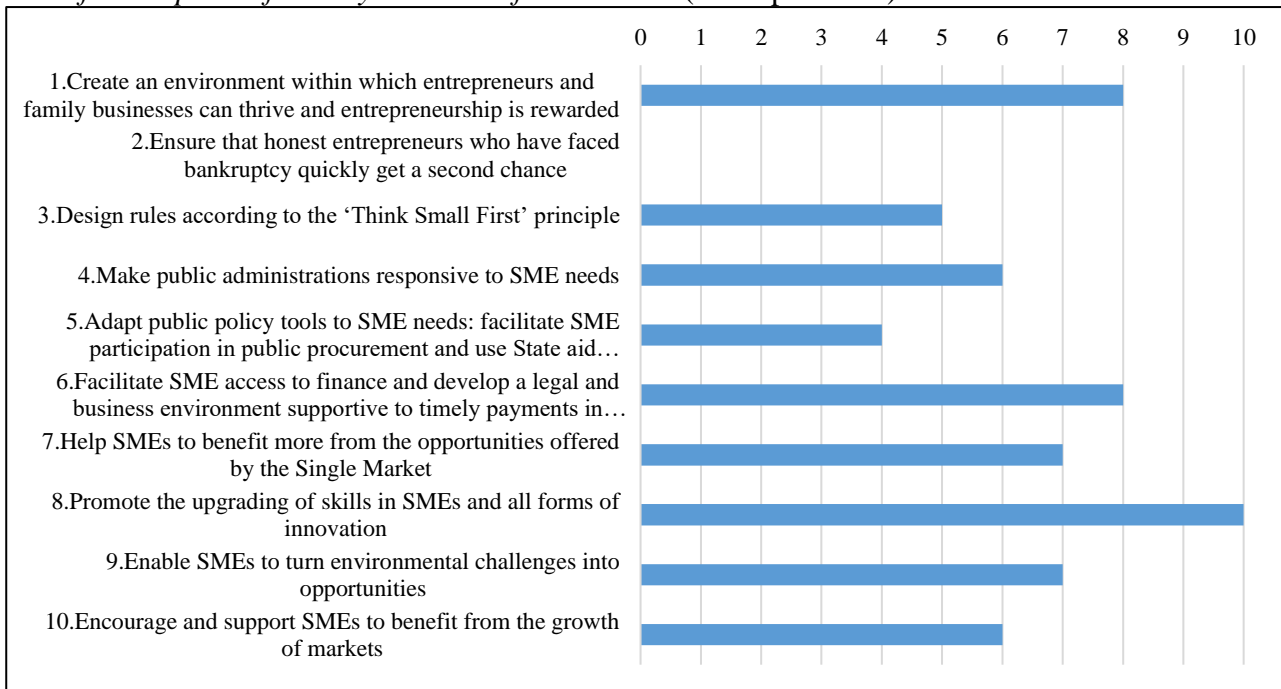




Question 5: *Has the SBA altered the SME policy of the Regional authority in any way? If yes, in what way?* (8 respondents)



Question 6: Which SBA principles are being implemented in your Region and how? Please provide a brief description of the key initiatives for each one (11 respondents)



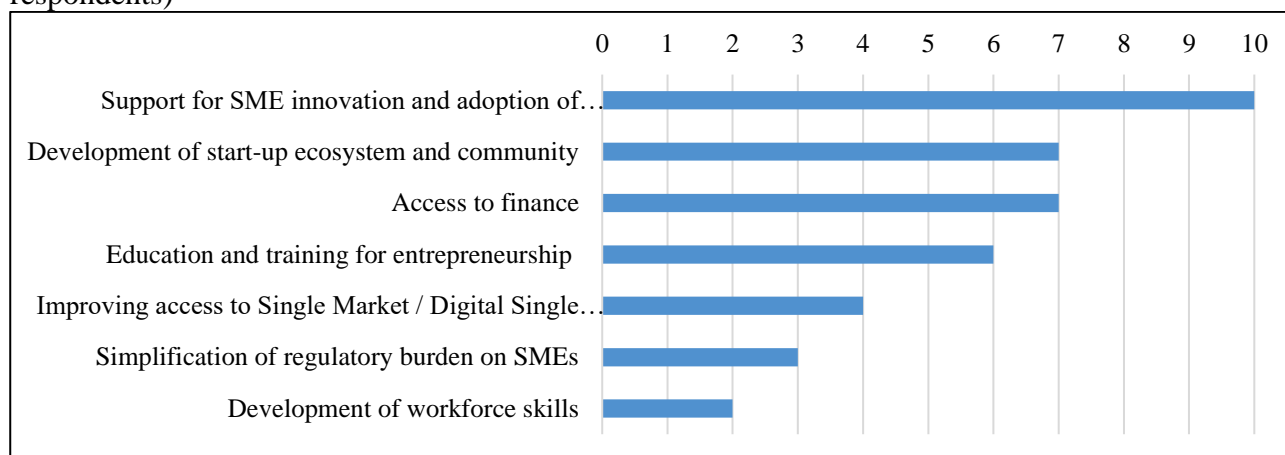
Note: this question has been answered also by those regions without a SBA strategy, but which have some actions for SMEs in relation with the SBA principles.

Key direct quotes (examples of initiatives by SBA principle)

1. Create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	<ul style="list-style-type: none"> • A website that serves as a one-stop-shop for information on finance, advice, networks, and starting a business. • A starter program that support entrepreneurs with coaching and education for a smooth start (received already more than 1,000 applications since 2017). • Support Structure for Social Cooperative Business, Home Business and Social Target Groups, providing coaching, mentoring and basic legal, tax, advisory and information services using the voluntary contributions of experienced members of the partners. • "Intraprendo" initiative (and previous similar ones): combined loan-grant for start-ups and entrepreneurs managed by the regional public-owned financial intermediary.
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	<ul style="list-style-type: none"> • Not within regional competences.
3. Design rules according to the 'Think Small First' principle	<ul style="list-style-type: none"> • Public consultation of ROP calls addressed to SMEs and improved awareness of the SMEs concerns regarding ROP calls. • Focus on small companies in OP and projects.
4. Make public administrations responsive to SME needs	<ul style="list-style-type: none"> • Being implemented via 11 client centres where all the necessary services are provided. • Offer of Digital Services to SMEs and design of Services that the region will offer to SMEs though Living lab methodology. • Enterprise Location Chooser GIS, a legal framework regulating land use and associate it with NACE2 codes in urban and rural areas.
5. Adapt public policy tools to SME needs: facilitate SME participation in public procurement and use State aid possibilities for SMEs	<ul style="list-style-type: none"> • Contact person for procurement law / issues. • Focus on answering the needs of SMEs in RIS and OP, de minimis help, however procurement is generally regulated at the national level.

<p>6.Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions</p>	<ul style="list-style-type: none"> • A growth accelerator offering loans and vouchers: vouchers can be used for external expertise while loans are given to SMEs to realise their growth strategy. • The region is in the process of setting up a ERDF financial instrument. • Minimisation of late payments from public contract: the organisational units of the Regional Authority are monitoring their average time between invoice and payment on semi-annual basis, reflect the root causes, propose and implement measures for improvement on an ongoing basis until they meet or exceed the 30-day requirement. • About payments: “CreditoInCassa” and “CreditoInCassa b2b” initiatives: backed and subsidized factoring operations for enterprises (better conditions for SMEs), managed by the regional public-owned financial intermediary.
<p>7.Help SMEs to benefit more from the opportunities offered by the Single Market</p>	<ul style="list-style-type: none"> • Four actions have been formulated to realise the internationalisation of the regional economy: Investment promotion and acquisition; Facilitate export of products and services to Germany and China; Optimal use of EU programs and stimulate companies to join European cooperation; Economic branding of the region. EU open data to illustrate SMEs and other players potential regions for cooperation are also used. • Trade missions, information seminars, consultations are being organized.
<p>8.Promote the upgrading of skills in SMEs and all forms of innovation</p>	<ul style="list-style-type: none"> • Linking education with the labour market by: Investing in craftsmanship and entrepreneurship (Human capital infrastructure); Encouraging the development of new educational and labour market concepts; Supporting the organisational capacity of labour market regions; Sharing knowledge and inspiring • Information events, youth business month and other events are being implemented. • Creation of an One Stop Liaison Office in the Region for RIS3 monitoring and evaluation through which continuous EDP will take place • Participation in 3 partnerships is thematic S3 Platforms in the Agrifood sector • Pilot application of knowledge exchange and partnership: adapt the knowledge transfer partnership is a very effective delivery instrument in the regional context that can mainstreamed through the ROP during the next programming period. • “FRIM FESR 2020”, “Linea Aggregazioni” and “Linea Innovazione” initiatives: soft loans or co-financing (together with partner banks) for R&D and innovation investments of SMEs, also in partnership with research centres, managed by the regional public-owned financial intermediary.
<p>9.Enable SMEs to turn environmental challenges into opportunities</p>	<ul style="list-style-type: none"> • Support SMEs in the transition from linear to circular models is one of the four actions points under the goal for “innovative and entrepreneurship in SMEs” in the EER application. • Thematic villages and other events are being organized, which result in new products and services. • Action Plan for promotion of Circular Economy in the SMEs.
<p>10.Encourage and support SMEs to benefit from the growth of markets</p>	<ul style="list-style-type: none"> • Assistance is also provided to look into CIS markets by, for example, offering participation in business forums there. • International Networks, Extroversion of the Agrifood and Tourism Sector. • Supported at regional and national level by the EEN network.

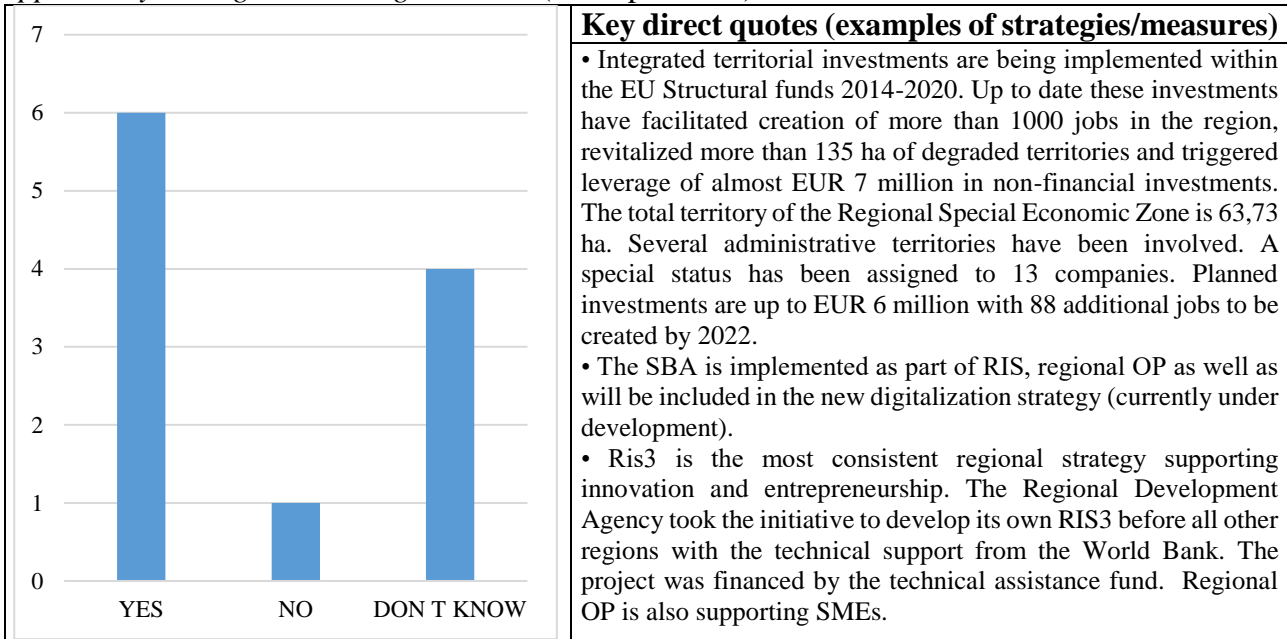
Question 7: Which policy areas are most relevant to support SMEs in your Region? Please indicate a maximum of 3 and explain what types of actions your Region implements for each of them (11 respondents)



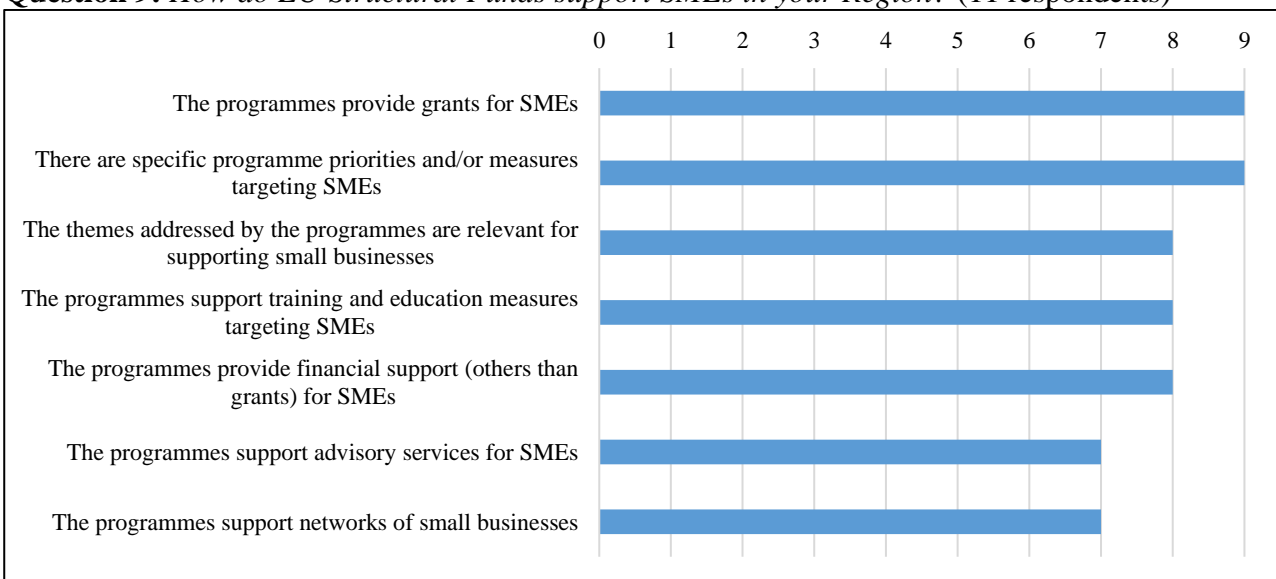
Key direct quotes (examples of actions in the related policy areas)

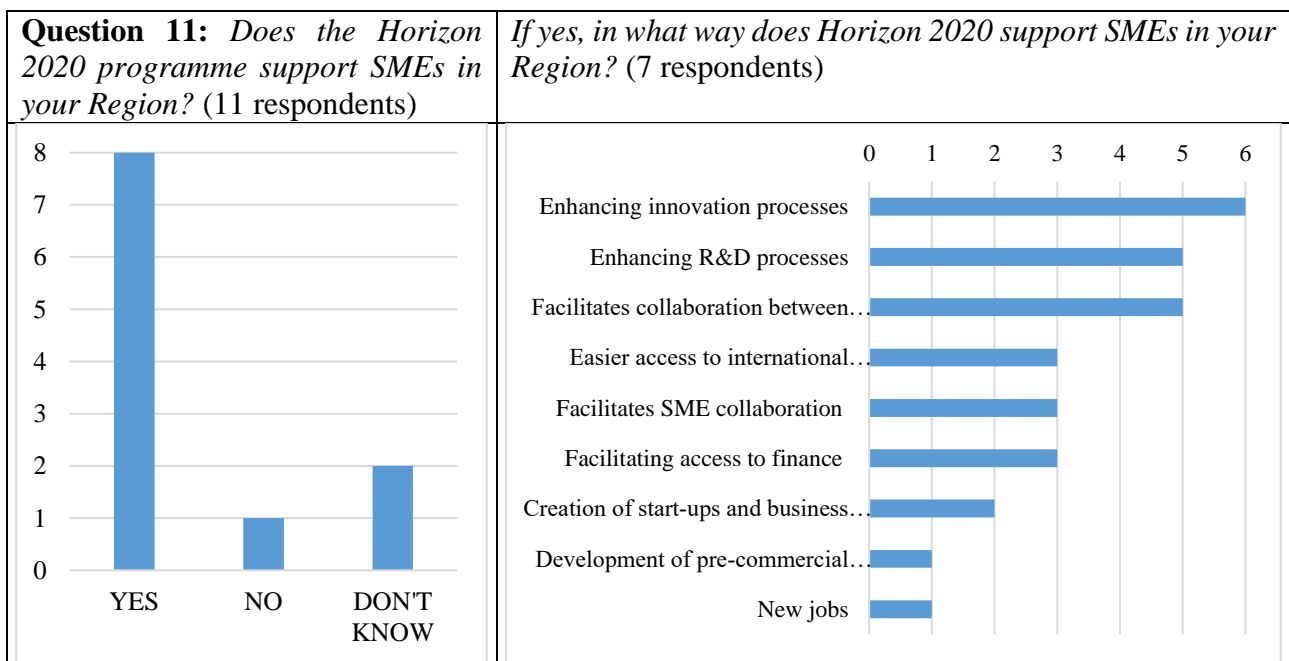
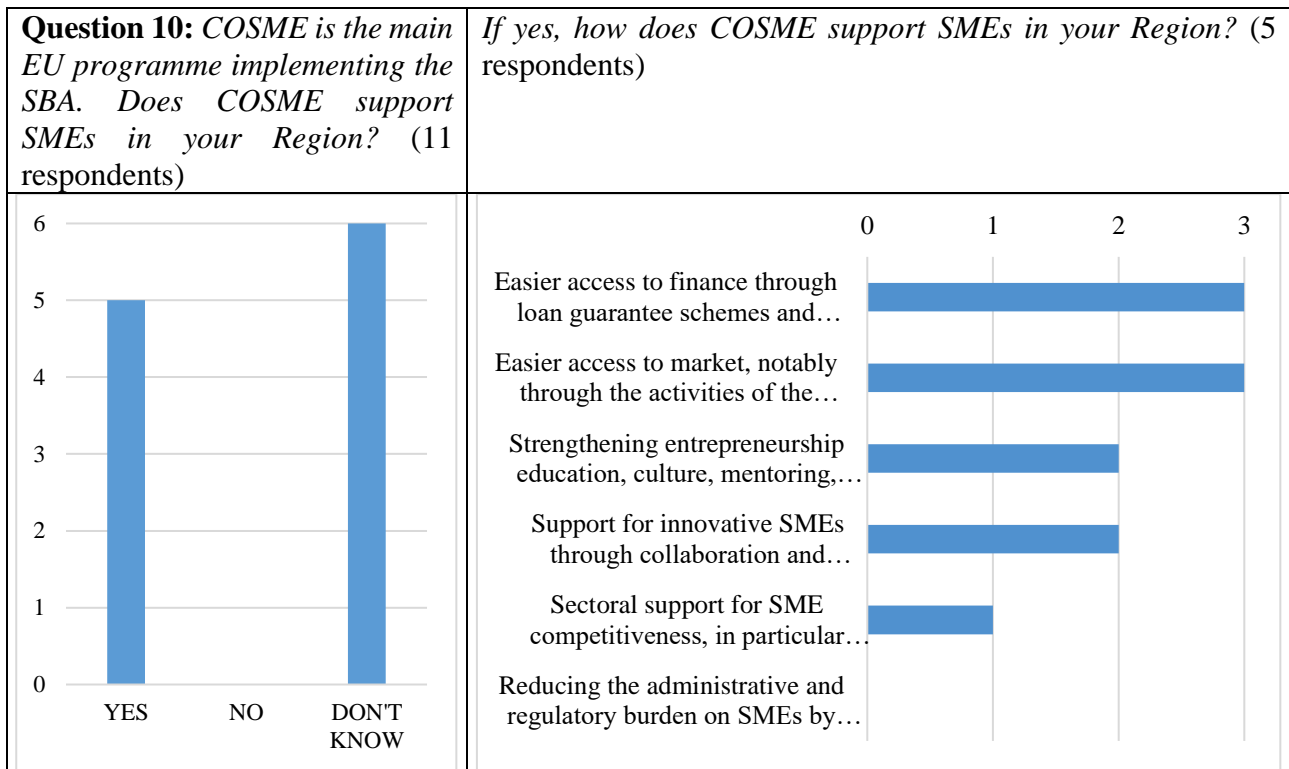
Education and training for entrepreneurship	<ul style="list-style-type: none"> • Fostering entrepreneurial spirit in the region by extending the reach of entrepreneurial education beyond the regional HEI student, improving population and geographic coverage. • Stimulating investments in the RIS3 priority areas, promoting innovation and enhancing knowledge exchange between academia and industry
Development of start-up ecosystem and community	<ul style="list-style-type: none"> • Multilateral youth support, through the Centre for Youth Initiative Entrepreneurship where young people practice their ideas by setting up their own (innovative, start-up) companies in the technology sector. The Centre’s action plan has two main axes. The first axis aims to develop the digital skills of professionals and to develop young entrepreneurship by seed, pre-incubation and incubation. The second axis aims to develop a regional recognizable advantage at a technological sector with string local characteristics, taking advantage of Region’s leading position in the country.
Simplification of regulatory burden on SMEs	<ul style="list-style-type: none"> • New regulatory system for SMEs in artisan sector.
Development of workforce skills	<ul style="list-style-type: none"> • Initiatives through the POR FSE 2014-2020.
Improving access to Single Market / Digital Single Market	<ul style="list-style-type: none"> • POR FESR 2014-2020 priority axis 2 “Enhancing access to, and use and quality of, ICT”
Access to finance	<ul style="list-style-type: none"> • One of the main challenges and main actions of the region, most support is in the form of financial support (grants, loans and guarantees) • Implementing of a regional guarantee fund for SMEs and financial instruments (subsidized loans and guarantees) managed by the Regional Development Agency. • AL VIA” initiative: bank loan combined with regional (ERDF) guarantee and grant for SMEs investments; “Credito Adesso” initiative: bank loan combined with regional subsidized interests for SMEs working capital needs; within the EEN Network, an yearly event B2B with investors and companies
Support for SME innovation and adoption of technologies	<ul style="list-style-type: none"> • Mostly ERDF and Interreg, but also via H2020 and regional programmes the focus is on innovative SMEs. The region invests mainly in the areas of health and life sciences, food and agri, energy and environmental technology in line with the S3 and cluster policies. • Bridging research and enterprises: improved adoption of innovations by SMEs; increased number of SMEs collaborating with HEIs.

Question 8: Are there - other than SBA - any specific entrepreneurship strategies or measures applied in your region that target SMEs? (11 respondents)

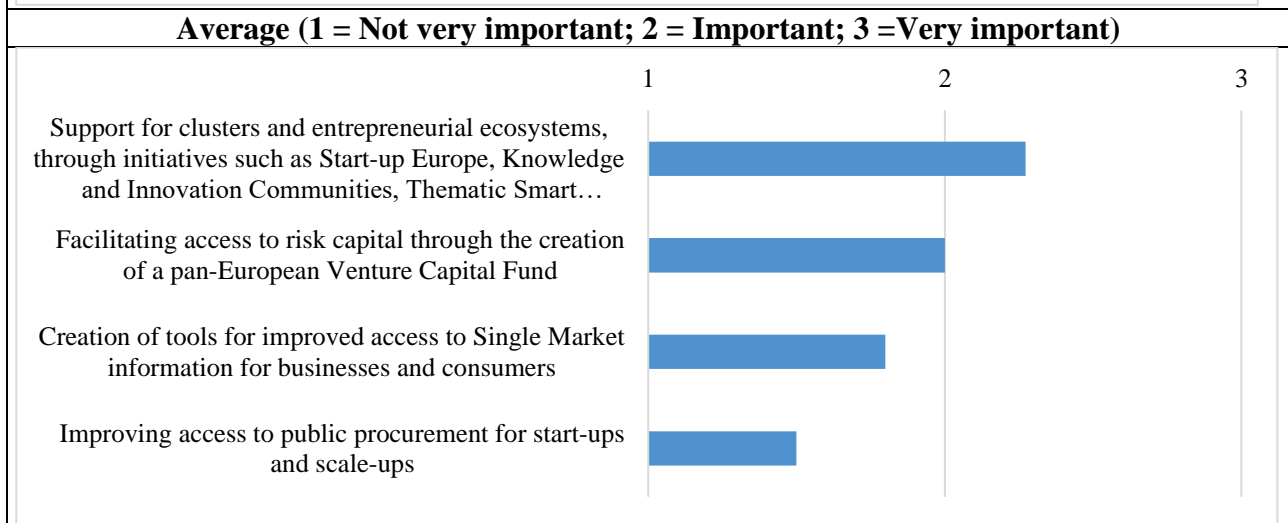
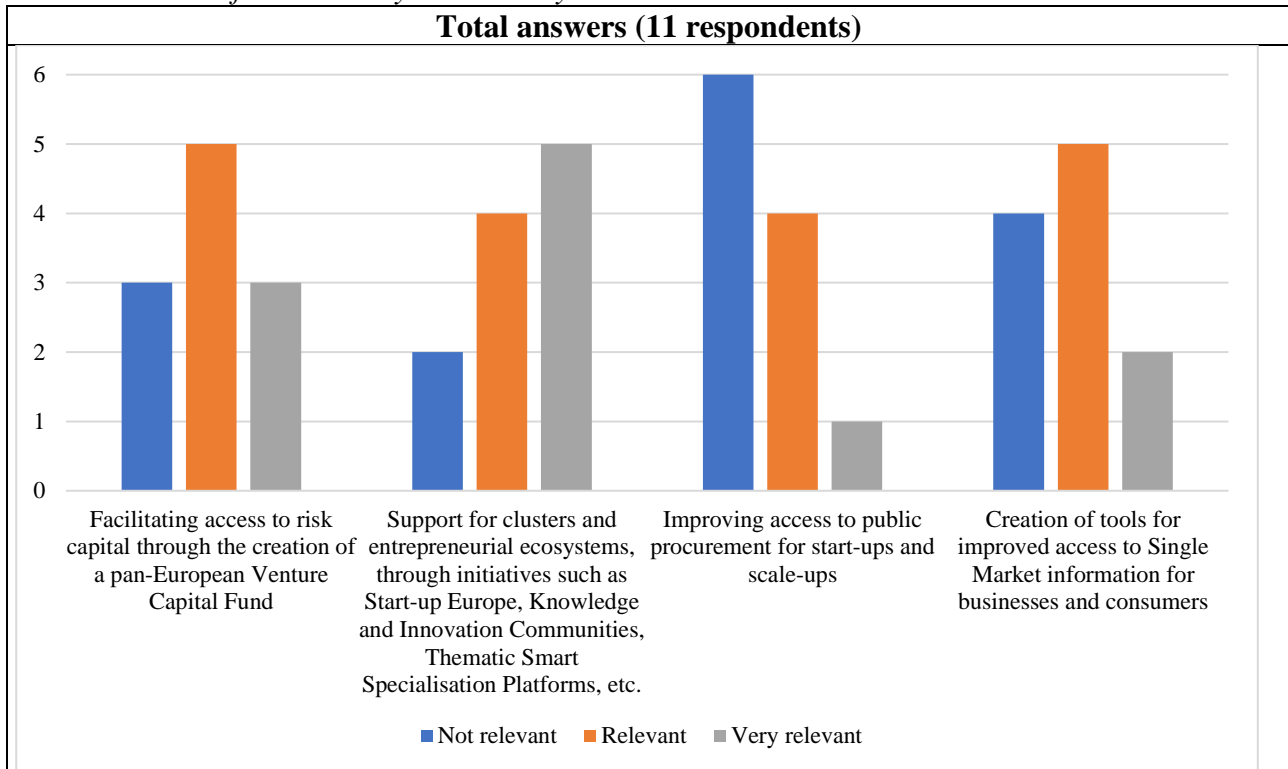


Question 9: How do EU Structural Funds support SMEs in your Region? (11 respondents)

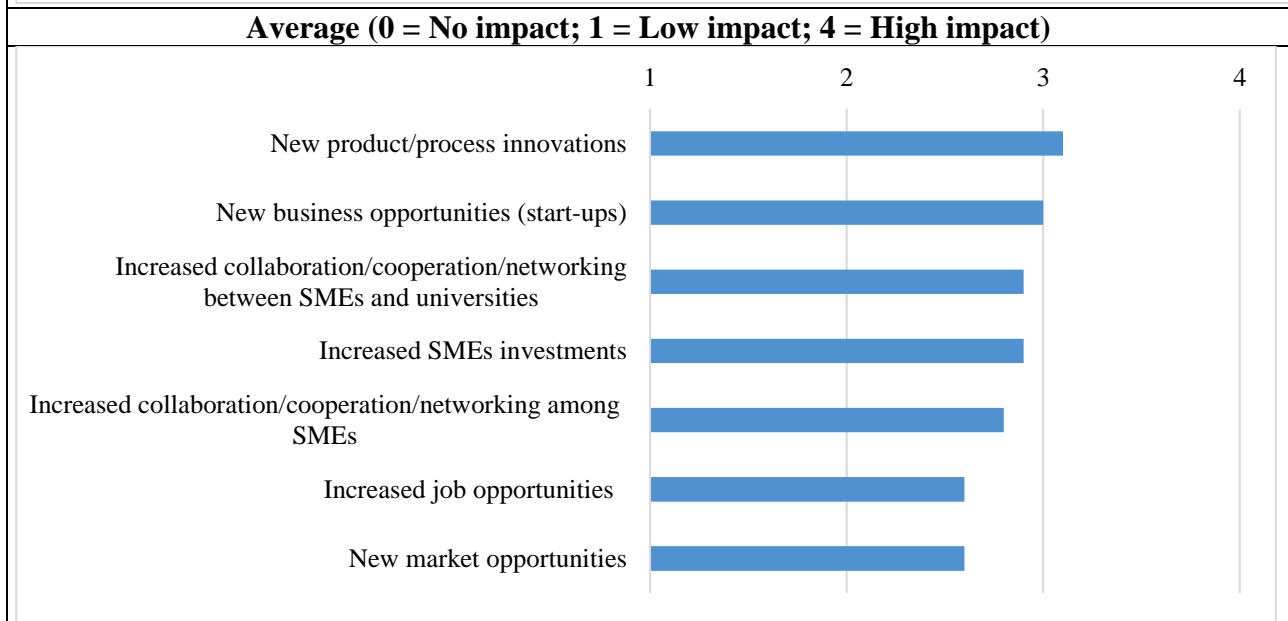
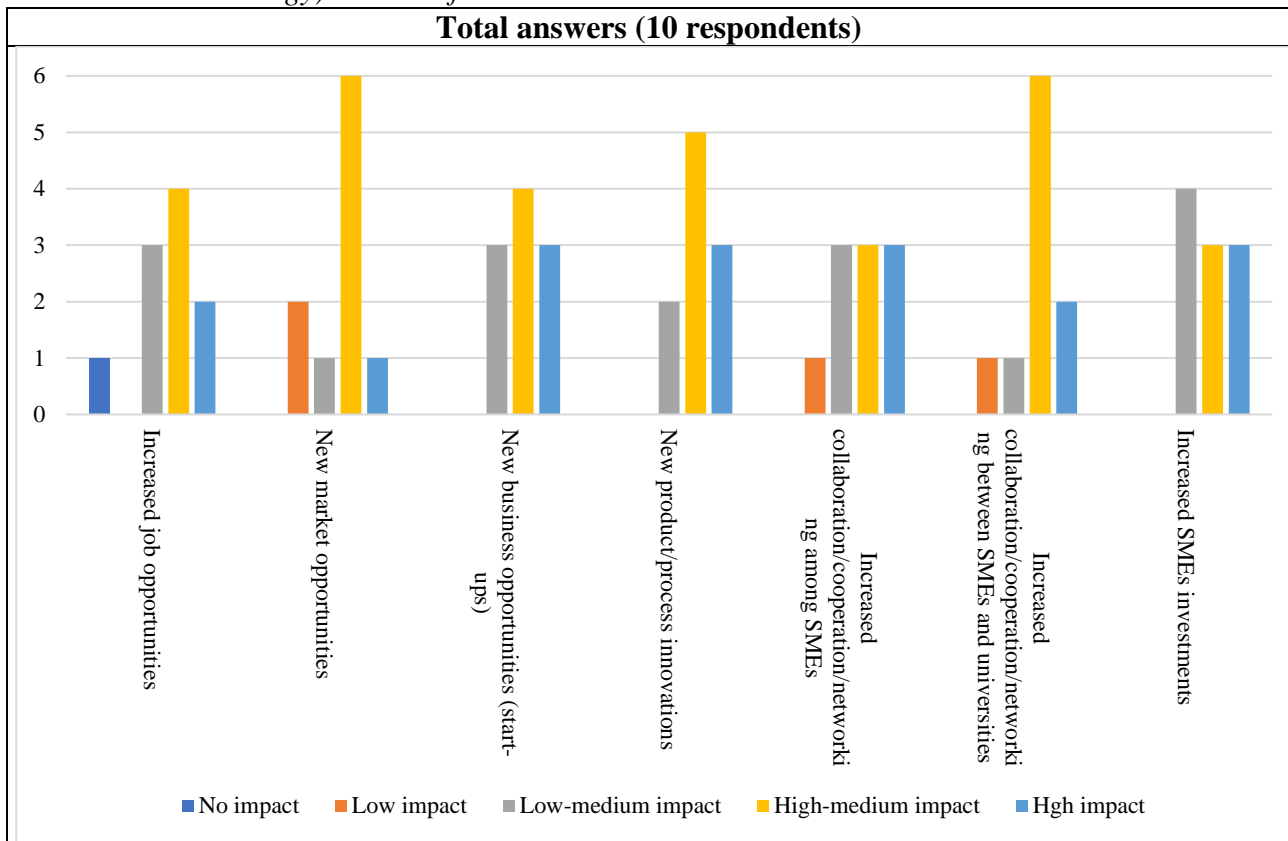


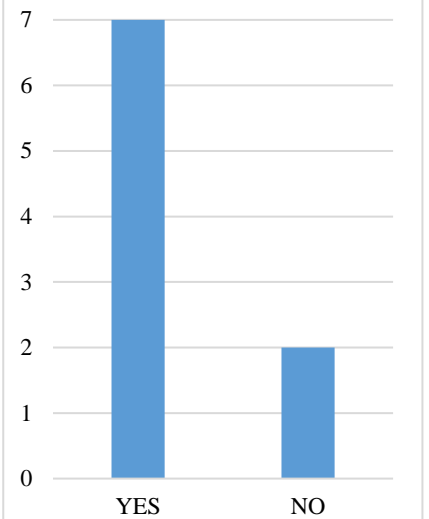


Question 12: In 2016 the European Commission proposed actions intended to make the EU single market more efficient for starting up and scaling up companies. Which of the following initiatives are the most relevant for SMEs in your territory?

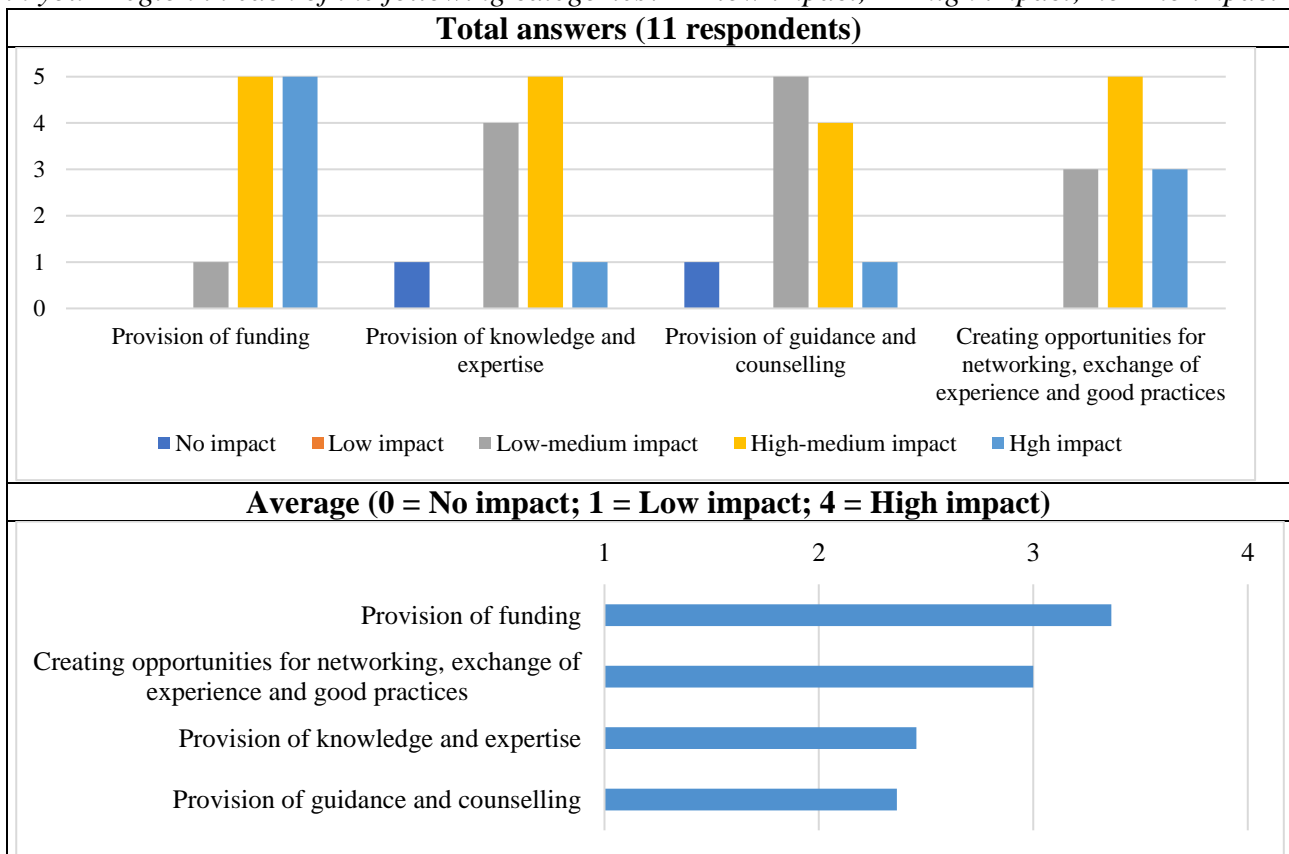


Question 13: Which are the main direct results achieved by the SBA strategy (or the SME strategy if there is no SBA strategy) at level of SMEs?

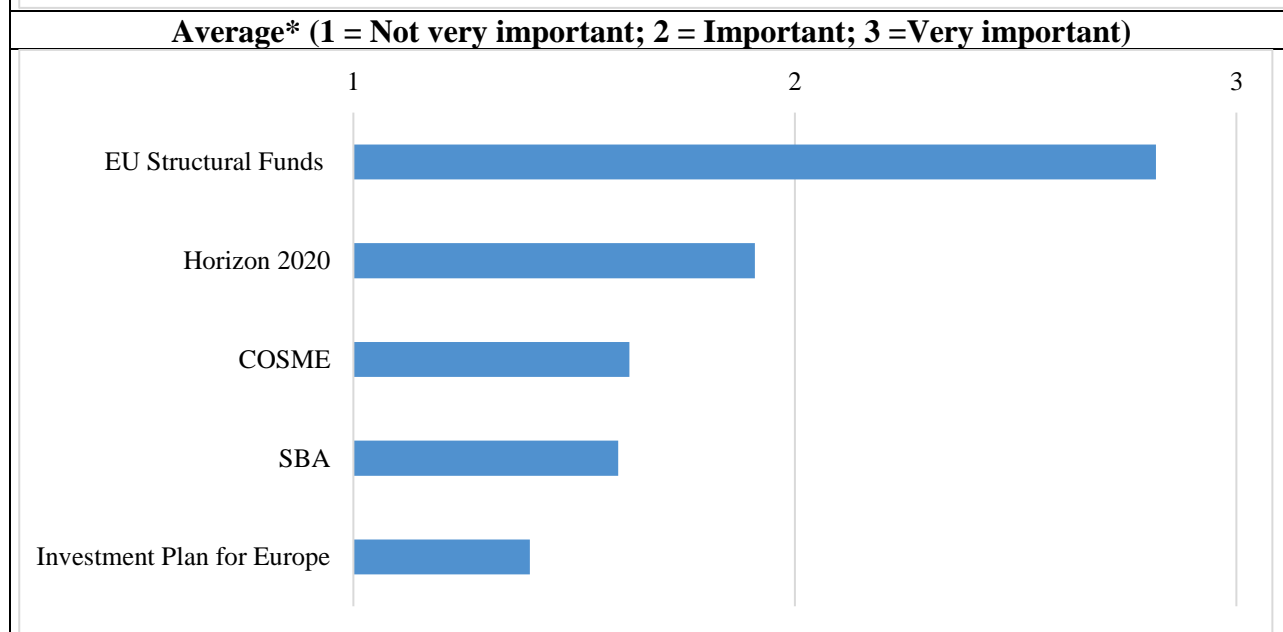
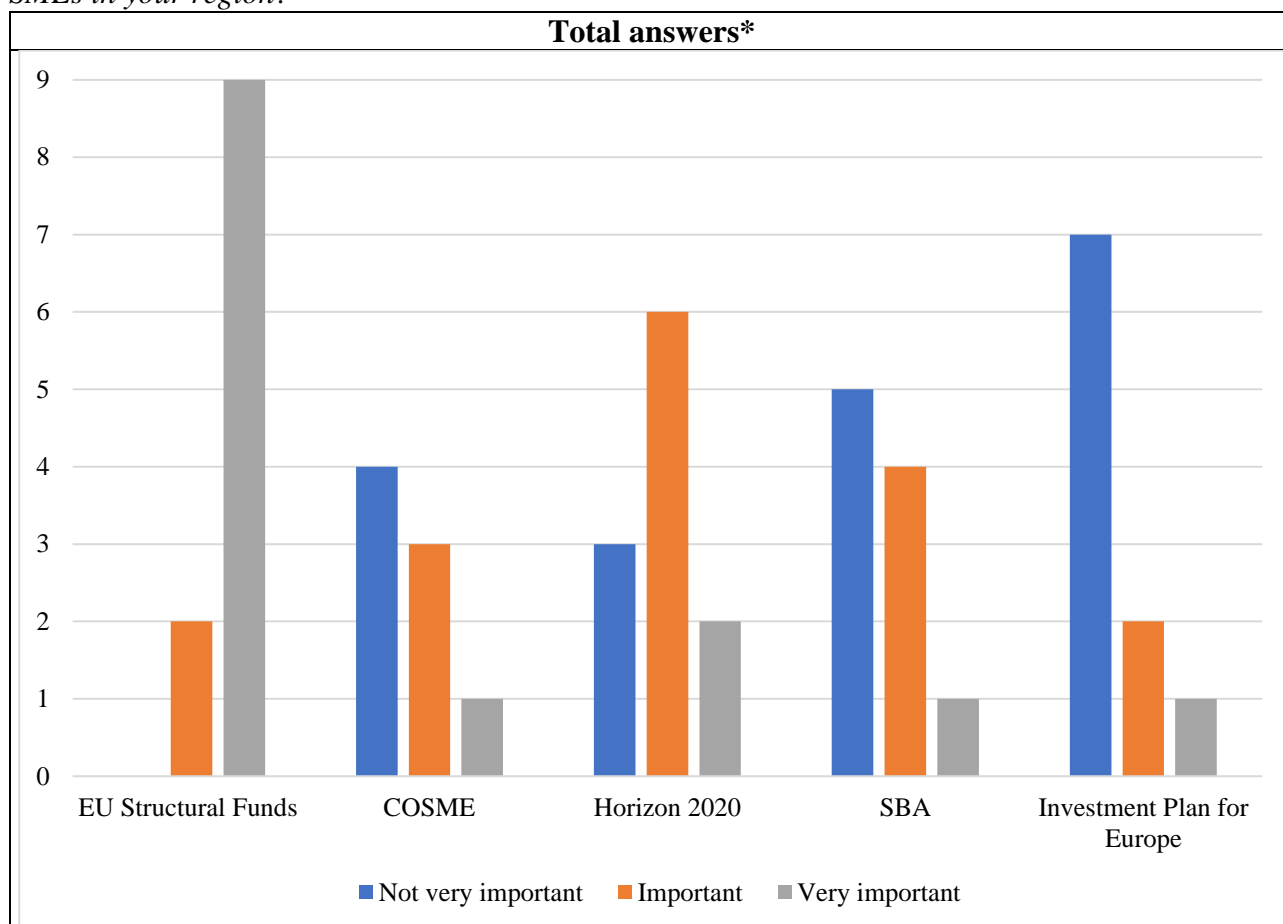


<p>Question 14: Are these result indicators systematically monitored? (9 respondents)</p>	<p>If yes, please describe how? (Key direct quotes)</p>
 <p>A bar chart with a vertical axis from 0 to 7. The 'YES' bar reaches 7, and the 'NO' bar reaches 2.</p>	<ul style="list-style-type: none"> • At least the regional development agency monitors the progress of their programmes. They monitor the investments they make, the number of jobs created, the number of enterprises supported and the growth of turnover of the enterprises supported. Increasingly they also monitor support to societal challenges, i.e. the amount of CO2 reduced or investments in specific fields related to societal challenges, e.g. linked to the UN SDGs. • There are Monitoring Reports of the regional program. Statistics are being collected and presented on websites. • Monitored in the OP. • Some are monitored in the OP. The regional development agency joined the Monitoris3 project (financed by the Interreg) and is developing a monitoring tool for the RIS3 related to our policy instrument ROP AXIS 1 Supporting technological transfer. • Through RIS3 indicators. • Selected results indicators to monitor the three Specific Objectives: Nurturing entrepreneurial spirit; Supporting smart entrepreneurship; Catering to SME needs.

Question 15: What is the impact of existing EU policies and programmes on supporting SME policy in your Region in each of the following categories? 1= low impact, 4= high impact; no= no impact



Question 16: *What is the importance of each of the following programmes/initiatives in supporting SMEs in your region?*

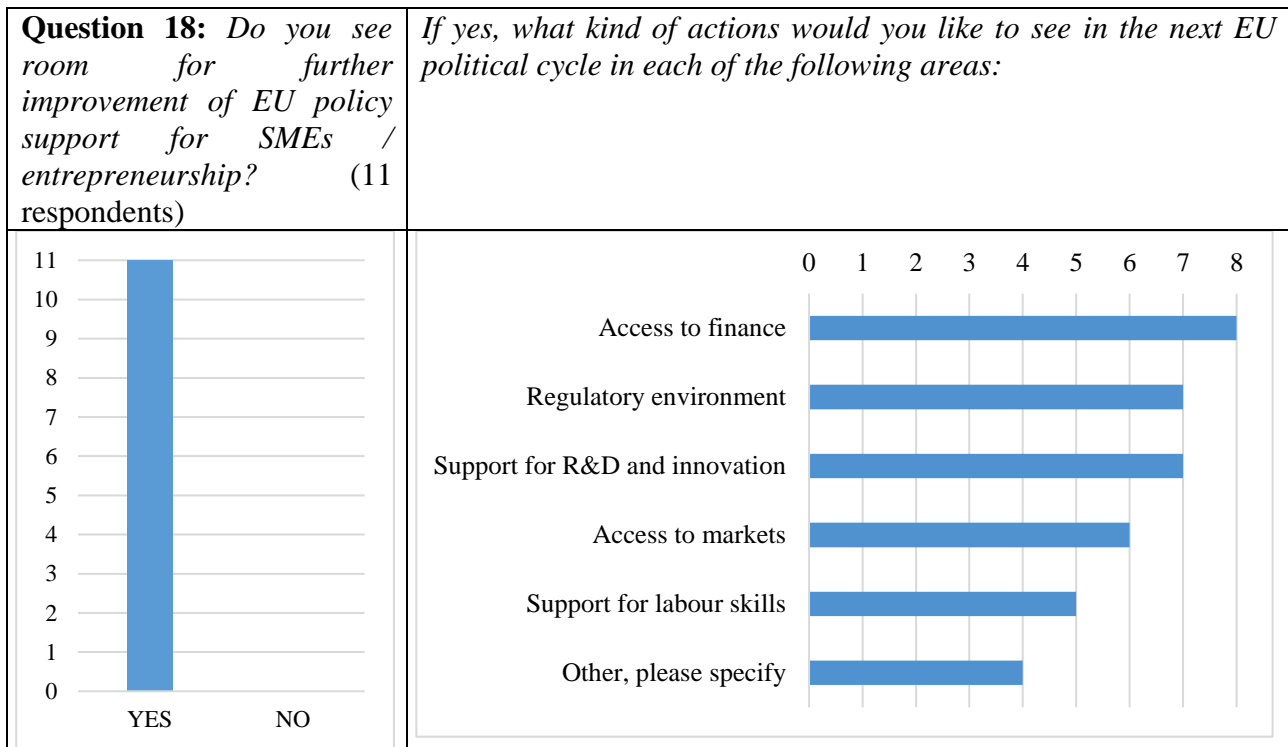


* EU Structural Funds = 11 respondents; COSME = 8 respondents; Horizon 2020 = 11 respondents; SBA = 10 respondents; Investment Plan for Europe = 10 respondents.

Question 17: *What are the key unresolved issues for SMEs at regional level that would merit further assistance/ guidance /funding from the EU level?*

Key direct quotes (examples of unresolved issues)

- Less administration through cascading funds or a simpler process to apply for funding (i.e.H2020).
- Easier access in general to all European funds.
- More collaboration between the relevant EU-Institutions and the regional and local authorities > learn from the needs on the local and regional level > bottom-up principle.
- The main added value of EU programmes is their specific target group. They support specific SMEs (high potential SMEs, start-ups etc.) this could be better marketed and communicated. Another issue that may deserve more attention is the possibility to link different markets, let SMEs experience what the added value of possibilities are in other places. For example, regional firms learning about possibilities abroad and foreign firms learning from the experience in region, e.g. with regards to specific practices in the field of agrifood in the region.
- The regional program should be continued with more decision powers delegated to the regional level. The region is an EU external border region and a more focused and tailored development program is also a matter of security. For example, special attention should be paid to support enterprises which are of a vital and strategic importance to the region, country as well as an EU as a whole. The region would need a special “kick” to “hook-up” a number of big investors to have a break-point in its development.
- The problem with SMEs is that they tend to lower the staff costs and act towards short-term rather than medium- or long-term profits, there is a low level of social capital, SMEs are not flexible and reluctant to new business models. There is a low level of networking, investment, R&D. There is a low level of cooperation and partnership between different actors. Research institutions could have a more pro-business approach. There is a need to change the mentality and raise awareness of entrepreneurs and other relevant actors, however, it is difficult to identify effective measures (other than awareness-raising) which could address such problems. EU`s help would be appreciated here.
- Building capacities for entrepreneurship support and ecosystem development is very important. SMEs are supported through EU funds but the ecosystem is not supported systematically and as a whole. It needs to take into consideration the entire value chain. Other problems SMEs face is competing at the international market as well as growing/scaling-up. Also, it was observed that some companies do not find the capacities to access EU funds, as accessing becomes more complicated. The ones who can apply for EU funds are those which also have the capacity to apply for financial support from banks. It is therefore suggested that three issues should be a requirement for SMEs applying for EU funds- addressing or accounting for these should help them become successful (rather than making their application even more difficult): digitalization, innovation and internationalization.
- Excessive restraints in the implementation of European Structural Funds. Lack of funding in more developed regions.
- Improve access to finance, support for R&D and innovation and the upgrade of labour skills.
- Improve the capacity of SMEs to scale up. The EU support provides support especially for start-ups, but more emphasis should be put to scale up and help SMEs to compete and to grow.
- The first problem that should be mentioned concerns the ability to maintain SMEs with support to their operating costs and working capital. The second problem concerns SMEs, which do not have positive management uses, thus affecting their participation in financial programmes. Finally, another major problem for SMEs is that the way to cover the same participation, always required, is through borrowing whose rules are not easy. The use of financial tools extended to this use is imperative.
- Working capital funding needs.



Key direct quotes (examples of suggested actions in related policy areas)	
Regulatory environment	<ul style="list-style-type: none"> • More advice/support/coaching for SMEs to handle new regulations. • More flexibility. • Try to minimise the regulation to let the entrepreneurs to grow, more free regulation environment. • Simpler regulation for financial instruments (compared to grant), because of “self-control” mechanisms in financial instruments proportional control/audits
Access to finance	<ul style="list-style-type: none"> • Guarantee easier access to finance for SMEs (i.e. via easier funding regulations) • Financial supply should be adjusted to the actual demands, esp. in terms of volume and collateral requirements. • Rather skills to access venture funds and private non-conventional funding. • Access to finance initiatives need to be implemented on a more local scale. • Enlargement of SMEs participation rules in financial instruments.
Access to markets	<ul style="list-style-type: none"> • Ensure that local and regional authorities are not allowed to further complicate regulations related to the access to market > one single market. • Improving companies’ skills to perform at international level. • More support for internationalisation and to compete in international markets. • Possibility to advertise directly from the EC to promote SMEs in the European markets and third countries.
Support for R&D and innovation	<ul style="list-style-type: none"> • Ensure more applied research will be funded/knowledge transfer from universities and research centres needs to be supported/funded. • Measures and tools to promote cooperations and partnerships to, e.g. involve scientific institutions to undertake more pro-business work, better coordination between science and business. • Innovation vouchers. • Easier rules for synergies between structural funds and Horizon 2020 (Horizon Europe in the future).
Support for labour skills	<ul style="list-style-type: none"> • Measures to improve digital skills and understanding for the digital transformation. • Support to actual upgrade of skills instead of just employing long-term unemployed in not always useful social works would be necessary. • Encouragement of entrepreneurs to education and development of skills, alignment between education offer and skilled labour needs, better legislative framework at the national level.

	<ul style="list-style-type: none"> • Not only technical skills but also management skills, cluster managers for example, or capacity building for policy makers.
Other, please specify	<ul style="list-style-type: none"> • From the point of view of the region, the main improvement at EU level would concern the communication and accessibility of the possibilities for SME support. Currently the information on SME support schemes is scattered between different DGs, agencies and networks such as EEN. More coordination would help to make more use of the programmes and get the support to where it is most needed. This may imply a single entry point with information on SME support schemes. Part of the communication should also be clear and explicit explanation on the aim, objectives and targets of the programme. This makes it for the regions and SMEs easier to estimate / judge whether the programme is relevant for them. Most visible are funds under shared management, the regional ERDF programme and Interreg programmes, that directly target SMEs. EU funded programme are hardly known by SMEs according the interviewee. Also the representative of the regional authority is not aware of all possibilities for SMEs at EU level. Therefore the information could be more clustered and programmes and initiatives could be more coordinated. This would also support the LRA's role towards these programmes. • The Structural Funds, but specifically the rural programs are the main funding sources in the region as other financial instruments as well as programs such as Horizon 2020 are too big and complicated for the local entrepreneurs. • It is advised to evaluate and assess various EU initiatives especially in the area of climate change as to what additional disproportional financial burden do they eventually impose to the SMEs of the back-lagging regions and as a result also to their competitiveness. This also regards the GDPR requirements, for example. • Improve the exchange of best practices. • Deeper involvement of regional/local actors (regional government, regional public financial institutions) in EU programmes (i.e. InvestEU) to ensure use of resources suitable with regional/local policies and needs.

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**European Committee
of the Regions**

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local representatives from all 28 Member States, representing over 507 million Europeans.

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