

THE NEW EU AID PACKAGE FOR SME COMPETITIVENESS AND RESILIENCE

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Keywords:

SMEs, micro-enterprises, aid package, transparency, insolvency, taxation, training, digital and green skills, entrepreneurial skills, digital transition, investEU, cohesion policy, RRF.

The European Commission's recent Communication on "SME Relief Package" presents 19 policy actions to be implemented in the coming months to strengthen the long-term competitiveness and resilience of SMEs. It follows up on the European strategy for small and medium-sized enterprises launched, also by the Commission, in 2020 with the aim of enhancing the contribution of the enterprises to the sustainability of the economy and the digital transition.

1. A new aid package for European small and medium-sized enterprises

In September 2023, the European Commission released a communication on European support for small and medium-sized enterprises. The communication is based on 19 actions to be implemented in the near future, and on measuring the impact of existing initiatives and programmes, to strengthen the competitiveness and resilience of SMEs in the long term. The communication is in continuity with the European strategy for small and medium-sized enterprises launched, also by the Commission, in 2020 with the aim of enhancing the contribution of enterprises to the sustainability of the economy and the digital transition.

1.1 The situation of micro, small and medium-sized enterprises in the EU

The current economic environment sees small and medium-sized enterprises juggling with the many uncertainties arising from persistently high levels of inflation and a critical geopolitical situation that negatively affects global supply chains. This situation was recalled, inter alia, in the recent report of the European Commission's Joint Research Centre (JRC) on SME performance (2023): 'The situation for EU SMEs is perilous and will remain so in the foreseeable future. Since early 2020, due to the Covid-19 pandemic, the 24 million EU-27 SMEs, and more generally, SMEs throughout the world, have faced unprecedented economic uncertainty and turmoil. Moreover, through part of 2021 and 2022, SMEs faced difficulties in hiring new staff to meet an unexpectedly strong rebound in demand, while also having to deal with numerous new challenges. The inflation rates augmented drastically, especially during 2022, also provoking rises in interest rates, which in turn reduces access to finance. The increased energy costs and the increased raw material prices put extra pressure on enterprises.

Thus, the strong post-pandemic recovery of production activity also posed a challenge for micro, small and medium-sized enterprises; on the one hand, because of the difficulty in finding personnel on the market and, on the other hand, because of the sudden rise in inflation and interest rates, which made access to finance more complex at a time when public financial aid for businesses was being reduced, including the substantial European resources earmarked for job protection and productive recovery (SURE instrument, cohesion funds, InvestEU).

According to the JRC report, 93.5 per cent of European enterprises have fewer than 10 employees (equivalent to 38.8 million workers) and are micro-enterprises with an added value of EUR 1.419 billion. Small and medium-sized enterprises account for 99.8 per cent of the total number of enterprises in the EU with a total number of employees of 85 million (64.4 per cent of the total). Large enterprises (more than 250 employees) account for 0.2 per cent of the total and employ around 47 million workers, 35.6 per cent of the total number of employees. The added value of the 24 million European micro and SMEs is 3.945 billion while that of the

43,112 large enterprises is 3.673 billion. Thus, the three SME size classes (micro, small and medium-sized) generate about 20 per cent more employment than large enterprises.

The majority of SMEs operate in low-tech sectors (59.3 per cent) compared to 30.3 per cent that belong to knowledge-intensive sectors. 5.5 per cent belong to low-tech and 4.7 per cent to medium-tech industries, while only 0.2 per cent belong to high-tech sectors. While the former attract 57 per cent of the total SME employment in the EU, medium and high tech employ 11.5 per cent and 0.7 per cent of the total workers, respectively. The labour force of SMEs in 2022 is concentrated in a few manufacturing sectors: trade (24 per cent of all SMEs in the EU); professional, scientific and technical activities (20 per cent) and construction (15 per cent), followed at some distance by hospitality and food services and manufacturing (both 8.5 per cent). Of these, manufacturing is the main driver of employment and value added with 18 per cent and 19 per cent respectively of the EU-wide total.

It should come as no surprise that employment in SMEs, despite a strong recovery in 2022 (+2.4 per cent), could not fully recover the pandemic-induced employment losses in 2020. In terms of added value and employment, EU SMEs are still lagging behind their pre-pandemic performance (2019). This lag is compounded by the difficulty in recruiting skilled workers that characterises small and medium-sized enterprises across the EU.

Last but not least, regulatory barriers and administrative burdens have to be considered, with late payments reported by SMEs as one of the main challenges they face in their business. Red tapes still weigh heavily on 55 per cent of SMEs, 35 per cent of micro and small entrepreneurs report late payments, 21 per cent problems with access to finance and 17 per cent a lack of appropriate skills (including managerial skills), in the latter case, the lack of skills hinders the business activities of 63 per cent of SMEs and hampers their efforts in digitisation (45 per cent of the surveyed enterprises) and ecological transition (39 per cent).

Due to their numbers and widespread diffusion in the territories, especially in rural areas, micro and SMEs have been the recipients of specific policies and attention from European institutions since the Small Business Act (2008) and the '*think small first*', which by strengthening micro and SMEs aimed at making the European economy more competitive and dynamic, able to offer more quality jobs and improve social cohesion.

At the beginning of 2020, this intention was taken up by the SME Strategy for a Sustainable and Digital Europe, which recognises the different needs of micro, small and medium-sized enterprises to help them "*not only grow and expand, but also to be competitive, resilient and sustainable*" and, to this end, proposes actions based on three pillars: improving capacities and supporting the transition towards sustainability and digitisation, reducing the regulatory burden and improving market access, and improving access to finance. The governance of the strategy envisages close cooperation between the EU and Member States (partnership) for the best use by businesses of the Union's investment programmes aimed at digitisation and sustainability as well as the internationalisation of SMEs.

Three years - and a pandemic - later, the Commission wanted to reiterate the objectives of the strategy with the new Communication on the SME Aid Package issued on 12 September 2023. A timely communication in a difficult context, which complements the existing support programmes. The aim is to ensure that the Union and individual member countries continue to support micro and SMEs, to consolidate the recovery and to fully exploit their potential, from small family businesses to innovative and technological start-ups can contribute to strengthening European competitiveness and prosperity.

Of particular interest in this respect is the reconstruction of the framework for business aid in the current multiannual financial framework (2021-2027) and the NextGenerationEU.

European SMEs will benefit from more than EUR 200 billion over the entire period made available by various funding programmes. For example, from the Recovery and Resilience Facility (RRF) and related NRPs around EUR 45 billion are invested in micro and SMEs. Thanks to the dashboard available on the European Commission's website, it is possible to check the number of enterprises supported through the national recovery and resilience plans for smart, sustainable and inclusive growth (Pillar 3 of the RRF) with both monetary and in-kind aid. As can be seen in the graphs below on Common Indicator No. 9, over a twelve-

month period, the number of enterprises supported has increased from 102 thousand (31 December 2021) to 990 thousand in the second half of 2022 for a total of 1,429,820 enterprises financed. The enterprises supported by the RFF are predominantly micro and small enterprises (960,000 or 97 per cent of the total), 2.2 per cent are medium-sized enterprises (22,500) and a residual share is represented by large enterprises (7,700 or 0.8 per cent).

The indicator 'enterprises supported' reflects, as can be seen from the graphs, the absolute distribution of enterprises by size (micro-small, medium, large) with micro and small enterprises absorbing the bulk of resources.

To these resources must be added cohesion policy resources totalling approximately EUR 65 billion (approximately EUR 43 billion of the Multiannual Financial Framework 2021-2027 and EUR 22 billion of cohesion policy and REACT-EU investments activated for recovery from the pandemic crisis).

SMEs are also benefiting from EUR 1 billion in funding under the Single Market Programme, aimed at their competitiveness and internationalisation with the support - in the role of intermediaries - of business networks such as Enterprise Europe and Euroclusters in charge of channelling support to SMEs through the European Cluster Collaboration Platform.

Table 1 - European enterprises by size, number of employees, value added (2023).

Source: Elaboration from JRC Annual Report on European SMEs 2022/2023

Size	Number of enterprises		Number of employees		Value added	
	n.	%	n.	%	MI. €	%
Micro	22.744.173	93,5	38.790.351	29,4	1.419,4	18,6
Small	1.332.200	5,5	25.602.334	19,4	1.259,8	16,5
Averages	204.786	0,8	20.493.722	15,5	1.266,5	16,6
SME tot	24.281.159	99,8	84.886.406	64,4	3.945,8	51,8
Large	43.112	0,2	46.918.978	35,6	3.673,8	48,2
Total	24.324.271	100	131.805.385	100	7.619,6	100

1.2 The SME aid package: an overview

In view of the situation described above, in addition to short-term support, the other two objectives of the EU aid package are to promote the competitiveness and resilience of European SMEs in the long term and to create a fairer and more favourable business environment for these companies. The package includes, inter alia: a proposal for a regulation on late payments; a proposal for a directive on tax simplification for SMEs; a set of measures to make life easier for SMEs, improve access to finance and a skilled workforce; and provide support to SMEs throughout their life cycle. The 19 actions of the package are summarised in the box below. With regard to tax simplification for SMEs engaged in cross-border activities, which are subject to the taxation regimes of several countries, the Commission proposes to allow the tax base to be calculated in accordance with the rules of the Member State in which they maintain their head office. According to the forecast study on the effects of this rule, the tax compliance costs of small and medium-sized enterprises could be reduced by 32 per cent, leading to savings of EUR 3.4 billion per year. A further favourable rule for SMEs is the new Directive (EU) 2020/285 on the common system of value added tax in the special scheme for small enterprises, which, by amending the previous legislation in this area, allows SMEs operating in several countries to choose to exempt supplies of goods and services made in a Member State other than the one in which they are established from VAT.

Of considerable importance is the acceleration that the package aims to impose on the progressive digitisation of SMEs in order to improve the competitiveness, resilience and innovation capacity of the entire

sector. To this end, the Commission recalls the opportunities offered by the EU's Strategic Programme for the Digital Decade, which aims to have more than 90 per cent of SMEs reach a minimum (basic) level of digital intensity by 2030. The key instrument to support this goal is the 'European Digital Innovation Poles' that support companies, in particular SMEs, in their digitisation journey with the support of the Digital Europe programme. Among the rules that are to simplify reporting requirements for SMEs is a simple, standardised, voluntary methodology for reporting on environmental, social and governance issues that aims to reduce burdens and facilitate SMEs' access to sustainable finance.

Concerning the regulation on late payments, which will repeal and replace the existing directive, the Commission intends to introduce 30-day maximum payment periods for all commercial transactions, as well as to create automatism for compensation fees and interest in cases of late payment. The regulation should make it easier for businesses to enforce their rights by reducing burdens on the judicial system and favouring mediation for access to redress.

As small and medium-sized enterprises find it difficult to participate in public procurement, the commission's aid package proposes initiatives - such as standardised clauses in tender documents for low-risk or low-value contracts - aimed at increasing the share of public procurement that SMEs are able to win, in a proportion better suited to their weight in the EU economy.

Finally, in relation to business failures, in view of the high share of new businesses that fail within five years of creation (around 50 per cent), the Commission intends to present by 2026 an evaluation of the implementation of the Restructuring and Bankruptcy Directive in order to verify its effectiveness in limiting bankruptcy cases and helping insolvent businesses to recover. Furthermore, in 2022, in the context of the Capital Markets Union, the Commission proposed a directive on the harmonisation of insolvency law, which contains an important innovation related to the introduction of a simplified, fast and cost-efficient liquidation procedure for micro-enterprises.

Chart 1 - Trend in supported enterprises (of which small - including micro, medium and large)

Source: European Commission, RRF Scoreboard, 2022

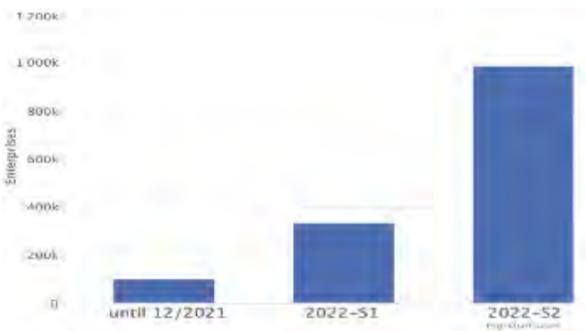
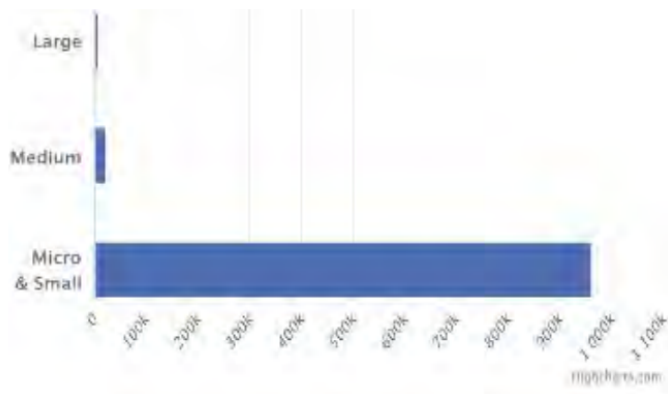


Chart 2 - Supported enterprises by size (small - of which micro, medium and large)

Source: European Commission, RRF Scoreboard, 2022



1.3 Economic and financial aid to SMEs

In its communication on the aid package for small and medium-sized enterprises, the Commission pays special attention to the use by SMEs of the potential resources in the EU's financial programmes and instruments, which amount to more than EUR 200 billion over the period 2021-2027. More specifically, the current measures seek to address the difficulties in accessing finance reported by SMEs during the 2014-2020 programming period. Nonetheless, it is useful to recall the success of the guarantee instrument offered by the COSME programme in the previous multiannual financial framework, which made it possible to provide EUR 68 billion in financing for almost 900,000 small and medium-sized enterprises, contributing to the creation or preservation of more than four million jobs. Moves include, first and foremost, the SME strand of the InvestEU programme created to facilitate access to finance through more favourable financing conditions. The SME policy area enables SMEs to adapt to sustainable business practices and, at the same time, makes more funding available for innovative start-ups in the area of sustainability technologies. The Commission also proposed to increase the EU guarantee (now EUR 7.5 billion) in the Strategic Technologies Platform for Europe (STEP) with the creation of an additional 'dedicated scope' of InvestEU.

It should be noted that in the context of STEP, the Commission has provided the possibility for Member States to use these resources by increasing the amount allocated to SMEs under InvestEU, such support would not fall under state aid if the principle of 'no significant harm' (DNSH) is applied. Moreover, transfers of resources from shared management (e.g. from the ERDF), the Recovery and Resilience Facility (RRF) or national budgets may be channelled by Member States to SME funding, without additional reporting requirements compared to those required by the InvestEU instrument. Member States and regions, which manage cohesion policy resources, can in turn set up co-financed financial instruments specifically targeting SMEs for various financial products (loans, guarantees, equity and other risk mechanisms), and in designing these instruments they can make use of the fi-compass platform specifically created by the European Commission to assist managing authorities of development and cohesion funds. The European Innovation Council (EIC) also supports innovative SMEs and start-ups that are pursuing pioneering innovations with grants and equity and semi-equity instruments. Equity funding ranges from EUR 0.5 million to EUR 15 million using a budget of EUR 10 billion to raise EUR 30 to 50 billion from private investors.

BOX 1 - THE 19 ACTIONS OF THE EU SME AID PACKAGE

Action 1: Produce a proposal for a tax simplification directive for small and medium-sized enterprises establishing a headquarter-based taxation system.

Action 2: Include specific SME-friendly provisions in any new legislative proposal, if justified and in line with EU policy objectives.

Action 3: Appoint an EU representative for small and medium-sized enterprises to provide guidance and advice to the Commission on matters relating to these enterprises and to defend their interests externally.

Action 4: Ensure that the EU SME Envoy participates in hearings of the Regulatory Monitoring Committee together with the Directorates-General on initiatives with a major impact on SMEs.

Action 5: Promote, together with the European Parliament and the Council, an ad hoc assessment of the impact on SMEs and competitiveness of the substantive changes suggested to the Commission's proposals by the co-legislators.

Action 6: Work with EU Agencies to identify and promote good practices in support of SMEs and to facilitate their use of the Agencies' services.

Action 7: Work with Member States to promote experimentation and innovation for start-ups, including through innovative standards.

Action 8: Launch by the end of 2023 the 'one-off' technical system (OOTS) in cooperation with Member States to enable the cross-border exchange of key documents between public authorities¹⁶ and further expand the Digital Single Window to include new procedures that meet the needs of SMEs

Action 9: Present with next year's work programme a set of proposals to simplify procedures and streamline reporting requirements, with the aim of reducing reporting by 25 per cent.

Action 10: Propose a new Late Payment Regulation to tackle late payments in commercial transactions, which have a negative impact especially on SMEs (which rely mainly on regular and predictable cash flows and have more limited access to liquidity than large companies).

Action 11: Encourage Member States to allocate additional resources to the 'national compartments' of InvestEU and to facilitate contributions from the Recovery and Resilience Facility (RRF) to InvestEU by providing further guidance on the application of the 'do no significant harm' principle.

Action 12: Work with the European Investment Fund (EIF) to set up a pilot mechanism to enable export credit agencies to support SMEs in their trade with Ukraine (by 2024).

Action 13: Promote the use of standardised procurement provisions and appropriate conditions to improve SME participation in public procurement.

Action 14: Provide small and medium-sized enterprises with simple, standardised tools for reporting on environmental, social and governance issues, limiting the risk of repercussions on SMEs of reporting requirements for listed companies covered by the Corporate Sustainability Reporting Directive (CSRD) while ensuring voluntary standards for unlisted SMEs.

Action 15: Encourage financial institutions to include green financing for SMEs in their business models through a green loan standard or definition (respecting the forthcoming opinion of the European Banking Authority), and through an adjustment of the green asset ratio in the possible update of the EU Green Taxonomy disclosure act.

Action 16: By the end of the European Year of Skills 2023, submit a proposal for an 'EU talent pool' and an initiative to improve the recognition of qualifications and skills of third-country nationals in the EU in order to contribute to the skills shortage in the European labour market.

Action 17: Foster the under-exploited entrepreneurial potential of women, young people and people with disabilities through awareness-raising campaigns, mentoring and coaching.

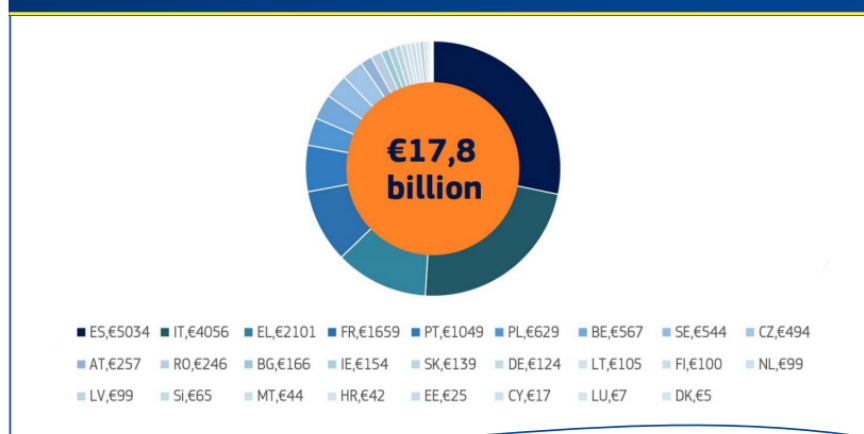
Action 18: Pay attention to the needs of enterprises exceeding the thresholds of the SME definition and the broader range of small to medium capitalisation enterprises, by the end of 2023.

Action 19: Assess the framework conditions for business transfers in Member States together with the network of national SME Envoys by Q2 2024.

Chart 3 - Adult training, expenditure in millions per Member State

Source: European Commission, RFF Scoreboard, January 2023

Adult learning including continuous vocational education and training, recognition and validation of skills
Expenditure in EUR millions per Member State



1.4 Skills measures in SMEs

To meet the technological, administrative and financial challenges outlined in the previous paragraphs, small and medium-sized enterprises need both competent entrepreneurs and a skilled workforce. As discussed earlier on these pages, the ways of learning can vary depending on the type of enterprise: from entrepreneurial training to the coaching of innovative start-ups to the technological skills needed to conduct day-to-day business. Entrepreneurs and employees must be able to constantly update their knowledge and skills in order to ensure the resilience of the company and contribute to societal growth, productivity and innovation.

The Skills Agenda for Europe supports the participation of working-age adults in training in order to reach the target set in the Social Pillar Action Plan of 60 per cent of working-age adults participating in training programmes each year. Member States can envisage activities under the European Social Fund Plus and the NRP for training interventions in SMEs to acquire e.g. technological and digital skills; in fact, the Multiannual Financial Framework 2021- 2027 allocates around EUR 65 billion between RFF and ESF+ to training across the EU.

Furthermore, the EU supports, through the Erasmus programme, Centres of Vocational Excellence to develop local 'skills ecosystems' that in synergy with businesses (from advanced manufacturing to artificial intelligence, from water resources to urban greening) contribute to territorial development, entrepreneurship, innovation and smart specialisation strategies. The current Erasmus+ 2021- 2027 programme provides substantial support for the initiative, with an indicative budget of EUR 400 million to fund 100 Centres of Professional Excellence. These resources can be supplemented by other European funds for investment in infrastructure (the aforementioned RFF, cohesion policy funds, etc.). Finally, mention should also be made of the role being played by the 'large-scale skills partnerships' under the European Skills Pact³³. The Pact encourages, inter alia, the creation of such partnerships at regional level to facilitate the upskilling and retraining of the workforce, including staff in SMEs. Since 2020, more than two million people have participated in skills upgrading and retraining activities (up-skilling and reskilling), with a total investment of approximately EUR 160 million. According to Commission estimates, by 2030, large-scale skills partnerships will train and retrain the skills of 10 million employees, including those from small and medium-sized enterprises, who - thanks to collaboration in these partnerships - gain access to training programmes, content and materials that would otherwise be difficult to deliver due to the small size and limited economic resources of SMEs.

Last but not least, the importance of entrepreneurial skills training is mentioned, which is instead financed by the Erasmus for Young Entrepreneurs programme created to help entrepreneurs develop their businesses and to encourage entrepreneurial spirit in citizens. In particular, it has supported and will continue to support female entrepreneurship with awareness-raising activities, training sessions, tutoring and technical assistance, and mentoring. The Erasmus for Young Entrepreneurs programme has supported more than 9,000 women entrepreneurs to date, while the WomenTechEU initiative addresses the gender gap in innovation by supporting women-led deep-tech start-ups in their early and riskier stages. With a budget of more than EUR 10 million, the initiative offers financial support to women-led start-ups with grants (up to EUR 74,000 each) and assistance and mentoring from the EIC Business Acceleration Services (BAS) under the new Women Leadership Programme.

BOX 2 - THE EUROPEAN CERTIFICATE OF DIGITAL COMPETENCE

A rapidly changing, technology-based economy and society require everyone to have digital skills. The European Commission is conducting a feasibility study on a European e-skills certificate (EDSC) so that employers and training providers can also quickly and easily recognise the digital skills acquired by citizens. E-skills are indispensable - for study, work and everyday life - however, they are often unintelligible and it is not easy to obtain formal recognition. This is partly explained by the wide variety of e-skills training and certification systems developed by organisations and governments. The feasibility study is complemented by a pilot project, conducted in cooperation with some Member States and stakeholders (Austria, Finland, France, Spain, Romania), which will test the building blocks of minimum quality requirements to support the transparency, acceptance and mutual recognition of the European e-skills certificate. To this end, project activities will take place in different labour market sectors and in informal and non-formal education and training contexts. The results will then feed into the feasibility study on the possible contribution of certification to enhancing transparency and recognition of e-skills and, indirectly, access by small and medium-sized enterprises to the skills they need for the digital transition.

Conclusions

The measures proposed by the Commission in the new aid package for (micro) small and medium-sized enterprises are divided into 19 actions, some of which envisage new legislative measures and some of which relaunch pre-existing programmes and initiatives to improve their implementation and effectiveness for these enterprises and entrepreneurs. The first reflection concerns the governance of these measures, which in many cases requires the close cooperation of European institutions, Member States and regions that must share not only the objectives, but also the method to ensure an upward convergence of SME policies within the single market framework (*upward convergence*). This involves working together on legislation to simplify administrative and fiscal burdens, and on monitoring the impact of directives and recommendations. The second concerns the targeted use of the (substantial) financial resources available under the 2021-2027 multiannual financial framework, avoiding overlapping between EU-directly managed initiatives and instruments and national and regional management, as occurred in the past with "cannibalisation" effects between financial instruments acting on the same territories. The third consideration relates to strengthening and adapting the skills of the human resources of micro, small and medium-sized enterprises, in order to increase the contribution of the sector (24 million enterprises and 85 million employees) to the EU economy and to the dual digital and green transition. Workers in micro and SMEs must be able to update and retrain their skills on a regular basis to meet current and future production, social and economic challenges. Job mobility must be based on an EU-recognised skills certification system based on the micro-skills that are added (and improved) during working life.