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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**SME Relief Package**

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**SME Relief Package**

**1 Small business matters**

**Small and medium-sized enterprises (SMEs) are central to Europe's economic and social fabric.** The 24 million European SMEs represent 99% of all businesses in the EU, provide two thirds of jobs in the private sector in the EU<sup>1</sup> and are deeply embedded in local communities, in particular in rural areas<sup>2</sup>. They account for more than half of value added in the EU's non-financial business sector and are Europe's breeding ground for innovation<sup>3</sup>, diversity and equality<sup>4</sup>. SMEs are essential to Europe's green and digital transitions<sup>5</sup> and its long-term prosperity.

**As such, SMEs have been a constant in Commission policy, even more so since the launch of the 2020 SME Strategy<sup>6</sup>.** Under the ongoing multiannual financial framework (2021-2027) and under the NextGenerationEU<sup>7</sup>, the Commission expects more than 200 billion euro to be made available to SMEs under its various funding programmes. In a period of successive crises, the sustained recovery and resilience of SMEs have been a key priority. The Recovery and Resilience Facility (RRF)<sup>8</sup> provides up to 45 billion euro of unprecedented support to SMEs<sup>9</sup>, in addition to a total of 65 billion euro under Cohesion policy funds<sup>10</sup>. SMEs were also the primary beneficiaries of the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), designed to protect jobs and incomes affected by the coronavirus pandemic. Moreover, SME interests have been at the centre of the Commission's temporary framework for state aid<sup>11</sup>, allowing Member States to provide necessary support to businesses in need while ensuring equal treatment and limiting undue distortions to competition that would undermine the Single Market.

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<sup>1</sup> SME Performance Review 2023, [https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review\\_en](https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en).

<sup>2</sup> Flash Eurobarometer 486, SMEs, start-ups, scale-ups and entrepreneurship, September 2020, <https://europa.eu/eurobarometer/surveys/detail/2244>.

<sup>3</sup> Productivity in SMEs and large firms, OECD, 2021, <https://www.oecd-ilibrary.org/sites/54337c24-en/index.html?itemId=/content/component/54337c24-en>.

<sup>4</sup> Flash Eurobarometer 486, SMEs, start-ups, scale-ups and entrepreneurship, September 2020, <https://europa.eu/eurobarometer/surveys/detail/2244>.

<sup>5</sup> Some 89% of SMEs are already taking action to be more resource efficient, Flash Eurobarometer 498, SMEs, resource efficiency and green markets, March 2022, <https://europa.eu/eurobarometer/surveys/detail/2287>.

<sup>6</sup> COM (2020) 103 final.

<sup>7</sup> COM (2021) 250 final.

<sup>8</sup> [https://ec.europa.eu/economy\\_finance/recovery-and-resilience-scoreboard/smart.html](https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/smart.html).

<sup>9</sup> RRF Scoreboard, pillar tagging methodology, 'Support to SMEs' as primary or secondary policy area.

<sup>10</sup> This includes 43 billion euro under the 2021-2027 multiannual financial framework and a total of 22 billion euro under Cohesion Policy's Coronavirus Response Investment Initiatives and REACT-EU.

<sup>11</sup> The COVID-19 State aid Temporary Framework; the Commission Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia; the amended general block exemption rules (Commission Regulation (EU) 2023/1315 ; the proposed revision of the Regulation on *de minimis* aid, [https://competition-policy.ec.europa.eu/public-consultations/2022-de-minimis\\_en](https://competition-policy.ec.europa.eu/public-consultations/2022-de-minimis_en).

**A range of actions has helped European SMEs grasp new market opportunities offered by the green and digital transitions and cross-sectoral and cross-border cooperation.** From deploying 150 Digital Innovation Hubs across the continent to rolling out a network of sustainability advisers for SMEs<sup>12</sup>; from launching transition pathways for Europe's industrial ecosystems<sup>13</sup> to reforming the electricity market design<sup>14</sup>; from helping SMEs access data under fair conditions<sup>15</sup> to mobilising risk capital for start-ups and SMEs in strategic areas such as space<sup>16</sup>; and from strengthening internationalisation<sup>17</sup> and trade<sup>18</sup>, enhancing business opportunities through the Global Gateway<sup>19</sup> to protecting intellectual property assets<sup>20</sup>: SMEs' needs have been front of mind across the Commission's work.

**Nevertheless, SMEs face major uncertainties, supply constraints, labour shortages and not always fair competition.** Volatility and unpredictability in the current economic context have made it more difficult for SMEs to do business. Through parts of 2021 and 2022, they experienced difficulties in hiring new staff to meet a strong rebound in demand. In addition, they were faced with higher energy costs, brought about by the Russian war of aggression against Ukraine, while rapidly increasing raw material prices have put even more pressure on small businesses. Rising interest rates have also made SMEs' access to finance more onerous.

**These headwinds are likely to persist.** It is vital that the EU and Member States continue to support SMEs relentlessly, help them consolidate their recovery and tap their full potential, so that all of them - from the corner shop and the family-run hotel to the technology start-up - can continue to contribute to Europe's long-term prosperity.

**With this SME Relief Package, the Commission aims to provide short-term relief, boost long-term SME competitiveness and resilience, and foster a fair and SME-friendly business environment.** It includes:

- a proposal for a **late payment Regulation**,
- a proposal for a **Directive on tax simplification for SMEs**,
- a set of **measures** to make things easier for SMEs, improve access to finance and skilled workforce, and to support SMEs throughout their business lifecycle.

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<sup>12</sup> Within the Enterprise Europe Network.

<sup>13</sup> [https://single-market-economy.ec.europa.eu/industry/transition-pathways\\_en](https://single-market-economy.ec.europa.eu/industry/transition-pathways_en).

<sup>14</sup> COM (2023) 148 final. The proposal would allow Member States to apply price controls to SMEs as well as consumers during energy crises.

<sup>15</sup> COM (2022) 68 final.

<sup>16</sup> The CASSINI investment facility is injecting nearly 700 million euro into venture capital funds investing in space, mobilising at least 1.5 billion euro total risk capital for start-ups and SMEs.

<sup>17</sup> SMEs are also benefiting from EUR 1 billion financing under the Single Market Programme, earmarked to support strengthening SMEs' competitiveness and their internationalisation and channelling support to SMEs via SME intermediaries, for instance through the Enterprise Europe Network and Euroclusters, facilitated by the European Cluster Collaboration Platform.

<sup>18</sup> All new EU trade agreements include dedicated SME chapters which include provisions to help SMEs grow their business with and in foreign markets. A dedicated complaint mechanism (<https://trade.ec.europa.eu/access-to-markets/en/content/single-entry-point-0>) allows SMEs to report barriers when accessing foreign markets.

<sup>19</sup> [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway_en).

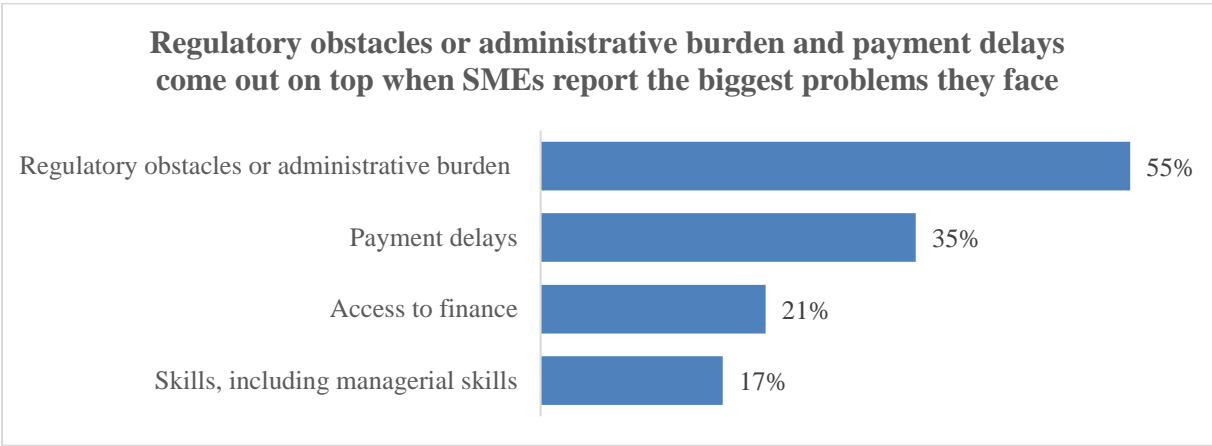
<sup>20</sup> COM (2020) 760. The Action Plan helps companies, especially SMEs, to make the most of their inventions and creations.

The Communication is accompanied by the first implementation report on the **Single Digital Gateway** and a first preliminary review of the Regulation on platform-to-business relations (**‘P2B Regulation’**)<sup>21</sup>.

## 2 Challenges: SMEs and their sustained recovery

**SMEs have not yet returned to their pre-pandemic performance levels.** When adjusted for inflation, SME value added for 2023 is forecast to remain 3.6% (against 1.8% for large enterprises) below its 2019 level, while SME employment has barely recovered to pre-crisis levels<sup>22</sup>. In real terms in 2022, SMEs in 12 out of the 14 industrial ecosystems<sup>23</sup> experienced a decrease in value added and for 2023, a decline in value added is forecast for SMEs in all ecosystems.

Figure 1: Key challenges for SMEs; source: Flash Eurobarometer 486



**Administrative burden or regulatory obstacles are among the biggest problems for 55% of SMEs<sup>24</sup>.** A predictable regulatory environment, good governance and an efficient institutional framework contribute to enhancing competitiveness, achieving fairness and providing relief.

**Late payments endured by SMEs hamper competitiveness, increase uncertainty, and in the case of public procurement discourage participation.** In any affected company, they increase working capital needs and financing costs, drive up costs due to the time spent in pursuing debtors, and thereby reduce the capacity to invest.

**Access to finance** requires more effort from small businesses than from large companies. Increased uncertainty and higher costs in funding reduce SMEs’ capacity to invest. At the end

<sup>21</sup> Regulation (EU) 2019/1150 (‘the P2B Regulation’) sets out rules for creating a fair, transparent and predictable business environment in particular for smaller businesses and traders on online platforms.

<sup>22</sup> SME Performance Review 2023, [https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review\\_en](https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en).

<sup>23</sup> [https://single-market-economy.ec.europa.eu/industry/transition-pathways\\_en](https://single-market-economy.ec.europa.eu/industry/transition-pathways_en).

<sup>24</sup> Flash Eurobarometer 486, SMEs, start-ups, scale-ups and entrepreneurship, September 2020, <https://europa.eu/eurobarometer/surveys/detail/2244>.

of 2022, SMEs were expecting an imminent deterioration in the availability of all types of finance<sup>25</sup>.

**The availability of skilled staff or experienced managers recently rose to be the most important problem for 27% of SMEs in the EU<sup>26</sup>, and 70% of SMEs report an increase in labour costs<sup>27</sup>. The results of the Eurobarometer on skills<sup>28</sup> presented in parallel to this Communication show that skills shortages hold back business activities for 63% of SMEs, and also inhibit their efforts on digitalisation (for 45% of SMEs) and greening (39%).**

These challenges will be the focus of the actions presented in this SME Relief Package, as described below.

### **3 Relief for SMEs: Helping SMEs do business in challenging times**

#### **3.1 Making things easier for SMEs**

##### *3.1.1 Simplifying taxes*

**Businesses, notably those with cross-border activities, face complexity and high compliance costs as a result of having to comply with different corporate tax systems when doing business in more than one Member State.** Therefore, as part of this SME Relief Package, the Commission is proposing a major simplification in the area of direct taxation for SMEs that have created a taxable presence in another Member State through a permanent establishment. These SMEs would be allowed to compute the tax base of their permanent establishments in other Member States in accordance with the rules of their Member State where they maintain their head office and with which they are most familiar with. The envisaged rules will particularly benefit SMEs at an early stage of international expansion. The impact assessment accompanying the proposal estimates that it could reduce SMEs' tax compliance costs by 32% leading to overall savings of up to 3.4 billion euro a year.

**In addition, to alleviate the burden small businesses with cross-border activities face in dealing with VAT across the EU, new VAT rules will apply as of 1 January 2025<sup>29</sup>.** Eligible small businesses will have the option to exempt from VAT their supplies of goods and services made in any of the other EU Member States in addition to their Member State of establishment.

*The Commission:*

- **Action 1:** proposes a tax simplification directive establishing a Head Office Tax system for SMEs.

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<sup>25</sup> Survey on the Access to Finance of Enterprises, SAFE, December 2022, [https://single-market-economy.ec.europa.eu/access-finance/data-and-surveys-safe\\_en](https://single-market-economy.ec.europa.eu/access-finance/data-and-surveys-safe_en).

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Flash Eurobarometer 529 on European Year of Skills: Skills shortages, recruitment and retention strategies in small and medium-sized enterprises (published in September 2023).

<sup>29</sup> Council Directive (EU) 2020/285.

### 3.1.2 Better Regulation for SMEs

**The Commission is committed to ensuring a business-friendly regulatory environment** that helps SMEs to be productive, competitive and resilient. In 2021, the Commission has further strengthened the SME test, a tool that analyses the impact of proposals on SMEs, to further improve its analysis and to better report on those impacts<sup>30</sup>. The SME test must now be performed and reported more systematically in all impact assessment reports, where proportionate to the relevance of an initiative for SMEs. Further improvement in the application of the SME test is however both feasible and necessary: the Commission will therefore follow up on the recommendations that the Fit-for-Future Platform<sup>31</sup> will issue later in 2023 on the application of SME test to ensure even more granular and consistent assessments of the impacts of its legal proposals on SMEs<sup>32</sup>.

**80% of all EU legislative initiatives are considered to be relevant for SMEs, based on the SME filter**<sup>33</sup>, a tool used in the early stages of policymaking, serving as a key part of the SME test. Since January 2022, this tool has put the spotlight on the interests of SMEs, in close cooperation with the SME Envoys<sup>34</sup>. This was further reinforced since March 2023 with the new competitiveness check, which reports in an integrated manner in all impact assessments on the competitiveness impacts on business, including on SME competitiveness. The Regulatory Scrutiny Board, the Commission's independent oversight body for the quality control of draft impact assessments and evaluations, has been reinforced by two members and its mandate has been strengthened to increase its focus on competitiveness. The Board is now required, in addition to the application of the 'one-in, one-out' principle and the integration of the foresight dimension in the Commission's impact assessments and evaluations, to pay particular attention to impacts on competitiveness. In doing so, it shall assess the quality of cost estimates and whether reports sufficiently explore the potential to simplify legislation and to reduce unnecessary burden for business and citizens. In its next annual meeting with oversight bodies, the Board will deepen discussion of impacts on competitiveness and SME impacts, exchanging best practices with other EU scrutinisers<sup>35</sup>.

**The Commission will appoint a dedicated EU SME Envoy** who shall report directly to the President, while also reporting to the Commissioner for Internal Market on all SME-related activities conducted in conjunction with the services of the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW), which shall support the Envoy's work. In addition to wider advocacy and coordination work within the Commission, with the Network of SME Envoys and externally, and building on the foregoing developments, the EU SME Envoy will henceforth be able to participate in the Regulatory Scrutiny Board hearings with Directorates-General on initiatives that have a high impact on SMEs. In that context, and

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<sup>30</sup> COM (2021) 219 final and [https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox\\_en](https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox_en).

<sup>31</sup> The Fit for Future Platform is a high-level expert group that helps the Commission in its efforts to simplify EU laws and to reduce related unnecessary costs, [https://commission.europa.eu/law/law-making-process/evaluating-and-improving-existing-laws/refit-making-eu-law-simpler-less-costly-and-future-proof/fit-future-platform-f4f\\_en](https://commission.europa.eu/law/law-making-process/evaluating-and-improving-existing-laws/refit-making-eu-law-simpler-less-costly-and-future-proof/fit-future-platform-f4f_en).

<sup>32</sup> This also follows the proposals of the Conference on the Future of Europe in 2022 to boost the competitiveness of SMEs and reinforce the SME test (proposals 12, 17 and 35).

<sup>33</sup> <https://ec.europa.eu/docsroom/documents/53934>.

<sup>34</sup> A group of Member States' high-level experts who advise the Commission on all aspects of SME policy, [https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-envoys-network\\_en](https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-envoys-network_en).

<sup>35</sup> These include also members of RegWatchEurope, comprising oversight bodies of The Netherlands, Finland, Sweden, Germany, Denmark, Norway, Czech Republic, United Kingdom.

without prejudice to the Board's functioning and independence, the EU SME Envoy will be able to raise issues and alert the Board on significant adverse impacts on SMEs, potential additional measures to mitigate them, the reliability of cost/benefit and competitiveness analyses and the consultations activities. Moreover, the EU SME Envoy, based on the SME filter, will provide to the Commission the list of initiatives that are most impactful for SMEs, on which the Commission will carry out the full SME test.

**While the system is meeting its goals overall<sup>36</sup>, the Commission strives to further reduce burdens from EU legislation.** Under the regulatory fitness and performance programme (REFIT), every evaluation and revision of legislation entails systematic screening for burden reduction potential. The Fit for Future Platform contributes to this process. For all significant proposals, comprehensive impact assessments ensure that benefits outweigh costs. Since January 2022, with its **'one in, one out' approach**, the Commission has introduced a 'cost brake', aiming to ensure that administrative costs in a given policy area are offset and that adjustment costs are compensated for to the greatest possible extent. The first year of full implementation of the approach resulted in a substantial reduction in administrative costs with proposals that will provide net savings of 7.3 billion euro<sup>37</sup>. The Commission is fully committed to delivering on the potential of this tool over the coming years.

**To enable a more innovation-friendly and future-proof regulatory framework<sup>38</sup>, the Commission promotes the use of regulatory sandboxes<sup>39</sup> in a number of innovative areas, such as artificial intelligence<sup>40</sup> and virtual worlds<sup>41</sup>.** Such instruments should be applied more broadly, allowing businesses in the EU, in particular SMEs and start-ups, to experiment with new technologies, practices, services, applications and business models in a controlled real-world environment, particularly in cases where legal uncertainty or regulatory gaps and barriers are hampering their development.

**In order to better take into account SME interests when preparing new legislative proposals, the Commission will systematically consider certain types of SME-friendly provisions.** These include, where appropriate and justified:

- (1) the possibility of allowing longer transition periods for SMEs, in order to ensure predictability and facilitate compliance by SMEs;
- (2) requirements for specific guidance for SMEs to be provided by the Commission and/or Member States regarding the implementation of the proposed legislation (e.g. summary of the legislation, online training material) when necessary;
- (3) a requirement for the Commission to pay particular attention to the impact of delegated and implementing acts on SMEs, which often define the level of costs for SMEs, and to encourage stakeholder feedback via feedback via 'Have your say: Simplify!' portal<sup>42</sup>; or
- (4) a review clause or sunset clause in secondary legislation, with timing consistent with the ex-post evaluation process, to minimise reporting and other compliance

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<sup>36</sup> The OECD Regulatory Policy Outlook 2021 ranks the European Commission's better regulation system as the most advanced on stakeholders' consultations and evaluations and in third place on impact assessments

<sup>37</sup> Annual Burden Survey 2022 – The European Union's efforts to simplify legislation, September 2023.

<sup>38</sup> 2020/C 447/01.

<sup>39</sup> SWD (2023) 277 final.

<sup>40</sup> COM (2021) 206 final.

<sup>41</sup> COM (2023) 442 final.

<sup>42</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say-simplify\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say-simplify_en)

requirements and ensure a meaningful assessment of whether legislation remains fit for its purpose and that its provisions continue to work well for SMEs.

**The Commission will continue to improve its better regulation processes**, including the visibility of its SME and competitiveness-related better regulation activities, to make sure that EU laws and policies work better for SMEs. All actions presented in this communication will allow the Commission to step up the quality of its assessment of impacts of legal proposals on SMEs and the application of the Think Small First principle<sup>43</sup> in all EU policies.

**The Commission does not act in isolation and the commitment of co-legislators, national and regional authorities, acting within their competences, is also important.** The proposed actions will allow the SME dimension to be included in the inter-institutional law-making process, as it is a joint responsibility of the co-legislators to ensure that EU law is of high quality based on a thorough assessment of impacts. Furthermore, Member States play a key role in ensuring that national legislation, including measures transposing EU law, supports the Think Small First principle and that administrative burden to SMEs is reduced.

Finally, EU executive agencies, decentralised agencies and other bodies<sup>44</sup> should drive the SME-friendly implementation of EU policies, notably through SME helpdesks or SME contact points, relevant SME guidance in all EU languages or SME-friendly online tools<sup>45</sup>.

*The Commission will:*

- **Action 2:** systematically consider specific SME-friendly provisions in new legislative proposals, where appropriate, justified and in line with Union policy objectives.
- **Action 3:** appoint a dedicated EU SME Envoy to provide guidance and advice to the Commission on SME issues and advocate SME interests externally. The Envoy shall report directly to the President, while also reporting to the Commissioner for Internal Market on all SME-related activities conducted in conjunction with the services of DG GROW, which shall support the Envoy's work.
- **Action 4:** ensure that the EU SME Envoy will participate in RSB hearings with Directorates-General on initiatives that have a high impact on SMEs.
- **Action 5:** promote with the European Parliament and the Council the implementation of an 'on the spot' assessment of the impact on SMEs and competitiveness of proposed substantial amendments to Commission's proposals during the co-legislative process.
- **Action 6:** engage with executive and decentralised agencies to identify and promote good practices for SME support with a view to make it easier for SMEs to use the agencies' services.
- **Action 7:** work with Member States to promote experimentation and innovation for start-ups through regulatory sandboxes.

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<sup>43</sup> The Think Small First principle was defined in the Small Business Act (SBA) <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52008DC0394> and further developed in the SBA review <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52011DC0078>.

<sup>44</sup> Other bodies relevant for SMEs such as the European Institute of Innovation and Technology.

<sup>45</sup> Good practices include the digital risk assessment tool developed by the European Agency for Safety and Health at Work, the Cybersecurity Maturity Assessment for SMEs Tool of the European Union Agency for Cybersecurity or the portal dedicated to entrepreneurs of the European Union Intellectual Property Office.



### 3.1.3 Using digital technologies to reduce burden and improve resilience

**Increased digitalisation can significantly reduce the burden and costs for SMEs.** The Single Digital Gateway (SDG)<sup>46</sup> provides a one-stop-shop for reliable administrative and regulatory information, online procedures and assistance at all levels of public administration. It helps SMEs better reap the opportunities offered by the Single Market and significantly reduces their administrative burden through online procedures in key areas. The first SDG implementation report, presented as part of the SME Relief Package, shows that the SDG has helped SMEs access high-quality information about rules and procedures applicable across the Single Market, which is particularly beneficial to small businesses with limited administrative capacities.

**As outlined in the report, the Commission works with Member States towards the establishment of online procedures and the launch of the Once-Only Technical System (OOTS),** which is expected to be fully operational by December 2023. This will enable the cross-border exchange of key documents among public authorities, avoiding the need for SMEs to re-submit documents in different Member States. It will reduce the cost of free movement in the Single Market, administrative frictions and obstacles while imposing no additional obligations on businesses.

A case in point is the hassle experienced by many SMEs with the **portable document A1** (to determine which social security legislation covers the holder). From the end of this year, the OOTS will facilitate recurring requests for the A1 document, and to receive the output electronically. In addition, the Commission's recent Communication on digitalisation in social security coordination presents further measures to facilitate the interaction between mobile citizens and businesses operating abroad, in particular SMEs, with national authorities in the field of social security, such as the **European Social Security Pass (ESSPASS) pilot** regarding the portable document A1<sup>47</sup>. In the same vein, in the context of the reporting reduction and simplification initiative (section 3.1.4 below), the creation of **an electronic format (e-Declaration) for the declaration of posting of workers** will significantly reduce administrative burden and compliance costs for employers, allowing them to use a streamlined declaration in a single format in their own language in all participating Member States.

**The recent proposal to further expand the use of digital tools and processes in EU company law is an important step forward in the digitalisation of company law, helping SMEs do business in the EU<sup>48</sup>.** It will significantly reduce administrative burden for companies by an estimated 437 million euro per year, thanks to an EU Company Certificate and application of the once-only principle when companies set up subsidiaries and branches in other Member States<sup>49</sup>. Companies can also benefit from their information being visible through the Business Registers Interconnection System (BRIS)<sup>50</sup> in the Single Market. In

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<sup>46</sup> COM (2018)1724. Accessible through the Your Europe web portal: <https://europa.eu/youreurope/>.

<sup>47</sup> COM (2023) 501 final.

<sup>48</sup> COM (2023) 177 final.

<sup>49</sup> See the related impact assessment, SWD (2023) 178 final.

<sup>50</sup> BRIS connects all national registers and makes information about 20 million of companies and branches publicly available.

addition, SMEs affected by breaches of EU law can rely on SOLVIT<sup>51</sup> to resolve disputes and obtain out-of-court redress.

**Further digitalisation of SMEs is essential for their competitiveness, resilience and ability to innovate.** The Digital Decade Policy Programme<sup>52</sup> aims for more than 90% of SMEs to reach at least a basic level of digital intensity by 2030. The key vehicle to support this objective are the European Digital Innovation Hubs, co-financed by the Digital Europe Programme. They support companies, in particular SMEs, in their digitalisation journey. Through the assessment of SMEs' digital maturity (Digital Maturity Assessment), EDIHs provide targeted assistance, which spans from technical expertise and testing (“test before invest”) to innovation services, such as financial advice, training, and skills development. Currently, 151 EDIHs can be found in 30 different European countries. By the end of 2025, EDIHs should help around 100.000 businesses and public sector entities in Europe. The sectoral Testing and Experimentations Facilities (TEFs) support AI developers to bring trustworthy AI to the market more efficiently, facilitating its uptake among small businesses in Europe<sup>53</sup>.

*The Commission will:*

- **Action 8:** launch by the end of 2023 the once-only technical system in co-operation with Member States and further expand the scope of the Single Digital Gateway to cover new procedures, taking into account SME needs.

### *3.1.4 Simplifying procedures and reporting requirements*

**In the context of improving the long-term competitiveness of its businesses<sup>54</sup>, the Commission is pushing for the rationalisation of reporting requirements resulting from EU legislation**, with the aim to reduce such burden by 25% without undermining the related policy objectives. This ambition pertains to reducing the regulatory burden for businesses of all sizes but is particularly relevant for SMEs. Reporting requirements are important to properly monitor and enforce legislation, for many companies, especially SMEs, yet they can be burdensome, induce costs and affect their capacity to grow. Their accumulation over time can result in redundant, duplicating, or obsolete obligations, inefficient frequency and timing, or inadequate methods of collection<sup>55</sup>. In such cases, streamlining reporting obligations or addressing the needs of specific groups of businesses, such as SMEs, can be an opportunity to lighten the burden on businesses.

**The first significant pieces of legislation that streamline reporting obligations have already been proposed by the Commission since March 2023<sup>56</sup> and further measures will**

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<sup>51</sup> [https://ec.europa.eu/solvit/what-is-solvit/index\\_en.htm](https://ec.europa.eu/solvit/what-is-solvit/index_en.htm); in March 2023, the Commission proposed a benchmark for SOLVIT to solve a minimum of 90% of the cases within 12 months in each Member State.

<sup>52</sup> Decision (EU) 2022/2481 establishing the Digital Decade Policy Programme 2030.

<sup>53</sup> <https://digital-strategy.ec.europa.eu/en/activities/testing-and-experimentation-facilities>.

<sup>54</sup> COM(2023) 168 final

<sup>55</sup> If well designed, the costs of reporting requirements are largely offset by the benefits they bring for example by monitoring air pollution or supervising the financial sector and maintaining financial stability. Such requirements are not only included in primary legislation, but also in implementing or delegated acts or even operational arrangements.

<sup>56</sup> Review of the EU's bank crisis management and deposit insurance framework; Implementing Technical Standards on reporting and disclosures by insurance and reinsurance undertakings; Proposal for a Regulation of

**be presented alongside the Commission work programme.** Notably, a voluntary, simple and standardised methodology to report on ESG (environmental, social, governance) issues will reduce burden and facilitate SME's access to sustainable finance (see Section 3.2.4 below for more details). Furthermore, the Commission's proposal to postpone the deadline for the adoption of the sectoral European Sustainability Reporting Standards<sup>57</sup> will benefit companies in the scope of the Corporate Sustainability Reporting Directive (CSRD), including listed SMEs. This allows them to focus on the implementation of the first set of standards. The adjustments of the thresholds defining an SME under the Accounting Directive will reduce the number of companies that currently fall within the scope of application of the sustainability reporting requirements under the Corporate Sustainability Reporting Directive (CSRD) and under the Taxonomy Regulation<sup>58</sup>.

Furthermore, within the framework for monitoring and reporting on greenhouse gas emissions, a reduced frequency, with which operators of the power sector, energy-intensive industries and aviation have to report on improvements to their methodologies, will ease the burden on companies without affecting the monitoring's effectiveness. In addition, simplified reporting obligations from EU legislation on alternative dispute resolution for consumer disputes will consolidate and reduce the frequency of reporting requirements without affecting the transparency or quality of data.

**In the coming weeks, the Commission will present more comprehensively the measures adopted and to be adopted to rationalise reporting obligations for all businesses.** The Commission intends to make it a prominent feature of its 2024 work programme, which will be accompanied by a package of proposals and planned evaluations. **This work will be systematised by the end of 2023**, for the coming cycles, by:

- establishing across the Commission services standardised means of mapping reporting requirements in existing legislation or administrative arrangements and in new proposals;
- identifying priority areas in cooperation with a representative set of companies, sectoral associations and national authorities (which often serve as the interface for such reporting);
- preparation of targeted rationalisation plans by each Commission service for 2024 and thereafter.

**The input from SMEs and other stakeholders has an important role in ensuring the success of this overall exercise of burden reduction.** The 'Have your say Simplify!' portal

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the EP and Council amending Regulation (EC) No 223/2009 on European statistics; Economic Governance Review-simplification of reporting; Proposal for a Regulation of the European Parliament and of the Council on detergents and surfactants; Union Customs Code; General pharmaceutical legal framework; several initiatives either in preparation or proposed in transport area, such as the Directive on combined transport, a harmonised legal framework for railway capacity and traffic management and the abolition of the rail freight corridors as part of the greening freight package, the revisions of the Weights and Dimensions (see greening freight package) as well as of the Port State Control Directives, etc.

<sup>57</sup> The first set of European Sustainability Reporting Standards (COM (2023) 5303 final) significantly reduced the reporting burden compared to the technical advice received from EFRAG. The Commission extended the principle of reporting only material information, introduced a number of phase-ins, and made certain disclosure requirements voluntary.

<sup>58</sup> Article 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

allows to collect their input on reporting obligations. The Fit for Future Platform has also been invited to pay particular attention to reporting obligations and dedicate one or more opinions to this issue in its Annual Work Programme 2024.

*The Commission will:*

- **Action 9:** present, in October 2023, the next set of proposals to rationalise reporting requirements alongside the work programme, including the measures mentioned above, as part of a systematic and recurring cycle to meet the 25% reporting reduction target.

## 3.2 Improving liquidity and access to finance

### 3.2.1 Tackling late payments

**Late payment of invoices affects companies from all sectors across all EU Member States. It has a particularly negative impact on SMEs,** as they rely on regular and predictable streams of cash<sup>59</sup>, and have more limited access to liquidity than large businesses. SMEs that are paid late have to cover the resulting shortfall in liquidity through short-term loans, driving up their financing costs. Reducing late payments is a key element to provide SMEs with the much-needed liquidity to invest in innovation or to pass cost reductions to consumers<sup>60</sup>.

**As part of this SME Relief Package, the Commission proposes a revision of the late payment rules,** replacing the existing Late Payment Directive with a regulation with binding maximum payment terms of 30 days for all commercial transactions. It will make the payment of compensatory fees and interest automatic in case of late payment and flank these new measures with a robust enforcement framework. It will also make it easier for companies to assert their rights by reducing the burden of, and facilitating access to, effective redress via mediation.

Bearing in mind that one day late equals 158 million euro of additional finance costs for European companies, these new rules aim to reduce late payments by 35%. Furthermore, the amount of time companies spend on chasing their debtors will be significantly reduced, saving European businesses 340 million person-hours, equal to 8.7 billion euro. Beyond the direct monetary benefits, this should redistribute liquidity more fairly in the economy and decrease the dependency of SMEs on external financing.

The instrument chosen for the review is a regulation, to repeal and replace the current Late Payment Directive. A regulation has numerous advantages, in particular, as regards the need to tackle the cross-border aspect of late payments. It allows introducing the same solutions throughout the EU in relation to the key aspects, such as the maximum term for payments and verification procedures, the rate of interest for late payments and the amount of flat fee compensation. At the same time, Member States will be allowed to adopt more stringent provisions on certain aspects.

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<sup>59</sup> For more details see the impact assessment report on late payments, published in parallel to this communication.

<sup>60</sup> With these aims in mind, the Commission recently launched several infringement procedures in the area of late payments, [https://ec.europa.eu/commission/presscorner/detail/en/inf\\_23\\_1808](https://ec.europa.eu/commission/presscorner/detail/en/inf_23_1808).

*The Commission:*

- **Action 10:** proposes a new Late Payment Regulation, substantially reinforcing EU rules to combat late payments in commercial transactions.

*3.2.2 Capitalising on the full potential offered by EU programmes to SMEs*

**With support for SMEs expected to reach more than 200 billion euro until 2027 under EU funding programmes**<sup>61</sup>, SMEs have access to a wide range of financial support. Notably, several measures have been put in place to remedy the growing difficulties of SMEs in accessing finance<sup>62</sup>, starting with the SME window of the InvestEU programme<sup>63</sup>, which provides better access to finance for SMEs with more favourable financing conditions. The SME window also helps SMEs adapt to sustainable business practices and funds start-ups developing new sustainability technologies.

**The role of the SME window of InvestEU in providing debt and equity support to European SMEs in the next years will be substantial.** Banks, guarantee institutions and other financial intermediaries have shown remarkable demand by applying to the European Investment Fund (EIF), requesting three times the overall 2021-2027 capacity allocated to guarantees. The market demand for equity investments is already at the full capacity for 2021-2027 for many thematic areas including cleantech, life sciences, and digital transformation, as well as social entrepreneurship. This oversubscription of the SME window of InvestEU is expected to prevent the EIF from entering into new guarantee-agreements with financial intermediaries as of 2025, as the resources allocated to guarantees will have been fully used by then.

**The Commission has proposed as part of the Strategic Technologies for Europe Platform (STEP)<sup>64</sup> to increase the EU guarantee available by 7.5 billion euro through a dedicated STEP window of InvestEU.** Once STEP is approved by the co-legislators, the Commission will strive for quick implementation of additional resources allocated to InvestEU, for the benefit of SMEs.

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<sup>61</sup> This would include funding available for SMEs through the following instruments (Commission services estimates): InvestEU (EUR 6.9 billion from the dedicated SME window and an additional EUR 0.82 billion via the Social Investment and Skills policy window, Recovery and Resilience Facility (RRF) (EUR 45.2 billion), EIC (EUR 10 billion), Cassini (EUR 0.7 billion), Single Market Programme SME Pillar (EUR 1 billion), Intellectual property SME fund (EUR 0.08 billion), Digital Europe Programme (EUR 0.7 billion), European Defence Fund (over EUR 0.2 billion), European Space programme (EUR 1 billion), Secure Connectivity - IRIS2 (EUR 0.72 billion), Horizon Europe (EUR 15 billion), Just Transition Fund (EUR 4.8 billion), Creative Europe (EUR 2.3 billion), European Regional Development Fund (EUR 38.71 billion), Cohesion Policy's Coronavirus Response Investment Initiatives and REACT-EU (EUR 22 billion), European Agricultural Fund for Rural Development (EUR 30 billion), Cohesion Fund (EUR 0.05 billion), European Maritime, Fisheries and Aquaculture Fund (EUR 2.52 billion), Life programme (EUR 0.13 billion), Connecting Europe Facility (EUR 0.2 billion), Innovation Fund (EUR 0.17 billion), European Social Fund Plus (EUR 0.82 billion), New European Innovation Agenda in the area of access to finance (EUR 45 billion) for deep-tech startups, SMEs and small mid-caps.

<sup>62</sup> Of the various financial instruments available for SMEs during the previous multiannual financial framework (2014-2020 period), the COSME Loan Guarantee Facility alone triggered EUR 68 billion in financing to nearly 900 000 SMEs, helping to create or maintain more than 4 million jobs.

<sup>63</sup> [https://single-market-economy.ec.europa.eu/access-finance/investeu/investeu-fund-sme-window\\_en](https://single-market-economy.ec.europa.eu/access-finance/investeu/investeu-fund-sme-window_en).

<sup>64</sup> COM (2023) 335 final.

**Member States can play a key role by allocating additional resources to InvestEU from , the Recovery and Resilience Facility (RRF) or from national budgets, as well as to make use of the existing transfer possibilities under shared management funds, to boost investment in their country.**

In the context of the STEP proposal, the Commission presented several avenues to make the use of such resources easier for Member States and to increase the amount of InvestEU-backed financing to SMEs, notably through the clarification of State aid aspects with regards to all resource transfers as well as the application of ‘do no significant harm’ aspects<sup>65</sup>.

Where a Member State decides to allocate resources to the InvestEU Member State compartment to implement an existing InvestEU financial product developed for the EU compartment by an International Financial Institution as an implementing partner, such as the EIB Group or the European Bank for Reconstruction and Development (EBRD), this does not in itself entail State aid, as further explained by the Commission in the STEP proposal<sup>66</sup>. Such possible resource transfers (from shared management, RRF or national budgets) are therefore a quick, easy and optional mechanism available for Member States to channel much-needed finance to SMEs without reporting burdens beyond those required by InvestEU. To date, a number of Member States have made use of this transfer possibility. Given the high market demand, Member States that have not yet made a contribution are encouraged to do so through the InvestEU Member State compartment, in order to support the implementation of financial products for SMEs in their Member State. The Commission will follow the progress of implementation under the SME window together with the network of SME Envoys.

**Furthermore, Member States and regions can establish financial instruments co-funded by EU shared management programmes to channel EU resources into various financial products, including loans, guarantees, equity, and other risk-bearing mechanisms.** Such support can directly help SMEs. To facilitate this process, the Commission’s fi-compass<sup>67</sup> platform provides resources, including general information, guidance, practical tools, and learning opportunities, guiding managing authorities on utilising financial instruments under each of the EU shared management Funds.

*The Commission will:*

- **Action 11:** encourage Member States, through the relevant InvestEU governance structure, to allocate additional resources to InvestEU national compartments and facilitate RRF contributions to InvestEU by providing additional guidance on the application of the ‘do no significant harm’ principle by October 2023.

**Export credit agencies (ECAs) play a fundamental role in supporting companies in international trade.** A more coordinated approach between EU Member States’ export credits and EU-level financing tools is starting to take place and should be further strengthened. As a result of the Russian war of aggression against Ukraine, the majority of EU ECAs suspended their risk coverage for Ukraine, thereby having a negative impact on the

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<sup>65</sup> Through an amendment of the technical guidance on the application of ‘do no significant harm’ under Regulation (EU) 2021/241. This will also facilitate the allocation of resources to InvestEU from the RRF.

<sup>66</sup> This is without prejudice to the obligation of EU financial instruments and budgetary guarantees to be consistent with State aid rules pursuant to Article 209(2)(c) of the Financial Regulation.

<sup>67</sup> <https://www.fi-compass.eu>.



ability of EU companies to export to Ukraine. A pilot facility of roughly 300 million euro in the course of 2024 under the SME window of InvestEU will allow Export Credit Agencies to resume their business with regard to Ukraine. The pilot facility is expected to improve the competitiveness of European SMEs by establishing stronger ties with Ukraine, allowing to support several hundred million euro in new exports.

*The Commission will:*

- **Action 12:** work with the EIF towards setting up in the course of 2024 a pilot facility to allow Export Credit Agencies to support SMEs in trading with Ukraine.

**As part of the wider Capital Markets Union (CMU) initiative<sup>68</sup>, the creation of SME growth markets, pan-European venture capital funds and crowdfunding have improved access to finance for SMEs.** The recent political agreement on the European Single Access Point will make companies, large and small, more visible to investors, while the revised rules for the European long term investment funds regulation and alternative investment funds will enlarge the pool of funding available to SMEs. The Listing Act proposals<sup>69</sup> aim to foster access to finance on public markets for companies, including SMEs, by cutting red tape, streamlining rules and allowing owners to retain decision-making powers after the listing of their companies. A high level of ambition for the Listing Act proposals is key to ensure that high-growth companies continue to develop and create jobs in the EU. In order to give SMEs better access to market-based sources of funding and equity capital, a swift adoption of the legislative proposals under the 2020 CMU Action Plan and further discussions on the future development of the CMU, notably in the Eurogroup, will be important.

**Another avenue to support SMEs is the European Innovation Council (EIC) which is the leading EU instrument for providing blended finance (grants and equity or quasi-equity) to fast growing start-ups and SMEs that are pursuing breakthrough innovations.** The EIC Fund provides equity funding ranging from 0.5 million to 15 million euro equity funding to such companies, leveraging a budget of 10 billion euro to crowd in 30 to 50 billion euro from private investors. For companies that require follow-on financing rounds or larger investment amounts, the Commission's STEP proposal foresees an additional budget of 2.63 billion euro to enable the EIC Fund to provide unprecedented equity investments ranging between 15 and 50 million euro in technologies of strategic importance for Europe. By generating additional private investments, this can lead to 13 billion euro of fresh equity support to non-bankable SMEs and small mid-caps.

**The Commission will also help SMEs with energy efficiency measures** (ranging from energy audits to technologies and trainings), by making available 10 million euro from the Single Market Programme through the Enterprise Europe Network by open calls.

### 3.2.3 Public procurement

**Easier access to public procurement markets can help SMEs unlock their potential with a positive impact on growth and on economic recovery.** A substantial part of public investment is spent through public procurement, representing 14 % of the EU GDP. Yet, SMEs have difficulties finding access to procurement. The Commission has presented

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<sup>68</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_7348](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7348).

<sup>69</sup> COM (2022) 760 final.

initiatives that facilitate the access of companies including SMEs to public procurement, also cross-border<sup>70</sup>. The aim is to increase the SME share of public procurement in line with their overall weight in the economy. To improve the participation of SMEs in public procurement, it will be important to promote the use of standardised provisions and clauses in procurement documents, especially for low-risk or low-value contracts, making it easier for SMEs to handle tender documents. Practices that improve SME involvement should be promoted, such as the use of conditions suitable for SMEs (more favourable financial qualifications and payment terms).

*The Commission will:*

- **Action 13:** promote the use of standardised procurement provisions and conditions suitable for SMEs to improve the participation of SMEs in public procurement.

### 3.2.4 Making it easier for SMEs to access sustainable finance

**SMEs play an important role in helping Europe achieve its climate neutrality goals and other environmental goals<sup>71</sup>. Raising finance for SMEs' sustainability transition, while minimising administrative burden is therefore key.** To realise their full potential towards the transition to a sustainable economy, SMEs need in particular (1) a simple and standardised framework to report on ESG (Environmental – Social – Governance) issues; and (2) financial institutions that support them in their efforts to transition to a sustainable business.

**Despite the measures already put in place to address their needs<sup>72</sup>, SMEs find it difficult to obtain funding for their green projects.** SMEs, with the exception of listed SMEs, are formally not subject to the requirements of the EU sustainable finance framework. However, the Commission is aware that these SMEs face increasing information requests for sustainability information by their financial and value chain partners, often in a non-standardised format. In this light, the Commission recognises concerns from SMEs about trickledown effects of these new rules on sustainability reporting.

**The Commission is taking action to address these concerns.** First, the Commission has encouraged<sup>73</sup> large corporate and financial intermediaries to apply the principle of proportionality when engaging with SMEs and to exercise restraint when requesting information from SME value chain partners. It also puts forward specific guidance, including voluntary tools that SMEs can use to access transition finance.

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<sup>70</sup> COM (2017) 572 final. In 2020 and 2021 the Commission published two studies on SMEs' participation in public procurement: <https://op.europa.eu/en/publication-detail/-/publication/eec8227c-ecc4-11ea-b3c6-01aa75ed71a1> and

<https://ec.europa.eu/docsroom/documents/46111/attachments/1/translations/en/renditions/native>. Two brochures have been published in 2023 to foster the participation of startups in public procurement:

<https://ec.europa.eu/docsroom/documents/54254>, <https://ec.europa.eu/docsroom/documents/54276>.

<sup>71</sup> Activity Report 2023 of the OECD Platform on Financing SMEs for Sustainability (page 6), <https://www.oecd.org/cfe/smes/SME%20activity-report-2023.pdf>.

<sup>72</sup> Most recently through the Commission's Communication "A sustainable finance framework that works on the ground" of June 2023, COM (2023) 317 final, that notably pleads for the inclusiveness, usability and proportionality of such a framework to enable SMEs to raise finance for their sustainability transition.

<sup>73</sup> Commission's Recommendation (EU) 2023/1425 on facilitating finance for the transition to a sustainable economy.



**Simplified reporting standards for listed SMEs are under development by the European Financial Reporting Advisory Group (EFRAG).** The Commission will ensure that these standards for listed SMEs are proportionate. The standards will limit the information that listed SMEs in the scope of CSRD are required to report. They will also provide a legal limit to the information that European Sustainability Reporting Standards can require large companies to obtain from SMEs in their value chain, and hence limit the trickledown effects. This is an important safeguard from the CSRD to limit the indirect impact on SMEs of value chain reporting requirements imposed on large business. The Commission will seek to ensure, in the ongoing negotiations on the Corporate Sustainability Due Diligence Directive, that these safeguards are carried over in that context. In addition, EFRAG will develop a voluntary standard for non-listed SMEs. SMEs can use this to standardise the sustainability information they wish to report, creating better opportunities to obtain green financing and thus facilitating the transition to a sustainable economy.

**User-friendly tools, information and knowledge-sharing, in cooperation with industry stakeholders, will help SMEs navigate the EU's sustainable finance framework.** In particular, simplified approaches, developed together with the Platform on Sustainable Finance, should allow non-listed SMEs to benefit from the use of the taxonomy.

**In addition, financial institutions need to support SMEs in their efforts to transition to a sustainable business.** This requires a better integration of green SME finance in the business models of banks. There is a need to define the concept of green loans and to set standards for green loans at EU level to enhance their uptake. The inclusion of such loans to SMEs in the numerator of the Green Asset Ratio of banks should, for example, give more visibility to green SME lending and encourage financial institutions to provide sustainable finance to SMEs.

*Based on the results of various on-going Commission studies on SMEs and taxonomy reporting/sustainable finance, the Commission will:*

- **Action 14:** ensure that SMEs have a simple and standardised framework to report on ESG issues, by limiting the risk of disclosure requirements trickling down on non-listed SMEs in the value chain of undertakings in the scope of CSRD, and ensuring the rapid delivery of voluntary standards for non-listed SMEs.
- **Action 15:** encourage financial institutions to include green SME financing in their business models by:
  - a. working towards a standard or a definition of green loans notably for SMEs based on upcoming advice by the European Banking Authority<sup>74</sup>;
  - b. assessing an SME-friendly adaptation of the Green Asset Ratio to be considered in a future update of the Taxonomy Disclosures Delegated Act.

### 3.3 Enabling access to skilled staff

**The way SMEs and their workers learn, take part in society, and lead their everyday business is changing with technological developments, global and demographic challenges.** SMEs need access to a skilled workforce to deal with these changes and to ensure their resilience while contributing to society, productivity and innovation.

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<sup>74</sup> The Commission's call for advice on green loans and mortgages, issued to the EBA in November 2022.

The Commission is building on the European Skills Agenda<sup>75</sup> to help Member States ensure that 60% of all working-age adults participate in training programmes each year, in line with the target set by the European Pillar of Social Right action plan<sup>76</sup>. The European Year of Skills and the unprecedented EU financial resources available for skills development during the MFF 2021-27 programming period, in particular an estimated 65 billion euro from the Recovery and Resilience Facility and the European Social Fund Plus, also presents a unique opportunity to accelerate actions that can benefit SMEs' access to a deep and diverse pool of skills, such as the proposals on digital education and skills<sup>77</sup>. In that sense, the pilot on the European Digital Skills Certificate<sup>78</sup>, in cooperation with Member States and stakeholders, will contribute to enhance transparency and recognition of digital skills, facilitating access by SMEs to the talent they need for the digital transition.

**As part of the modernisation of vocational education and training (VET) systems<sup>79</sup>, the EU is also supporting centres of vocational excellence<sup>80</sup> to develop local 'skills ecosystems'** from advanced manufacturing to artificial intelligence, to water technology and urban greening. They work closely with businesses including SMEs, and contribute to regional development, entrepreneurship, innovation, and smart specialisation strategies. The European Alliance for Apprenticeships supports the promotion of more and better apprenticeships across the EU, as effective learning pathways to get the skilled workers companies, in particular SMEs, need.

**Within the EU Pact for Skills<sup>81</sup>, 18 Large-scale Skills Partnerships (LSPs) covering all industrial ecosystems work towards the identification of skills needs and the roll-out of training in enterprises and their supply chains to up- and reskill 10 million workers by 2030.** SMEs are actively involved in all LSPs directly, as individual members and indirectly through sectoral network organisations. The partnering up with other players, such as social partners, and networks under the LSPs gives them access to training programmes, content, and material that otherwise they would often not have given their limited size and resources.

**The Enterprise Europe Network plays an important role in providing training to SMEs** to help them comply with new requirements, to seize the opportunities of measures like the Net Zero Industrial Act or Critical Raw Materials Act and deal with the implications of Green Deal and sustainability legislation, such as the Directive on corporate sustainability due diligence.

**Entrepreneurial skills are key to help existing entrepreneurs grow their business and to encourage more people to take up entrepreneurship as a career.** To empower women to become entrepreneurs, the Commission has been pursuing awareness-raising activities coupled with training, mentoring, and coaching and improving women entrepreneurs' access

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<sup>75</sup> COM (2020) 274 final.

<sup>76</sup> European Pillar of Social Rights Action Plan, endorsed by heads of state and government in 2020, <https://ec.europa.eu/social/main.jsp?catId=1607&langId=en>.

<sup>77</sup> COM (2023) 205 final and COM (2023) 206 final.

<sup>78</sup> <https://education.ec.europa.eu/focus-topics/digital-education/action-plan/action-9?>

<sup>79</sup> Council Recommendation 2020/C 417/01.

<sup>80</sup> <https://ec.europa.eu/social/main.jsp?catId=1501>.

<sup>81</sup> The Pact also encourages partnerships at regional level to support the up and re-skilling of the workforce, including those in SMEs. According to survey results, since its launch in 2020, Pact members' concerted efforts have reached an estimate of almost two million individuals. In addition, members have made an aggregated investment of close to EUR 160 million into upskilling and reskilling activities. [https://pact-for-skills.ec.europa.eu/index\\_en](https://pact-for-skills.ec.europa.eu/index_en).

to finance and business networks. For example, Erasmus for Young Entrepreneurs<sup>82</sup> has supported more than 9,000 women entrepreneurs and Women TechEU<sup>83</sup> has offered funding for companies founded by women with a budget exceeding 10 million euro. However, further work is necessary to unlock the full entrepreneurial potential of women, young people and groups at risk of exclusion.

**Finally, processes also need to become easier for SMEs to attract talent from abroad.** The Commission will propose later this year a package on maximising the potential of talent mobility that will include a legislative proposal on establishing an EU Talent Pool and an initiative to work with Member States to facilitate the faster recognition of professional qualifications of third country nationals, including through partnerships with third countries, to improve recruitment and job matching.

*The Commission will:*

- **Action 16:** present a proposal to establish an EU Talent Pool and an initiative to improve the recognition of qualifications and skills of third country nationals to help skills gaps in the EU labour market – by Q4 2023.
- **Action 17:** work with groups whose untapped entrepreneurial potential remains high, such as women, young people and persons with disabilities, through awareness, mentoring and coaching campaigns.

### **3.4 Supporting SMEs throughout their entire business life cycle**

#### *3.4.1 Starting a new business*

**Since the review of the Small Business Act<sup>84</sup>, the Commission has been working with Member States to reduce the start-up time for new enterprises.** The 2016 Start-up and Scale-up Initiative<sup>85</sup> included a range of actions to make it more attractive for entrepreneurs to set up a business and expand it in Europe. The Commission is also encouraging Member States to foster the creation of start-ups by implementing the principles and best practices outlined in the declaration on the EU Startup Nations Standard of Excellence<sup>86</sup>, such as:

- facilitating the creation of new legal entities for start-ups, both online and offline, within minimal time and at minimal costs, including making it possible to submit online administrative documents for the creation of a start-up or subsidiary in other Member States<sup>87</sup>
- setting up a start-up fast-lane (including a market access helpdesk) through an online one-stop shop that provides full information about national administrative requirements and funding opportunities, to be linked to the Single Digital Gateway;
- supporting diversity and inclusion, also in line with the action plan for the social economy<sup>88</sup>.

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<sup>82</sup> <https://www.erasmus-entrepreneurs.eu/>.

<sup>83</sup> [https://eisma.ec.europa.eu/programmes/european-innovation-ecosystems/women-techeu\\_en](https://eisma.ec.europa.eu/programmes/european-innovation-ecosystems/women-techeu_en).

<sup>84</sup> COM (2011) 78 final.

<sup>85</sup> COM (2016) 733 final.

<sup>86</sup> <https://startupnationsstandard.eu/files/SNS-declaration.pdf>.

<sup>87</sup> In line with Directive (EU) 2019/1151 and the proposal COM (2023) 177 final.

<sup>88</sup> COM (2021) 778 final.

### 3.4.2 Growing the business

**The measures in this communication will allow SMEs to compete and grow.** SMEs are currently defined as companies with under 250 employees, combined with an annual turnover up to 50 million euro or a balance sheet total up to 43 million. These thresholds were established in 2003. While twenty years later the vast majority of companies remain covered by the SME definition, some companies outgrow the definition and become so-called mid-cap companies.

**In 2021, the Commission evaluated the SME definition and concluded that it remained relevant** (with the average turnover of EU SME remaining well below the threshold)<sup>89</sup>. This evaluation was carried out on the basis of 2018 data and could not reflect the impacts of the pandemic, war in Ukraine and the energy crisis, which have shaken the EU's economy since then, and in particular have driven a significant surge in inflation that is only gradually coming down. Moreover, in light of current and future economic challenges – from digitalisation to demographic change – it may be appropriate to give greater recognition to the productivity gains over the past two decades, by taking them into account in defining the upper bounds of the SME status.

**The 2021 evaluation also recognised the need to “look into the challenges that companies meet once they have ‘outgrown’ the SME-phase”<sup>90</sup>.** For example, there may be threshold effects if the benefits of different measures in favour of SMEs are all lost in the event that a growing company exceeds one of those parameters.

**A recent Commission study revealed the essential role of mid-caps in the EU economy<sup>91</sup>:** small (250-499 employees) and large mid-caps (500-1499 employees) together account for more than 13% of overall employment in the European non-financial business sector. The share of mid-cap firms is particularly high in industrial ecosystems that are key to the EU's competitiveness and technological sovereignty: electronics, aerospace and defence, energy, energy-intensive industries, and health.

**Various funding schemes for risk finance and scaling-up approved by the European Commission are available to support their dynamic growth process and to address their funding gap.** The Guidelines on State aid to promote risk finance investments contain a definition for small mid-caps and allow support under certain conditions to these companies. The Commission also makes it possible for Member States to support mid-cap companies under the Temporary Crisis and Transition Framework<sup>92</sup> and the revised General Block Exemption Regulation<sup>93</sup>.

**Small mid-caps usually grow faster, are more innovative and deal better with digitalisation than SMEs, yet still face certain challenges such as the lack of skilled employees or administrative burden.** Statistical data on small mid-caps is limited and a coherent approach to support the growth of small mid-cap companies is missing.

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<sup>89</sup> Latest evaluation COM SWD (2021) 280 final.

<sup>90</sup> SWD (2021) 280 final.

<sup>91</sup> Study to map, measure and portray the EU mid-cap landscape, 2022, <https://op.europa.eu/en/publication-detail/-/publication/ad5fdad5-6a33-11ed-b14f-01aa75ed71a1/language-en/format-PDF/source-277396461>.

<sup>92</sup> COM (2023) 1711.

<sup>93</sup> Commission Regulation (EU) 2023/1315.

*The Commission will:*

- **Action 18:** be attentive to the needs of companies that outgrow the thresholds of the SME definition, as well as the broader range of small mid-cap companies, and will, **by the end of 2023:**
  - a. analyse the impact of high inflation and longer-run increases in productivity, as well as the interaction with possible additional measures for mid-caps, to raise - when justified - the financial thresholds of the current SME definition;
  - b. develop a harmonised definition for small mid-cap companies;
  - c. **thereafter**, take actions necessary to reflect a revised SME definition in relevant legislative acts, and
  - d. build a dataset based on the small mid-cap definition and assess possible measures to support these companies in their growth (including potential application in adapted form of certain measures favouring SMEs).

### *3.4.3 Transferring the business, preventing insolvency and giving entrepreneurs a second chance*

**Successful business transfers benefit Europe’s economy and its social fabric, avoiding job losses and safeguarding economic activity.** The Commission Recommendation on business transfers, addressing key legal, fiscal and administrative aspects of business transfers, remains valid today.<sup>94</sup> The Commission has been promoting best practices in business transfers developed either under several EU-funded projects<sup>95</sup> or by other stakeholders undertaking work in the area. In 2021 the Commission carried out a study on improving the evidence base on business transfers<sup>96</sup>. In addition, in its proposal for a Council Recommendation on developing social economy framework conditions<sup>97</sup>, the Commission recommended Member States to ensure an enabling framework for business transfers to employees to form worker cooperatives. Given the importance of business transfers, the Commission is prepared to take stock of recent developments in Member States.

The Early Warning Europe Mentor Academy<sup>98</sup> will develop an online learning programme for mentors, who will be able to better support companies at risk of insolvency and help business owners transfer their business to the next generation.

**Finally, since approximately 50% of new businesses fail during their first five years<sup>99</sup>, the Commission’s insolvency policy supports entrepreneurs who have faced bankruptcy to ensure that they can quickly get a second chance.** The Directive on restructuring and insolvency aims to prevent bankruptcy and help insolvent businesses to get back on their feet. By mid-2026, the Commission will report on the application and impact of the Directive’s

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<sup>94</sup> COM 94/1069/EC. Notably, the Commission proposed targeted tax incentives, such as conditional reduction of inheritance and gift taxes in family successions, conditional tax deferrals or reinvestment tax relief, or specific tax incentives to encourage the transfer of the company to employees – with the objective of ensuring that transfer taxes do not endanger the survival of the business.

<sup>95</sup> [https://single-market-economy.ec.europa.eu/smes/supporting-entrepreneurship/transfer-businesses\\_en](https://single-market-economy.ec.europa.eu/smes/supporting-entrepreneurship/transfer-businesses_en).

<sup>96</sup> <https://op.europa.eu/en/publication-detail/-/publication/fdfae129-69bb-11eb-aeb5-01aa75ed71a1/language-en/format-PDF/source-190448642>.

<sup>97</sup> COM (2023) 316 final.

<sup>98</sup> <https://www.earlywarningeurope.eu/mentor-academy>.

<sup>99</sup> COM (2012) 795 final.

provisions. Additionally, in 2022, as part of the Capital Markets Union, the Commission proposed a Directive on harmonising certain aspects of insolvency law<sup>100</sup>. Its most innovative feature concerns the introduction of a simplified, swift, and cost-effective winding-up procedure for microenterprises. The Commission encourages the co-legislator to make urgent progress on this proposal. This is crucial to ensure more efficient insolvency proceedings, and therefore an increasing number of cross-border investments, including for SMEs.

*The Commission will:*

- **Action 19:** assess framework conditions for business transfers in Member States together with the network of SME Envoys – by Q2 2024.

#### **4 Conclusions**

SMEs continue to navigate a very uncertain economic environment. Declining but stubborn levels of inflation will continue to strain added value and employment, while geopolitical uncertainty will keep many supply chains tight.

Besides funding support, including the massive effort from the Commission with a total of approximately 200 billion euro until 2027, it is therefore necessary to step up policy support for SMEs, building on the actions put forward in this Communication. These actions all revolve around the three main operational challenges for SMEs – administrative burden, finance and skills – with the aim to achieve very concrete goals: providing an enabling regulatory framework, reducing reporting requirements, simplifying taxes, fostering liquidity, improving access to finance, providing SMEs with the right skills and supporting them throughout their life cycle.

As recalled by the Commission’s SME Strategy<sup>101</sup>, effective relief and support to SMEs depend on a concerted effort and a strong partnership among all actors – EU institutions, national, regional and local authorities, SMEs, large companies, social partners, civil society and investors. In particular, the Commission invites Member States to apply the ‘Think Small First’ principle on a national, regional and local level.

As far as the Commission is concerned, all possible levers that can make the life of SMEs easier and clearer must be activated. Delivering short-term relief, laying the groundwork for their long-term competitiveness and resilience, and fostering a fair and SME-friendly business environment are at the heart of the Commission’s approach.

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<sup>100</sup> COM (2022) 702 final.

<sup>101</sup> COM (2020) 103 final.