

**BRIEFING NOTE**  
**SMEs: Engines for Recovery?**  
**Session I – 30 June 2010**  
Prepared by EurActiv

## **Introduction**

Small and medium-sized enterprises (SMEs) have crept steadily up the political agenda in Europe over the past decade and have moved centre stage since the outbreak of the economic crisis.

Politicians and civil society actors are quick to remind us that 99% of all European businesses are SMEs and that smaller firms offer the kind of net job creation which is no longer associated with large multinationals. It is also agreed that dynamic, young companies are a crucial source of innovation – a central plank of Europe's future growth strategy.

Entrepreneurship has also become a watchword in Brussels, with policymakers keen to shake up Europe's business culture which is often seen as more risk averse than the United States. There is broad agreement that it should be easier for people with business ideas to start their own company, raise funds and trade across borders without having to jump through administrative hoops.

The reality, however, is often less straightforward. Sourcing capital, establishing a company and selling goods and services in Europe (and beyond) can prove a challenge – as evidenced by the reluctance of business owners to seek opportunities outside their locality.

Creating new jobs can also be hampered by bureaucracy, leading business advocates and pro-enterprise political figures to wage a rhetorical war on red tape in the interest of creating a more dynamic business environment.

## **Main issues at European level**

The pro-enterprise rhetoric was translated into the Small Business Act proposed by the European Commission in June 2008. This Act made 'Think Small First' a guiding principle of EU policymaking, injecting fresh impetus into the better regulation initiative. It also includes legislative initiatives such as a recast of the Late Payments Directive which is designed to alleviate the chronic cash-flow problems facing thousands of small companies.

The momentum this has generated – at least in Brussels – has seen the inauguration of an annual SME Week, the appointment of an SME Envoy at the European Commission, and the first Commissioner for Industry and Entrepreneurship. Further evidence of the political weight attached to implementing the small business agenda is Commission President Jose Manuel Barroso's decision to take charge of the Better Regulation Agenda within his own services.

Support for small firms was also a central theme in the European Economic Recovery Plan agreed by EU leaders in December 2008. In keeping with this political priority, the European Investment Bank (EIB) has stepped up its efforts to support businesses in the form of loans and credit guarantees. Similarly, its long-term lending arm, the European Investment Fund (EIF), is investing in innovative start-ups in the hope of creating the next high-tech giant.

Other elements of the enterprise agenda, such as entrepreneur mobility and encouraging female entrepreneurship, have also received political backing – and funding.

### **Challenges in the short/medium and long term**

For all of the focus on SME policy, companies at the coalface of the real economy find themselves in a considerably more precarious situation than two years ago when the SBA was proposed. The financial crisis has hit smaller companies hard. The double-edge sword of late payments and risk-shy banks has left many on the brink of bankruptcy.

At last year's EBS, The Commission's SME Envoy Françoise Le Bail predicted a [surge of insolvencies](#). Unfortunately, she has been proven correct. Far from focusing on job creation, small businesses are in a battle for survival.

The tangible impact of the SBA has, to date, been limited. There are a number of possible explanations for this:

- the SBA's legislative elements are not yet in effect
- adoption by member states of the principles underpinning the Act has been mixed (at best)
- awareness of the SBA remains low amongst business people and would-be entrepreneurs

- the broader economic environment is more hostile than it has been in decades

There are mixed view on whether member states have done enough to implement the SBA. Perhaps predictably, business organisations want to see more rapid progress, while Brussels points to areas where positive actions have been taken.

Recovery efforts have also been stymied thanks to the credit crunch which crippled the financial sector in the wake of the crisis. The EIB's efforts to get cash to SMEs via commercial banks have met with some success, but businesses have also criticised lenders for not releasing funds as readily as the EIB might have liked.

Venture capital can help fuel SMEs on the road to recovery but this is another area where Europe has repeatedly underperformed; failing to attract funds to invest in innovative companies. Addressing this issue is likely to feature in the forthcoming action plan on research and innovation, but a fix is long overdue.

Similarly, any serious plan to improve the business environment and foster an SME-led recovery will include an overhaul of Europe's intellectual property regime. That patent reform is needed has become a truism, but politicians have repeatedly failed to make a breakthrough. The Swedish Presidency moved the issue forward at the end of 2009 and plans for a unified patent litigation system will also help, but investors and entrepreneurs need certainty in this area if they are to commit funds and time to innovating in Europe.

A plethora of related initiatives are also on the agenda: cutting red tape for micro-enterprises, giving SMEs better access to public procurement, and tackling the skills mismatch. Whether meaningful progress can be made on these issues will help determine the sustainability of Europe's economic recovery.

**Possible questions to be discussed during the session (taking into consideration the speakers participating in each session)**

- Is the Small Business Act the answer to the problems faced by SMEs?
- In December, three business organisations (including BusinessEurope) argued that member states have not done enough to implement the Small Business Act, but the European Commission pointed to success stories and said progress has been made. Who is right?
- Some entrepreneurs will say they prefer when government simply stays out of their way. Is political intervention the best route to encouraging enterprise?
- Are Europeans really less entrepreneurial than their US counterparts? What can be done to encourage risk taking?
- Has Europe's obsession with SMEs left large corporations feeling unloved by policymakers? What might be impact of this?

- What can be done immediately to put Europe on the road to a sustainable SME-led recovery?

### **Further reading**

European Commission (June 2008), [Small Business Act for Europe](#)

European Commission (December 2009) [Examples of national measures taken to implement SBA](#)

EurActiv (11 June 2009) [Small Business Act: Unlocking SMEs' potential?](#)

EurActiv (3 December 2009) [Governments stalling on Small Business Act, say business groups](#)

UEAPME/BusinesEurope/Eurochambres (December 2009), [Small Business Act: a not so happy birthday, say SMEs](#)