

SME ENVOY NETWORK

**2016 REPORT OF THE SME ENVOY NETWORK
TO THE COMPETITIVENESS COUNCIL**

1. INTRODUCTION

Following the request by the Competitiveness Council of September 2013 to the SME Envoys to report annually on the state of SMEs and the implementation of the Small Business Act (SBA) the EU SME Envoy Network submits this Annual Report.

The third report presents an overview of the latest trends in the performance of the EU SMEs and summarises the work done by the SME Envoys in 2016 on four priorities: digitalisation, skills & training, venture capital and entrepreneurship. The report furthermore presents an outline for the activities of the SME Envoy network in 2017 and beyond.

2. SMEs IN EUROPE – HOW ARE THEY DOING?

The 2015 figures underline once more the importance of SMEs for Europe's economy: just under **23 million SMEs generated €3.9 trillion** in value added **and employed 90 million people**.

They account for 2/3rd of EU-28 employment and slightly less than 3/5th of EU-28 value added in the non-financial business sector. Still, the vast majority of SMEs are micro enterprises with less than 10 employees – such very small firms account for almost 93% of all enterprises in the non-financial business sector. New firm creation and scaling of existing enterprises is very important; the Start-up and scale-up initiative as foreseen in the Single Market Strategy is therefore highly welcome.

EU-28 SMEs finally appear to have escaped from the fallout of the economic and financial crisis of late 2008 and 2009. Indeed, following a number of years of poor economic performance, EU-28 SMEs experienced in 2015 **good growth in value added for the second year in a row** (3.8% in 2014 and 5.7% in 2015). SME **employment grew in 2014** (1.1%), for the first time, since the recession **and, in 2015**, increased by 1.5%. As the result of robust growth over the past two years, the level of value added generated by EU-28 SMEs in 2015 in the non-financial business sector was almost 9% higher than in 2008. In sharp contrast, the EU-28 SME employment was still about 2% below its 2008 level.

SME had a good year in 2015 in almost all Member States. In 2015, SME value added increased in all but two Member States and SME employment increased in 27 of the 28 Member States. Obviously, the magnitude of the actual growth in value added and employment varied across Member States with some countries showing weaker growth than others. But the change is in the right direction in almost all Member States.

The average number of staff employed per SME has remained stable in 2014 and 2015 after falling markedly from 2008 to 2013. This means that the recent EU-28 SME employment growth is entirely due to the growing number of SMEs, i.e. start-up policy initiatives are at least partly working; however, there is no place for complacency and start-ups need to scale to have an increasing positive impact on the labour market.

A detailed examination of the employment performance of EU-28 SMEs in 2014 and 2015 reveals a great deal of diversity across sectors:

- a few small sectors (such as advertising and market research, legal and accounting services, office administration and support and other business services, services to buildings and landscaping, and employment activities) each show growth of more than 5% in employment. However, each of these sectors account for, at most, only 3% of total EU-28 employment in 2015;

- a number of larger sectors such as, for example, retail trade, wholesale trade and construction which together account for 30% of total EU-28 SME employment, recorded employment growth of about 2.0% or less in 2015.

The population of SMEs, particular micro SMEs, changes constantly, with many new business being born every year and many ceasing to operate. In particular young and small firms show high mortality rates.

The conclusion from this data therefore needs to be:

- continue to support SMEs, in particular start-ups, in consolidating so that they can profit from the improved economic conditions;
- ensure that the principles of the Small Business Act continue to be implemented and that start-ups and scale-ups can live in a favourable environment.

3. ACTIONS ANNOUNCED IN 2015 – WHAT HAS BEEN DONE

In its 2015 report the SME Envoys undertook to

- step up the exchange of good practice on the application of the SME test in close collaboration with the Commission and elaborate guidelines for an effective approach to the SME test across the Member States and report back to the Council.

Action: On 5 October a specialist seminar on the application of the SME Test took place. The guidelines will be elaborated in 2016/2017 and shared with all involved respectively interested in the application of the SME Test in Member States.

- continue its work on non-bank lending, in particular concerning venture capital.

Action: a technical ad-hoc group produced a report on venture capital finance. Based on this report and its discussion among the Envoys, further work regarding easing access to finance, in particular regarding non-bank lending is being undertaken. This work has also contributed to shaping the concept of the Fund of Funds¹. Given its importance for a prosperous development of SMEs, in particular start-ups and scale-ups, access to finance will remain a constant in the work of the Envoys.

4. ACTIVITIES OF THE SME ENVOYS IN 2016 – SUPPORT THE PIONEERING SPIRIT OF EUROPE'S SMEs.

In 2016 the SME Envoys met four times and focussed - as in earlier years - on a number of themes. For 2016 these themes have been digitalisation, training & skills, start-up and scale-up, entrepreneurship education as well as venture capital for SMEs. The following section will briefly outline the results.

This work has contributed to and is supporting the Commission's work on start-ups and scale-ups, as shown in the recently adopted Start-Up Initiative, as well as the implementation of the Single Market Strategy, the Capital Market Union and the Skills Agenda.

¹ <http://www.investeurope.eu/policy/key-topics/promoting-the-industry/pan-eu-funds-of-funds>

Regarding start-ups and scale-ups Mr Anders Hofmann, the SME Envoy for Denmark, is the rapporteur and has presented the draft of his report on 17 June which was finalised at the meeting on 7 October. The Envoys have also been involved in the public consultation on start-ups and scale-ups, launched on 31 March 2016.

4.1. Digitalisation

Digitalisation has become a constant in today's enterprise policy, whether it concerns SMEs or big business. In particular digital skills and the awareness of needs and offers for support are an issue, in particular for SMEs. The Envoys have therefore decided to look into this issue and Ms Gunilla Nordlöf, SME Envoy for Sweden and rapporteur on digitalisation, presented the draft of her report on 17 June. The work is still ongoing and will contribute to the implementation of the Single Market Strategy, the Digital Single Market as well as the Skills Agenda.

There is already a lot going on to help SMEs go digital. But there is clearly room for more coordinated actions. Some of them may appear simple but are nevertheless needed:

- A beginner's guide to SME digitalisation: SMEs which are at the beginning of their digital journey need a simple step-by-step guide for this journey; the aim is to de-mystify the digital journey by providing factual information and advice. This guide could be integrated in the Single Digital Gateway.
- Skills and leadership training: As pointed out in the report on skills & training measures need to be taken to train company owners and managers who haven't yet gone digital; in particular in very small firms the question is not necessarily to hire IT-trained staff but to make the owner and existing staff aware of the options.
- Transfer of knowledge from people with more experience in digitalisation to people with less experience and between industries. It could be useful to develop concepts that were transferable across all of Europe and maybe also inspire new education curricula. (This measure is also included in the German/Austrian report on skills and training).
- Raise awareness about the possibilities offered by the European satellite programmes such as Galileo or Copernicus.

The SME Envoys ask the Council to request Member States:

- to promote measures for transfer of knowledge from people with more experience in digitalisation to people with less experience and in particular to the older generation of entrepreneurs in order to make digitalisation easier for them; to increase digital literacy of SMEs, in particular in more traditional sectors.

The Network of SME Envoys will:

- evaluate voucher systems in the respective Member States and compare them; the idea is to bring together good practices to create informal guidelines for future voucher systems. They will inform on this in the 2017 Annual Report;
- work with Commission services to see how the awareness of SMEs about what is available to them in relation to digitalisation can be increased; they will pay particular attention to satellite based system like Galileo and Copernicus.

4.2. Skills & training

Ms Sabine Hepperle, SME Envoy for Germany, and Mr Matthias Tschirf, SME Envoy for Austria, presented an update of their initial report on 1 April. This update focused on vocational training and its value beyond the businesses itself, in particular for the society as a whole and in view of the need to integrate refugees. The work on this subject is still continuing and will be dealt with in the 2017 Annual Report of the SME Envoys; it will also focus on digital skills as mentioned above.

Based on this preliminary work the SME Envoys ask the Council to encourage Member States and all other stakeholders, including the Commission:

- to promote the equal value of vocational education & training (VET) and academic education;
- to increase cross-border mobility and to facilitate the recognition of foreign qualifications;
- to intensify, in line with the findings on digitalisation (see above) and the report on upskilling European industry², activities to enhance digital skills in SMEs.

The Network of SME Envoys will:

- continue and step up its exchange of good practices on strengthening VET among the Member States, focusing on financing, flexibility and improving the image of VET;
- increase, in line with the findings on digitalisation, awareness for the need for digital skills in SMEs and continue to exchange good practices;
- exchange and promote good practices on the integration of disadvantaged persons, also refugees, into training and work.

4.3. Access to finance - Venture capital

The society is changing from a managerial towards a more entrepreneurial economy, which has consequences for entrepreneurship in general and financing of companies specific. Besides that, the financing market is also changing because of new regulations, technological developments and a different structure of the financial sector. Entrepreneurs should be ready for this; they will have to take more risks, be more flexible and improve their equity position.

The Capital Markets Union (CMU) communication published by the European Commission on September 30th 2015 acknowledged that: "Venture capital has a key part to play in supporting growth and offering entrepreneurs an option to raise funding in Europe as well as from overseas. Venture capital is typically long-term (equity) capital, channeled through funds which pool investor interest and diversify risk. However, EU venture capital funds remain relatively small. At around EUR 60 million, the average European venture capital fund is only half the size of that in the US, and around 90% of EU venture capital investment is concentrated in 8 Member States". Most Unicorns, companies with a valuation of more than US\$1bn, are located in the US and China. Only around 10 % are European. Nearly all of them have at least one US-investor, the EU is lagging behind. Larger EU venture capital funds could increase the market share of European unicorns and their impact on economic growth.

² http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8889

Against this background, the SME Envoys established a temporary technical group of national experts on venture capital financing to discuss the main issues in the field. On the basis of a poll among the SME Envoys and their national administrations the work of the expert group focused on three main areas of interest:

- tax incentives policies by Member States;
- Member States interventions to develop larger venture capital markets;
- financial literacy programmes developed by Member States.

In all three areas the expert group collected a number of very good practices which it encouraged the Envoys to disseminate.

Mr Pieter Waasdorp, SME Envoy for The Netherlands and rapporteur for access to finance, when presenting the result of the work so far achieved, insisted on the need to accommodate the transition to an entrepreneurial economy and listed the following points as initiatives needed to foster access to finance and further develop the European venture capital market:

- supporting the creation of larger venture capital, thus attracting the interest of big private institutional investors in the VC asset class, without losing the Seed-end of the market;
- stressing the importance of entrepreneurial ecosystems and sharing of good practices;
- fostering cross-border investments;
- reinforce mechanisms for matchmaking, information sharing, education, training on the job (both for entrepreneurs and employees) and trust building.

In this context the SME Envoys welcome the success of European Fund for Strategic Investments (EFSI) in relation to SMEs and the extension of the financial portfolios.

Based on this preliminary work the SME Envoys ask the Council to encourage Member States:

- to support match-making initiatives between all players of the market;
- to further strengthen information sharing, (financial) education and training on the job (both for entrepreneurs and employees).

The Network of SME Envoys will:

- continue the work on access to alternative finance, in particular through
 - its active participation in match-making initiatives such as *Ideas from Europe* or *Get in the Ring*;
 - contributing to awareness raising campaigns about financial literacy and available sources of finance.

4.4. Entrepreneurship education

Mr Drazen Pros, former SME Envoy for Croatia and *rapporteur* for entrepreneurship, reported during the SME Envoy meeting end of November 2015 (NB: the issue could therefore not be anymore included in the Annual Report for 2015). His successor Mario Antoni  took this subject

further. In their meeting on 1 April the Envoys discussed what needs to be done to push entrepreneurship education further.

The “key competence approach” to entrepreneurship education in national and school-level curricula in Member States needs strengthening: most Member States incorporate entrepreneurship into national policies and national curricula. But adopting a key competence approach to entrepreneurship education ultimately means ensuring that all those who complete formal education acquire the knowledge, skills and attitudes defined as “a sense of initiative and entrepreneurship”. This also needs to be supported through lifelong learning.

In addition to considering organisational options for delivering entrepreneurship education, adopting the key competence approach to entrepreneurship education requires equal attention be paid to course content and learning outcomes. In particular, curricular approaches should reflect the fact that the key competence of entrepreneurship is not necessarily about business-launching, but has a much more wide-ranging and inclusive definition as the capability to “turn ideas into action”, and is therefore also a key component of employability and indeed for making a positive impact on wider society and in one’s own personal life. The term “entrepreneurial education” would therefore seem more appropriate.

Businesses thrive in and need well-functioning eco-systems. It is therefore necessary to move beyond curriculum specification to an “eco-system approach” that supports schools and teachers to develop entrepreneurship education as part of the overall eco-system for (future) entrepreneurs. Curriculum specification is necessary, but it may not be sufficient for ensuring that entrepreneurship education “works” in the classroom. Some Member States have gone several steps further and have (or are planning to) set up comprehensive measures to support entrepreneurship education including support to schools, teacher training, teaching guidelines, monitoring and good practice exchange. Adopting such a holistic approach is referred to by the European Commission’s Thematic Working Group for Entrepreneurship Education as an “entrepreneurship education eco-system” (European Commission, 2014), and such an approach is likely to lead to higher quality approaches to entrepreneurship education and to better results.

A range of initiatives and institutions have already been set up in this direction. The European Entrepreneurship Education NETwork (EE-HUB)³ is an initiative supported by the European Commission gathering experts and organisations to work on identifying good practice and developing policy recommendations. SEECEL itself was set up with European Commission support and now works in South East Europe, the Danube Region and at the EU level on developing frameworks for the key competence of entrepreneurship and has become recognised as a best practice example in Europe. The strengthening (or multiplication) of such expertise hubs could provide relevant EU and national institutions with valuable support, advice and resources for policy development on entrepreneurship education. The Commission has already reacted to the report by the Croatian SME Envoy and broadened the annual SME Performance Report (SPR). The SME Performance Review (SPR)⁴ includes for its current version for the first time comprehensive data about entrepreneurship education.

The SME Envoys ask the Council to encourage Member States:

- to further strengthen the “key competence approach” to entrepreneurship education in national and school-level curricula;

³ <http://ee-hub.eu/>

⁴ [reference to 2016 SPR to be added after publication]

- to move beyond a simple curriculum specification to an “eco-system approach” that supports schools and teachers to develop entrepreneurship education and fosters stakeholder involvement, in order to further the positive development shown in the SPR.

The Network of SME Envoys will:

- contribute to the above mentioned "eco-system approach" by improving the Open Method of Coordination⁵ on entrepreneurship education between Member States through its network;
- set up a non-permanent thematic working group of experts to track entrepreneurship education progress. The group will make suggestions to the thematic discussions at the EU- or regional-level and to disseminate updates and recommendations to relevant EU and national institutions;
- work closely with the South-East European Centre for Entrepreneurial Learning (SEECLE), itself considered a best practice, and other similar initiatives to foster further best practice identification and dissemination.

4.5. Start-up and scale-up

Based on the report of Mr Anders Hofmann, SME Envoy for Denmark and rapporteur for start-up and scale-up, which was finalised at the meeting of 7 October and in light of the Start-Up Initiative of the Commission the Envoys will focus on the implementation of the actions proposed.

The report on start-ups and scale-ups contains in particular reference to three possible courses of action:

- the creation of an EU Scale-up Observatory needed to improve data on scale-ups in the EU and provide a platform for the knowledge sharing on good practices and programmes evaluation;
- the need to take scale-ups' interests into account when creating new or evaluating existing EU policies;
- the creation of an EU Experimentation Fund for trying out novel approaches to innovation and business growth support.

The SME Envoys ask the Commission

- to take scale-ups into account when designing new or evaluating existing policies.

The SME Envoys ask the Council to encourage Member States:

- actively assist the Commission in compiling the required national data on scale-ups for the EU-scale-up observatory;
- to make full use of the possibilities offered by the recent review of the procurement rules to allow SMEs and in particular start-ups and scale-ups, to participate with a fair

⁵ Intergovernmental policy-making that does not result in binding legislative measures, hence requires good cooperation.

chance of success in tender procedures; to make sure that the tender conditions, in particular regarding payment conditions and financial, technical and professional requirements, are set in a SME-friendly way;

- to ensure that financial instruments and alternative sources of financing are sufficiently known to and used by small enterprises, in particular innovative young firms.

The Network of SME Envoys will:

- contribute to the creation of a knowledge platform on good practices and evaluation of the scale-ups programmes;
- play - as part of the European SME, start-up and scale-up ecosystem – an active role in the shaping of the European eco-system for start-ups and scale-ups, in particular through Mr Anders Hoffmann, SME Envoy for Denmark and rapporteur for start-ups and scale-ups. In this context it will also cooperate pro-actively with global initiatives such as the Global Entrepreneurship Network.

5. KEY ISSUES FOR 2017 AND BEYOND

The Network of SME Envoys will continue to address the Commission's initiatives which have a particular impact on SMEs. For 2017 the SME Envoys will in particular:

- intensify their work on start-ups and scale-ups, in particular in the context of the Start-Up Initiative as foreseen in the Single Market Strategy;
- look at best practices in the area of family businesses, under the guidance of Mr Chris Cardona, the SME Envoy for Malta;
- reassess the situation regarding the attribution of licenses to SMEs based on the Irish concept of a One-Stop Shop for licenses.
- revisit for 2017 and beyond better regulation issues, both on a national and the EU level.

To support the Commission in its work, the SME Envoys are developing in cooperation with business organisations a rolling programme of actions which will start in 2017.

6. CONCLUSION

The SME Envoys request the Council to endorse this report and to take note of the next steps.

The SME Envoy Network underlines that SME aspects need to be taken into account in all legislative and policy initiatives both on EU and Member States' level. The SME Envoy Network is actively involved in this task and welcomes the regular debate at the Council to engage Member States in the implementation of SME policy and ensuring that SMEs remain high in the political agenda in the coming years.