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FROM CRISIS TO RECOVERY: THE ROLE OF THE EU POLICIES IN SUPPORTING MSMES

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"In 2016, 24 million MSMEs generated EUR 4,030 billion of value added and employed 93 million people."

In the last 4-5 years, SMEs in the EU have recovered impressively from the effects of the global financial crisis. As a result of the recovery, between 2012 and 2016, the value of SMEs increased by 13.4%. SME employment also picked up between 2013 and 2014 and increased by 5.1 % by 2016.

While there are clear signs of an emerging start-up culture in the EU, recent years have revealed a need for more fast-growing businesses or scale-ups. On average in the EU-28, 9.2% of firms in the business economy' were high-growth firms in 2014.

Overall, in 2016, 24 million MSMEs generated EUR 4,030 billion of value added and employed 93 million people. Thereby, MSMEs accounted for two-thirds of the total employment and 56.8 % of total value added generated in the EU economy.

When hit by the crisis, many EU MSMEs faced many simultaneous challenges. The recession in home markets meant that businesses had to quickly identify and tap into new markets, often abroad. Their traditional sources of finance dried up as banks struggled with their own financial problems. The difficulties in financial markets also stifled the emergence of start-up and scale-up firms in many EU Member States.



The European Commission acted immediately on the financial crisis. Against the backdrop of already existing initiatives such as the Small Business Act for Europe (SBA), which since 2008 has provided a comprehensive set of actions in ten different policy domains in support of MSMEs, a number of additional targeted and hands-on measures were initiated to address the biggest challenges for MSMEs in the EU:

1. Boosting start-up and scale-up firms
2. Improving access to finance
3. Improving access to markets – especially the single market

1. The Commission launched a dedicated startup and scale-up initiative. The crisis further accentuated an existing challenge for the EU. Compared to important partner countries such as the US, the EU boasted fewer young, fast-growing firms, also known as 'scaleups'. While in terms of the numbers of newly founded businesses, or start-ups, the EU holds up well to other regions, it needs more dynamically expanding firms that are dedicated to continuous growth.



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The Commission reacted swiftly by initiating a targeted 'Start-up and Scale-up Initiative' (SUI) based on an EU-wide public consultation. On average, 6% of companies create more than 50% of all new jobs. Start-ups and scale-ups have a great potential to increase European productivity, creating innovation and jobs. To create more opportunities for start-ups and scale-ups, the Commission initiated actions that will help to connect European start-up ecosystems, support start-ups in finding the right business partners and skilled workers, and to encourage them to take part in public procurement. All of the 46 actions foreseen in the initiative have either been implemented or are in the process of implementation.

2. Access to finance became an overnight challenge for many MSMEs involved in the crisis. Complementing national actions to improve MSMEs' access to finance, the Commission swiftly provided much-needed support for MSMEs through its COSME financial instruments.

The COSME Loan Guarantee Facility helps provide low-amount financing to MSMEs via guarantees and counter-guarantees made available to financial intermediaries. COSME focuses on MSMEs that would normally have difficulties in obtaining financing.

Between 2014 and 2017 the COSME Loan Guarantee Facility helped almost 263,000 MSMEs from the EU. The average amount of guarantee in the EU countries amounted to €47,600 per SME.

Approximately, 50% of firms benefiting from the COSME loan guarantee in the EU are startups and 90% are micro companies with less than 10 employees. Between 2014 and 2017, around 263,000 MSMEs from 22 EU countries participating in the COSME program benefited from €12.5 billion of financing.

3. With 'traditional' and often domestic markets suddenly retracting, many businesses had to quickly identify and tap into new markets, either at home or abroad. The European Commission worked closely with national governments and stakeholders to facilitate the search for new markets and internationalization.

A cornerstone in this regard is the Enterprise Europe Network (EEN). The EEN helps firms to innovate, grow internationally, and find partners in other member states. During 2015- 2016 it provided support to around 460,000 MSMEs in the EU; more than 300,000 of them benefited from information and advice services, about 100,000 received specialized expert support, and 46,000 MSMEs participated in international brokerage events. An external evaluation in 2015 found that MSMEs receiving EEN services have growth rates of 3.1% higher than non-EEN supported MSMEs.

Also, the Commission put the reduction of unnecessary bureaucratic obstacles at the center of its SME policies. The systematic implementation of the SME test on both the EU as well as on member state level is a successful example for this. As a result, all relevant EU legislative initiatives are now rigorously screened for their suitability for MSMEs before there are adopted and implemented. Simultaneously, the Commission is urging member states to stringently apply this practice on the national level, too.

The Commission is also taking a strict line on enforcing late payments legislation because of the detrimental effect that disruptions in cash flow can have on MSMEs.

Finally, the EU's New Skills Agenda is going to help MSMEs and start-ups to recruit the right-skilled employees they need to innovate and grow, addressing the issue of mismatch between education and training, and the skill needs of firms.

To increase the efficiency of its measures, the Commission intensified its cooperation with member states. An effective and speedy tackling of the crisis could only be achieved through even closer cooperation between the European Commission and national, regional, and local policymakers. A good example of this closer cooperation is the EU SME Envoy network. Put in place to steer the implementation of the SBA, it became a platform for hands-on policy dialogue and exchange of good practices for the SME policy coordinators in member states. Among other things, it yielded the 'European SME action program'. This program complements the Small Business Act for Europe (SBA) and contains a number of concrete novel actions to mitigate the negative effects of the crisis for EU MSMEs.

The Commission is aware that in the current volatile economic, political, and technological environment, its SME policy approach has to remain, above all, flexible and prepared to adapt to future challenges.



About ICSB Gazette:

The ICSB Gazette is a weekly edition of a key topic that ICSB will showcase. The content is varied from research, practice, policy, and education. The editor of the ICSB Gazette is Ms. Jordyn Murphy, ICSB Operational Manager. She will be soliciting ideas and articles from ICSB members world-wide.

ICSB Executive Director Comment:

With the economic climate changing every day, I look forward to seeing the continued effect of the EU's New Skills Agenda.

Dr. Ayman El Tarabishy



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Contribute:

Have a topic you would like to see or an article to share? Please submit for consideration to jordyn@icsb.org

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