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| **OPINION** |
| European Economic and Social Committee |
| **SME relief package** |
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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  (COM(2023) 535 final) |
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| **INT/1048** |
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| Legal basis | Article 304 of the Treaty on the Functioning of the European Union |
| Section responsible | Single Market, Production and Consumption |
| Adopted in section | 29/1/2024 |
| Adopted at plenary | 14/2/2024 |
| Plenary session No | 586 |
| Outcome of vote (for/against/abstentions) | 193/0/2 |

# **Conclusions and recommendations**

## The European Economic and Social Committee (EESC) welcomes the SME relief package as an attempt to put SMEs at the core of European legislation and at the heart of European strategies, discussions, and actions in support of competitiveness. While the EESC is pleased to notice the renewed commitment of the European Commission to "think small first", such a commitment should be translated into tangible actions. The next Commission should make this a priority and give it continuity.

## While the EESC acknowledges the political message behind the initiative, more remains to be addressed through practical actions to create a resilient and dynamic environment for SMEs. Factoring in the contribution of SMEs to the real economy goes hand in hand with endorsement of the better regulation principles. Here, the SME relief package gives a signal with the announcement of the EU SME Envoy appointment and the commitment to long-term reduction in the regulatory area.

## The EESC encourages the EU institutions to tackle persistent barriers to doing business across the single market. This remains crucial for enabling economies of scale, growth, the creation of quality jobs, and investments. The EU legislation too often allows for differentiated transposition across the EU Member States and the Commission's enforcement policy lacks teeth against Member States that introduce national rules or administrative requirements leading to market fragmentation.

## The EESC believes that it should be made easier for SMEs to access financial resources, whether through grants, loans or other financial instruments, with tailored assistance. The EESC also asks the Commission to put in place all of the necessary measures to incentivise SMEs to adopt a responsible conduct in accessing EU funding.

## The EESC stresses the importance of ensuring business-friendly legislation that fully reflects the difficulties – and the differences between the challenges – faced by SMEs and by large companies. It is important that businesses respect social rights and health and safety rules in the conduct of their business, and are enabled to unleash their potential to contribute to sustainable development. At the same time, the conditions required to unleash their potential must be put in place.

# **Background to the opinion**

## The Communication on the SME relief package was published on 12 September 2023 and includes:

* a proposal for a late payment regulation[[1]](#footnote-1);
* a proposal for a directive on tax simplification for SMEs[[2]](#footnote-2); and
* a set of measures to make things easier for SMEs, to improve access to finance and a skilled workforce, and to support SMEs throughout their business lifecycle.

# **General comments**

## The EESC overall welcomes the Commission's political message behind the SME relief package. SMEs should be put at the centre of every legislative action, as they represent the most important component of the European industry and economy. The 24 million European SMEs represent 99% of all businesses in the EU, with most of them being micro enterprises, and provide two-thirds of jobs in the private sector in the EU.

## The EESC believes that it is important that SMEs respect social rights in the conduct of their business, and that they are given the opportunity to unleash their potential in order to contribute to sustainable development. At the same time, legislators must create an environment that allows for an easy access to finance, affordable energy and a skilled workforce ready for the twin transitions.

## According to the 2024 Eurochambres Economic Survey, based on responses from over 43 000 entrepreneurs across Europe (95% of whom are SME owners), the sourcing of energy and raw materials, labour costs and a shortage of a skilled workforce will be the main challenges in 2024. Such results are therefore a clear call for political action in order to reduce uncertainty among the business community and improve the predictability and resilience of Europe's economy. In order to avoid unfair competition, the EESC calls for incentives for the promotion of responsible business conduct.

## The EESC therefore welcomes the Commission's intention to address some of these aspects as part of the SME relief package Communication. The marked accent on the improvement of the regulatory framework comes with the renewed commitment to systematically "think small first" and to cut red tape. For many years, these have been major concerns and the European co-legislators should further develop and tailor their legislation to the needs of SMEs.

## The Communication on the SME relief package is also characterised by the increasing relevance attached to the digitalisation process to simplify procedures. We need to improve compliance and controls and ensure that SMEs are able to keep pace without adding unnecessary pressure on their shoulders. While there is a clear benefit in digitalising means and procedures, SMEs often struggle to uptake such processes due to limited financial resources and incentives. Digitalisation should be promoted but not imposed.

## The EESC regretfully notices that the package fails to provide a new lifeline for companies and that the few new actions will have a limited and delayed impact on businesses.

## The EESC stresses that the solutions sought when tackling the challenges faced by European businesses should take into account the European social economy model. Fostering social dialogue and ensuring collective bargaining play an important role in striking a balance between economic and social aspirations and reducing the mismatch gap.

## The EESC calls for favourable conditions to be created that will enable European businesses to access finance and employ people while respecting health and safety at work. To achieve this, the EESC calls for further support for SMEs and for measures to make it easier to respect legislation on health, safety and environmental protection. This is important to avoid accidents at work and work-related health damage.

## The EESC only echoes its previous opinions that the industrial, energy, and climate strategies need to be aligned. It also points out that the EU has to commit to an ambitious programme to tackle remaining barriers to the single market to enable economies of scale, growth, and investment.

# **Specific comments**

## Action 1 of the SME relief package Communication proposes a tax simplification directive. In general, the EESC welcomes the efforts for simplification as well as the reduction of burdens in VAT areas in cross-border activities. The EESC, however, notes that more needs to be done to remove other long-lasting barriers. Fragmentation across the single market and different national rules on goods and services place a considerable burden on businesses.

## The EESC welcomes the Commission's commitment to systematically considering specific SME-friendly provisions in new legislative proposals as set out in Action 2. The SME test is pivotal to ensuring an SME-proofed regulatory regime and needs to be used correctly to prove effective. The impact on SMEs of delegated and implementing acts needs to be thoroughly evaluated.

## Uniform and high-quality application of the SME test is crucial. The Commission services must reflect on SME needs early in the impact assessment process. This should be done systematically, providing a more inclusive involvement of social partners and business organisations. Impact assessments should differentiate between different size classes of SMEs and assess the indirect effect of policies (including social issues).

## Better law-making must be pursued by eliminating unnecessary burdens stemming from the proposals, without lowering any social or environmental standards. The EESC highlights that better use of already existing tools can contribute to avoiding red tape. A good example is to state in any legislative proposal the expected obligations deriving from the proposal, which, inter alia, helps provide a better understanding in terms of cumulative burden. The EESC encourages the Commission to use digital tools to measure the potential administrative burden and avoid overlaps in obligations and contradictory measures. More specifically, we urge the Commission to map the existing obligations of companies and swiftly proceed with the implementation of a burden reduction programme on businesses, by actively involving European social partners and business organisations.

## The EESC welcomes the appointment of the EU SME Envoy as well as the proposal to involve the Envoy in Regulatory Scrutiny Board hearings. It calls for the EU Envoy to report on the outcome of the RSB hearings at the EU Competitiveness Council and at the meetings with national SME Envoys and social partners. The Commission must ensure that the person has an entrepreneurial background and a well-defined set of competencies and responsibilities in the upcoming 2024-2029 mandate, and that the position is accompanied by adequate resources in terms of staff and financial support. The communication channels between the national SME Envoys and the SME community in every Member State should be strengthened. Regular and structured dialogues with business organisations and social partners should be promoted to reinforce synergies and to ensure more coherent implementation of policies.

## Regarding action 5, the EESC points out that the Council of the European Union and the European Parliament must, beginning now, conduct impact assessments of substantial amendments made to Commission proposals. The EESC stresses that this engagement must not remain a promise but needs to be implemented systematically. Substantial changes to Commission proposals imply substantial changes in the expected impact.

## Regarding action 7, the EESC considers regulatory sandboxes to be a promising idea that must abide by social and environmental standards. Companies need a space to test and experiment before investing. The EESC stresses that innovation policy must take a multi-stakeholder approach involving SMEs, civil society and other relevant organisations in the definition of the regulatory sandboxes' content: companies' needs are the decisive criterion for the useful use of sandboxes. Synergies in EU programmes should be generated and the SME community should benefit from such opportunities, as an essential pillar of Europe's research and innovation ecosystems. Transparency and competitive neutrality – especially regarding a non-discriminatory selection of participants – must be guaranteed. Considering the promotion of the use of regulatory sandboxes for net-zero industries, and the promotion of new forms of socio-environmental entrepreneurship and experimentation with alternative business models promoting greater democracy, the EESC highlights the importance of making them available to businesses from all economic sectors.

## Action 8 concerns the launch of the once-only technical system (OOTS) by the end of 2023 and the broader scope of the single digital gateway. The EESC highlights that efforts to boost digitalisation in the field of reducing and simplifying administrative procedures by interconnecting public services in Europe are key, not only for the digital transition, but for the entire economy. It stresses that the effectiveness of the single digital gateway depends on the Member States' readiness and capacity to apply the implementation of Regulation (EU) 2018/1724. Furthermore, it highlights that the digitalisation of social security systems cannot only be about simplification, but must improve cross-border cooperation and enforcement and the fight against fraud.

## The EESC calls on the EU institutions and Member States to step up their efforts in digitalisation and promote the adoption of user-friendly solutions. The many regulatory layers could be simplified by digital tools. For instance, the EESC recommends the creation of an application for calculating the remuneration of posted drivers in real time, and the creation of a single European VAT number to replace the digital VAT. Still, there is a lot to be done in recognition of e-invoicing across the EU.

## In its Action 9 the Commission refers to the set of proposals published in October 2023 to rationalise reporting requirements to meet the 25% reporting reduction target. The EESC considers this a first step in the right direction. However, a far more ambitious approach is needed to ease the regulatory burden for European businesses. At the same time, the EESC recommends that the reduction in reporting does not come at the detriment of the accomplishment of concrete social and environmental goals.

## The EESC strongly supports any effort to combat late payments as set out in action 10. Paying on time contributes to a healthier economic environment and serves the strategic purpose of deepening the single market. The EESC also identifies two major general problems linked with late payments: first, the enforcement of the current rules; and second, late payments by public authorities. Concrete measures to tackle these aspects of the current rules will promote a cultural switch towards prompt payments.

## In its Action 11, the Commission will encourage Member States, through the relevant InvestEU governance structure, to allocate additional resources to InvestEU national compartments and facilitate Recovery and Resilience Facility (RRF) contributions to InvestEU by providing additional guidance on the application of the "do no significant harm" principle. In particular, the Commission proposal for the 2023 mid-term review of the MFF 2021-2027 should put SMEs at its core and not reduce existing funds for European SMEs. The EESC encourages Member States to approve the increase in InvestEU's budget, as a result of its success. Lastly, the EESC mid-term evaluation of the RRF[[3]](#footnote-3) highlights how excessive red tape and burdensome legislation significantly limit an efficient allocation of funding to green and digital projects under the RRF. The EESC notes that the creation or strengthening of a favourable business environment for SMEs must not come at the detriment of human rights and the environment. At the same time, the EESC suggests specific conditionalities, accompanied by incentives linked to the SMEs' respect of human rights, decent work and sustainability.

## The EESC is supportive of Action 12 to launch a pilot facility of roughly EUR 300 million to allow export credit agencies to support SMEs in trading with Ukraine. The EESC also calls for accelerating the work on a European strategy for export credits to provide a more effective and consistent export credit (guarantee) offer across the entire EU, focusing on solutions that can also cater to the needs of SMEs.

## Action 13 aims to improve SMEs' participation in public procurement. This action is particularly welcomed by the EESC, considering that SMEs often face significant barriers to bidding and winning public procurement contracts: lengthy and difficult bidding processes, lack of knowledge about upcoming contracts, knowledge asymmetry between large and small enterprises, limited resources, late payments by public authorities and a lack of experience in bidding on contracts, among others. In order to make it easier for SMEs to access tenders, the EESC suggests dividing public procurements into lots. The EESC notes that access to public procurement should be open to those who engage in responsible conduct in their business operations, including with regard to decent work and worker health and safety.

## Action 14 proposes to ensure that SMEs have a simple and standardised framework to report on environment, social and governance (ESG) issues. The primary focus should be on the transformation management of each enterprise. The voluntary SME standards proposed by EFRAG hold the potential to meet these requirements and should be further developed accordingly. In this regard the EESC highlights its opinion on *Sustainable corporate governance*[[4]](#footnote-4).

## With Action 15 the Commission proposes to work towards a standard or a definition of green loans, notably for SMEs. The EESC stresses that the development of requirements for green loans must also be proportional to the size of the companies, and that a "one-size-fits-all" approach is not appropriate for SMEs. Additionally, requirements should be aligned with the data framework in the voluntary SME standard.

## On the proposed assessment of an SME-friendly adaptation of the green asset ratio (GAR) as in Action 15, the EESC agrees on the importance of such a review in June 2024. Considerations for simplifying the taxonomy for SMEs are known. However, significant doubts remain as to whether the simplification can be achieved in a way that is feasible for SMEs. Offering sustainable loans to SMEs is cost-intensive due to smaller volumes. To promote the necessary significant increase in investments, financial incentives are essential. These could include reduced capital requirements, securitisation of sustainable SME loans, public funds to cover initial losses or their use as security in the Eurosystem, and preservation of workforce. The EESC also remarks that SMEs cannot meet the multi-level taxonomy reporting requirements, so they should no longer be included in the denominator of the green asset ratio. A specific SME-GAR could stimulate the transformation in the SME sector if based on a clear and flexible EBA framework for green transition and SME financing.

## The EESC welcomes the effort to improve the recognition of qualifications and skills of third-country nationals to reduce the skills gaps in the EU labour market, as stated in Action 16. The lack of a skilled workforce is one of the biggest challenges for European businesses. Given the aging of the European population, it is clear that well-managed migration is necessary, while also respecting the Member States' competencies on this matter. Some labour shortages are skill-related, and some might be linked to labour conditions. The EESC stresses the need for reactive skills policies that reflect the actual needs of the labour market and must be identified together with social partners. Improving the recognition of qualifications is crucial to facilitate skills matching and ensure that workers see the benefits of engaging in further education and training through upskilling and reskilling processes. The Commission has to ensure that the EU Talent Pool will be easy for companies to use in practice.

## Action 17 focuses on improving the work with groups whose untapped entrepreneurial potential remains high, such as women, young people and persons with disabilities. The EESC stresses that strong attention should be paid to programmes and accelerator programmes that support these groups.

## With Action 18, the Commission proposes to analyse whether the current SME definition is fit for purpose, and to develop a harmonised definition for small mid-cap companies. The EESC fully subscribes to the "think small first" principle, according to which EU legislation must be developed in line with the impact on smaller businesses. From the perspective of a predictable and stable regulatory framework, the correct application of such a principle would consequently make the discussion of reviewing the SME definition less pressing.

## The EESC supports Action 19 to boost business transfers. EU-level actions could include raising awareness about the skills needed for a successful transfer, promotion measures, and early warning tools. As already stressed in its opinion[[5]](#footnote-5), the EESC believes that developing well-functioning business transfer ecosystems and support services is essential in preserving the livelihood and economies of rural and mono-industrial areas. The EESC encourages the Commission and the Member States to update the Council recommendations on business transfers from 1994.

## Innovative SMEs must receive the support and resources needed to thrive. SMEs rely mainly on banks which often do not provide the risk capital that they need. In recent years, progress has been made on enhancing access to capital, but the lack of growth capital in particular impedes the scale-up of young innovative firms. Private investments should be incentivised by further developing a European market for venture capital, de-risking instruments (guarantees, tax credits, financial incentives) for strategic investments, and providing alternatives to public markets (including business angels, seed public funds, public investment funds, cooperatives), for instance through the principles of risk mutualisation.

## The EESC asks the European Commission to conduct a mapping exercise of the specific obstacles to a second chance faced by entrepreneurs after bankruptcy or insolvency.

Brussels, 14 February 2024.

Oliver RÖPKE

The president of the European Economic and Social Committee

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1. EESC opinion on [Revision of the late payments Directive (not yet published in the OJ)](https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/revision-late-payments-directive). [↑](#footnote-ref-1)
2. EESC opinion on [Establishing a Head Office Tax system for SMEs (HOT) (not yet published in the OJ)](https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/establishing-head-office-tax-system-smes-hot). [↑](#footnote-ref-2)
3. EESC evaluation report on the [Mid-term evaluation of the Recovery and Resilience Facility](https://www.eesc.europa.eu/en/our-work/opinions-information-reports/information-reports/mid-term-evaluation-recovery-and-resilience-facility). [↑](#footnote-ref-3)
4. [OJ C 443, 22.11.2022, p. 81](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022AE1327). [↑](#footnote-ref-4)
5. [OJ C 486, 21.12.2022, p. 9](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2022.486.01.0009.01.FRA). [↑](#footnote-ref-5)