SMEs key to EU economic success

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SMEs need strong support from all levels of governance, writes Richard Tuffs.

SMEs are the backbone of the European economy. They make up more than 99 per cent of all European businesses, provide two out of three private sector jobs and contribute to more than half of the total added value created by businesses in the EU.

Therefore, it is vitally important for the EU's economic success that we have fully functioning support measures for SMEs.

However, policy for these companies must be able to respond to the variety of situations they face, taking into account type, location or sector, for example. Not all countries have recovered their SME activities, and some sectors, such as construction and manufacturing, are yet to find their feet once again.
Therefore, support for small businesses cannot be 'one-size fits all' and, to a large extent must be tailored to the relevant regional and sectoral level. Much of this support can come from structural funds, and is one of the four priority objectives of the 2014-2020 programme.

However, wider measures are available to support, for example, research and innovation, business planning for innovative SMEs and export and tech-transfer.

Help is also available at regional level. Around 20 per cent of Horizon 2020's total combined budget for all societal challenges, as well as the specific 'leadership in enabling and industrial technologies (LEITs)' objective, is likely to go to SMEs.

This means that at least €8.33bn in EU support for research and innovation activities will go directly to small businesses.

The first Horizon 2020 call demonstrated that both SME participation and financial allocation have increased over the seventh framework programme average.

While not all countries have signed up to the Eurostars programme, which is jointly funded by member states, it is ideal for research-intensive SMEs. It requires smaller consortia, with two deadlines per year.

Another new funding opportunity is the 'fast track to innovation' pilot initiative, which also requires a smaller consortium, and aims to speed up the commercialisation of research.

The Commission notes that, 'first-time applicants and SMEs are particularly welcome' to participate in the new programme; the first set of winning projects has just been published. One of the key challenges for small business is finance.

Under Horizon 2020, about one third of the access to risk finance budget - over €900m - will go to SMEs and small midcaps, through a debt facility providing loans, guarantees and other forms of debt finance to entities. This also includes an equity facility, providing finance for mainly early-stage investments, with particular focus on early-stage SMEs.

While support under Horizon 2020 requires transnational collaboration, the 'SME instrument' is exclusively dedicated to small businesses, targeting those that are highly innovative and demonstrate strong ambition to develop, grow and internationalise, regardless of the sector.

With a budget of more than €3bn for 2014-2020, the SME instrument grants tailored support to businesses that have ground-breaking ideas with high market potential but lack certain resources, or a real strategy, to deliver.

Support for export and partnership development is also important for SMEs. The enterprise Europe
network (EEN) is a key instrument, bringing together around 600 business support organisations from over 50 countries, and helping small companies seize business opportunities in the single market.

Increasing the internationalisation of SMEs is important, and the EEN provides a business database containing thousands of company profiles. It also organises regular matchmaking events.

While all of these Europe-wide initiatives are important, there is an increasing focus on the regional dimension.

A strong and vibrant Small business sector is a key component of a dynamic regional economy, which is why regions are trying more and more to engage research and innovation-focused small businesses in the development of regional economic and innovation strategies, or smart specialisation strategies.

Involving the private sector in the 'entrepreneurial process of discovery' is one of the criteria for a successful smart specialisation strategy.

Regions can also support SMEs by developing strong clusters, such as the seven 'competitiveness clusters' in the Nord-Pas-De-Calais region in France, which are now celebrating their 10th anniversary.

Clusters play various support roles, often helping small businesses go further and faster while increasing their resilience. During the economic crisis, firms in clusters grew by 0.2 per cent, while those outside the clusters shrank by 3.7 per cent, according to the Grow Your Region conference earlier this year.

As the backbone of the EU economy, our small and medium businesses require a strong set of measures at EU, national and regional level. This means effectively communicating available opportunities to small businesses and also ensuring continuous dialogue between the various actors so that Europe's SMEs' needs are aligned with policies and instruments.

About the author

Richard Tuffs is director of the European regions research and innovation network

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