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Small and Medium Enterprises and Resilience  
to Economic Shocks: An Analysis of the  
European Union Policy Framework before and  
after COVID-19

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# 1. Introduction

The economic shock that characterised the year 2020 has posed tremendous strains on both individuals and enterprises and has been a game changer for European policymakers, reshaping most of the previsions for the future. However, this time of crisis may be regarded as a turning point for the European Union that should actively promote long-term strategies that enhance the resilience of Small and Medium Enterprises (SME) and advance its process of integration.

In detail, 2020 was marked by a change in the overall positive economic outlook of the subsequent years, and COVID-19 will negatively impact the economic growth of most world economies. On one hand, the increasing interconnections between countries and regions are an integral part of the phenomenon of globalisation and have supported the recent technological and economic progress. However, the same open and widespread channels have facilitated the chain of contagion for the virus and reinforced the subsequent economic shock. In particular, due to its unforeseen nature, this global pandemic was complex to prevent and its effects contained. In fact, after the initial spread in the Asian region, the virus reached the European continent, and countries such as Italy, France and Spain took the highest toll among several others. Once again, similarly to the aftermath of the 2009 Great Recession, especially the micro, small and medium enterprises have faced several challenges and experienced severe consequences. Despite national governments have responded to the crisis through the short-term measures at their disposal, in the long run new strategies need to be adopted. In particular, the action of the European Union is essential for shaping the environment in which SMEs operate and ultimately open the path to recovery and sustainable growth, that may be only attainable through shared efforts.

The aim of this study is to provide insights, strategies, and criteria for policymaking at European level, primarily focusing on the long-term period, to address the challenges of SMEs and enhance their flexibility in the occurrence of future economic shocks. In order to provide a clear structure, the research is divided into four parts, connected by the main theme of building up resilience. In particular, the first chapter provides a general outlook towards the definition and relevance of SMEs in Europe and presents the past pressing challenges faced by the latter in the last decade. Consequently, the second chapter provides an overview of both objectives and measures employed by the European institutions to support the growth, competitiveness, and internationalisation of these enterprises. Thus, it facilitates the

identification of criteria and practices that could be employed in the post-2020 strategy. On the other hand, the third chapter directly addresses the effects that COVID-19 had on the European economy, with a close focus on the negative impacts on SMEs. In fact, the threat to public health led to several restrictions of economic freedoms, from travel bans to lockdowns and quarantines, threatening the future growth and, in many cases, the same survival of SMEs. The initial policy response was disjointed and mostly carried out by national governments that were required to address immediate challenges and attaining short term objectives. On the other hand, the last chapter will build upon the problem definition of the previous chapters and will attempt to lay down the basis for future policymaking at European level and discussing which long term strategies could be employed to support the resilience on SMEs to future economic shocks. In particular, this study will focus on SMEs in relation to the access to finance, entrepreneurship, innovation, and digitalisation. To conclude, the recovery from COVID-19 will not be effortless nor immediate, though the active involvement of the European institutions will be essential to pursue a common, sustainable economic growth.

## 2. Defining Small and Medium Enterprises

Small and medium-sized enterprises, also referred as SMEs, constitute the backbone of almost every modern economy and are the main form of business and employment. They play a role of utmost importance to promote social and economic growth and are regarded as key actors enabling further research and innovation.

Studies of the Organization for Economic Cooperation and Development (OECD) report that “across the OECD, SMEs account for 99% of all businesses and between 50% and 60% of value added”, clearly indicative of the status of these enterprises. In addition, it is specified that “almost one person out of three is employed in a micro firm with less than 10 employees and two out of three in an SME”<sup>1</sup>. However, SMEs are also considered drivers for the improvement of social cohesion and may contribute to the wellbeing of the whole community. Looking at the broader picture, across the OECD these enterprises are commonly found operating in the service sector, that is characterised by lower entry requirements especially in terms of costs and resources. On the other hand, SMEs are less represented in sectors that are knowledge-intensive or require high amounts of capital, such as manufacturing, due to the role played by the economy of scale. Nonetheless, SMEs are still relevant in sectors that present high

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<sup>1</sup> OECD, “OECD SME and Entrepreneurship Outlook 2019”, 2019.

knowledge requirements, especially regarding technical and science related activities. Upon a closer view, the whole population of these enterprises is highly heterogeneous and present different characteristics that vary according to diverse indicators. For instance, the latter may depend on the geographical area and the specific sector. The differences in performance, competitiveness and wages are few characteristics that should be highlighted in the policymaking. In conclusion, a “better understanding the heterogeneity of SME population is critical for countries, regions and cities to support the right business conditions”<sup>2</sup> and a prerequisite to produce tailored policies suited for their sustainable economic growth.

## 2.1 The profile of SMEs

The modern business environment is characterised by complex financial and operational relationships between the public sector and enterprises. In fact, it may be difficult to distinguish the specific needs of businesses, especially when designing policy objectives or introducing regulatory frameworks. The factors of heterogeneity among the whole population of enterprises, such as the shape and size, has pushed governments to create their own definitions of what constitute a SME. Consequently, requirements vary across nations and different criteria need to be met to qualify as such. In modern economies, SMEs are broadly defined as “non-subsidary, independent firms which employ fewer than a given number of employees”<sup>3</sup>. Usually, the number does not exceed 250 employees, even though the limit in question is not fixed and vary across nations. Furthermore, another classification includes the categories of micro, small and medium enterprises. However, size is not always the only factor for determining the classification as a SME and, while being the first criterium, it can be supplemented by secondary aspects. Thus, not only the number of employees, but also the turnover, the balance sheet total and other determinants may be considered. As an example, “small” enterprises may still present additional resources that have to be considered when they are the target of public policies. In some cases, these may not be eligible for specific support whenever they are linked to or owned by other larger enterprises. A unified classification is deemed particularly important by the European institutions that, through regional funding and policymaking, finance and regulate the sector. In fact, Member States, having their own definitions, would hinder the competitive status of the market or result in an unfair allocation

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<sup>2</sup> See reference to note 1.

<sup>3</sup> OECD, “OECD SME and Entrepreneurship Outlook 2005”, 2005, OECD Paris, page 17.

of resources. Thus, a common definition is essential to ensure that the policies across the EU are transparent and consistent.

The first official definition was introduced in 1996<sup>4</sup>, but in 2003 the European Commission proposed to consider new elements<sup>5</sup>. As stated above, one of the aims of the revision process was to ensure that genuine SMEs would be targeted by public schemes, while excluding enterprises that have access to large financial resources. In addition, the financial thresholds were also set to support micro-enterprises due to their number that was growing at a high pace<sup>6</sup>. Thus, under the current definition in the European framework, there are two main requirements to qualify as small or medium enterprise. First, the business must be considered an enterprise, defined as “any entity engaged in an economic activity, irrespective of its legal form”<sup>7</sup>. According to this definition, the legal form is not the determining factor while the focus is on the economic factor. Second, “the category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million”<sup>8</sup>, as presented in figure 1.

Figure 1. Categories of SMEs and requirements.

<b>Enterprise Category</b>	<b>Employees</b>	<b>Turnover</b>	<b>Balance sheet total</b>
Micro SME	0 to < 10	< €2 million	< €2 million
Small SME	10 to < 50	< €10 million	< €10 million
Medium-sized SME	50 to <250	< €50 million	< €43 million

Source: European Commission, Annual Report on European SMEs 2018/2019.

After the revision, several evaluations were conducted by European institutions to monitor the successful implementation process. In 2009, one found that “the current SME definition that entered into force in 2005 is applied by Member States and stakeholders without any notable difficulty”<sup>9</sup>. In 2012, another study was conducted focusing on the links between the current definition and several EU policies programmes, determining that there was no need for major

<sup>4</sup> European Commission, Recommendation concerning the definition of small and medium-sized enterprises, 96/280/EC, 1996.

<sup>5</sup> European Commission, Recommendation concerning the definition of micro, small and medium-sized enterprises, 2003/361, 2003.

<sup>6</sup> European Union, “User Guide to the SME Definition”, 2015.

<sup>7</sup> European Commission, Extract of Article 1 of the annex to Recommendation 2003/361/EC.

<sup>8</sup> European Commission, Extract of Article 2 of the annex to Recommendation 2003/361/EC.

<sup>9</sup> European Commission, Working Document on the implementation of Recommendation 2003/361/EC.

revision. On the other hand, an eventual update could be necessary to adjust the requirements to the change of the economic indicators, although not deemed as urgent. Lastly, among the recommendations it was suggested to replace the criteria of turnover by a single value-added criterion to be considered in a future revision<sup>10</sup>. To conclude, the possibility of renewing the definition assures the EU policymakers to match the changes over time of the business models and to better tackle their future challenges.

## 2.2 European SMEs

SMEs are the real engine of the European economy and are key actors that can lead to employment, innovation, and economic growth. In the last decade, the sector was severely hindered by the 2008 crisis, and the aftermath was characterised by a slow recovery. In fact, the European region experienced drops in demand for goods and services that worsened the economic conditions of these enterprises. In details, SMEs experienced payment delays, shortages of working capital and decrease in liquidity, among other stress factors. Consequently, it resulted in a severe increase in the number reported of insolvencies, defaults, and bankruptcies. Moreover, these phenomena highlighted the difficulty for SMEs to get access to finance in a short term, and the credit crunch permeated the banking sector. The same ability of banks to access capital and their liquidity position additionally affected the SME sector, while interest rates were steadily increasing<sup>11</sup>. On one hand, the change of attitude in lending was a consequence of the banks surviving strategy. However, this was also the case where excessive lending practices were employed and during the crisis this excessive flexibility was no more sustainable. Banks propensity to lend was negatively influenced by several factors, such as the overall pessimistic economic outlook for SMEs, the cost of capital increasing and inter-bank lending stagnation. In addition, banks sought to rebuild balance sheets in order to preserve capital while under pressure. Outside the public sphere of intervention, SMEs reacted to these economic downfalls with short- and medium-term responses, in many cases resulting in cost-cutting, lay-offs and negative impacts on the overall economy<sup>12</sup>. First, investments and activities were downsized or postponed, hindering future growth. Second, enterprises could attempt to reduce production to match the lower levels of demand possibly with the drawback of decreasing wages. Third, additional ways to obtain liquidity were sought, when available.

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<sup>10</sup> Centre for Strategy & Evaluation Services, "Evaluation of the SME Definition", 2012.

<sup>11</sup> OECD, "The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses", 2009.

<sup>12</sup> See reference to note 11.

Lastly, the possibility of creating new businesses was hindered thus preventing future employment possibilities.

### 2.3 SME Demography in Europe

Policymaking at European level has always highlighted a focus on SMEs. In fact, long term financial and regulative support resulted in the recovery of the sector and boosted its possibility to growth, notwithstanding the trials. As stated by Jean-Claude Juncker, President of the European Commission in 2014<sup>13</sup>:

*“Jobs, growth and investment will only return to Europe if we create the right regulatory environment and promote a climate of entrepreneurship and job creation. We must not stifle innovation and competitiveness with too prescriptive and too detailed regulations, particularly when it comes to small and medium-sized enterprises. SMEs are the backbone of our economy, creating more than 85 % of new jobs in Europe and we have to free them from burdensome regulation”.*

Over time, the economic context has changed from the previous decades leading to new economic structures and challenges. Furthermore, the situation is closely monitored by the European Commission, that results in the production of annual reports on European SMEs. In short, the latest evidence shows that in 2018 more than 25 million of small and medium enterprises were active in the EU-28. To sum up, in the near past there was an overall positive outlook for European enterprises. SME growth of value added was expected to increase by 8.5% in the time frame 2018-2020. Additionally, “SMEs are expected to create 73.7% of all new jobs in the non-financial business economy, with almost half of these new jobs likely to be generated by micro firms<sup>14</sup>. Overall, in the EU there are an average of 58 SMEs per 1000 individuals. However, looking at national characteristics, SMEs are distributed unevenly among EU countries and, despite the differences between the national economies, the SMEs population remains heterogeneous. Finally, the differences in numbers are not directly related to per capita income but are a consequence of country-specific factors. Furthermore, in the non-financial business sector, SMEs represent the 99.8% of the whole population of EU-28 total number of enterprises. Moreover, they accounted for 66.6% of employment, while producing

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<sup>13</sup> European Commission, “A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change”, 15 July 2014.

<sup>14</sup> European Commission, SBA Fact Sheet and Scoreboard 2019.



56.4% of value added<sup>15</sup>. Analysing the sub-categories of the SME definition, as highlighted in Figure 2, the most common type of SMEs are micro-enterprises. In fact, they alone represent the 93% of the total number of enterprises.

Figure 2. SME Number - Value Added and Employment.

	Micro SMEs	Small SMEs	Medium-sized SMEs	All SMEs	Large enterprises	TOTAL - All enterprises
<i>Enterprises</i>						
Number	23,323,938	1,472,402	235,668	25,032,008	47,299	25,079,312
%	93.0%	5.9%	0.9%	99.8%	0.2%	100%
<i>Value added</i>						
Value in € (million)	1,610,134	1,358,496	1,388,416	4,357,046	3,367,321	7,723,625
%	20.8%	17.6%	18.0%	56.4%	43.6%	100.0%
<i>Employment</i>						
Number	43,527,668	29,541,260	24,670,024	97,738,952	49,045,644	146,784,592
%	29.7%	20.1%	16.8%	66.6%	33.4%	100.0%

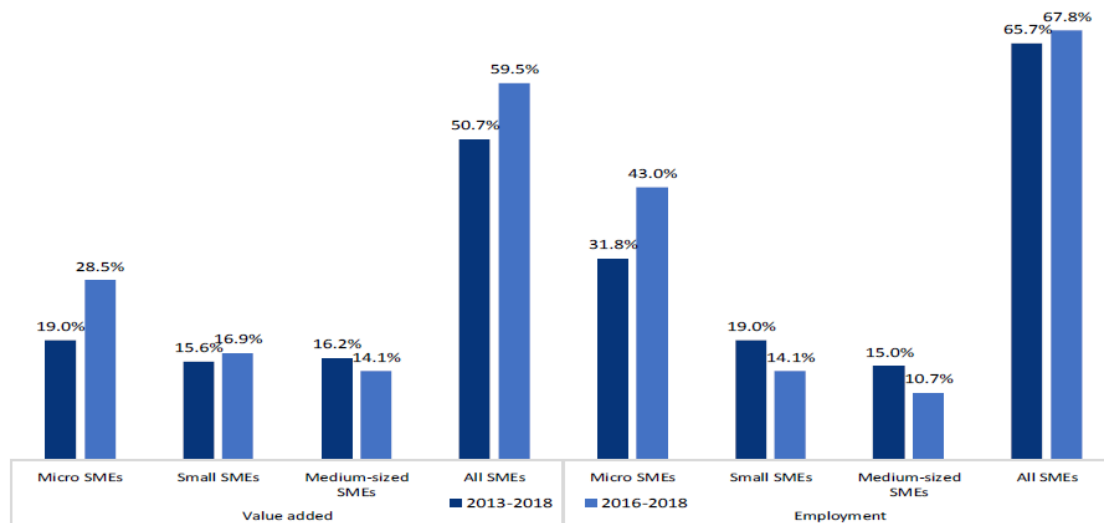
Source: European Commission, Annual Report on European SMEs 2018/2019.

Furthermore, Figure 2 clearly shows that each category of enterprises presents its own peculiarities and weights differently upon the total shares of population, employment and value added. Large enterprises still play a major role regarding the percentages of employment and value added, respectively 33.4% and 43.6%, and should not be excluded from policies. Focusing on the SME sector, micro enterprises account for one third of total SME employment with small and medium ones falling behind. On the other hand, data regarding the shares of value-added reveal that the contribution of each category (micro, small and medium enterprises) differs only for few percentages. Looking at the broader picture, it is important to show the contribution of the SME sector to the European economies over time. First, it may reflect indirectly the positive effects of the policies enacted in the past and the role played by the groups of SMEs. Second, time frames allow a better understanding of the processes that led to the current situation. In fact, Figure 3 allows to compare the total period ranging from 2013 to 2018 and the last two years before the report<sup>16</sup>, 2016-2018. The recent two-year period shows that SMEs have played a major role in the increase of employment and value added, respectively 59.5% and 67.8%.

<sup>15</sup> European Commission, Annual Report on European SMEs 2018/2019.

<sup>16</sup> See reference to note 14.

Figure 3. SME Contribution to Value Added and Employment, 2013-2018/2016-2018.

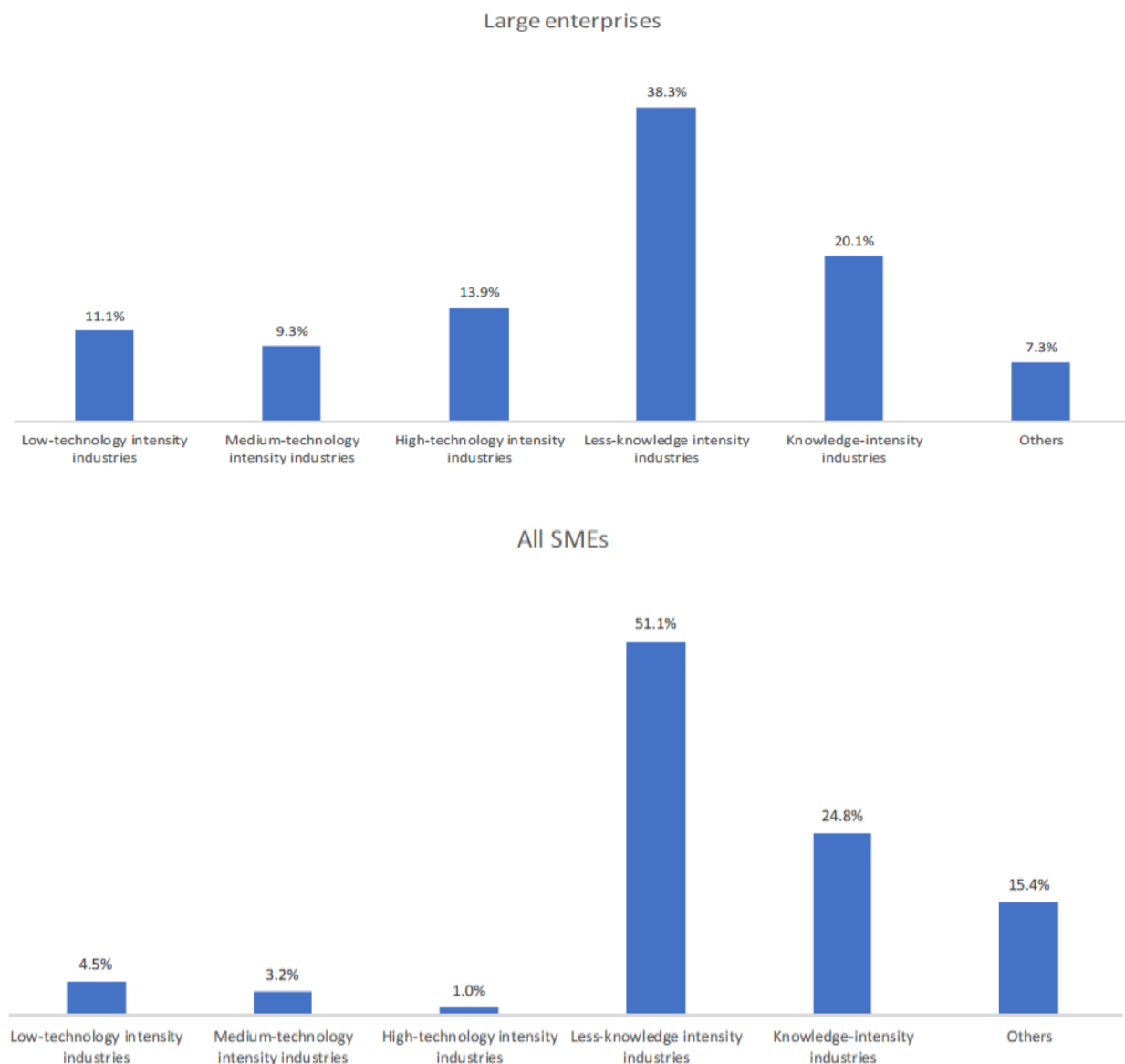


Source: European Commission, Annual Report on European SMEs 2018/2019.

In addition, micro SMEs accounted for the greatest increase, with 43% in employment and 28.5% in value added. Overall, it can be inferred that, in the EU, the SME sector has increased its overall contribution to the economy, especially in employment, with the 2016-2018-time frame showing higher percentages than the 2013-2018 one. Finally, micro enterprises had been a key actor in this process highlighting the importance of supporting their future development to increase even further. On the other hand, the percentages regarding medium-sized enterprises declined in respect to the widest time frame, requiring further research to tackle their main obstacles, slowing down their economic growth.

To assess the challenges faced by these enterprises and understand the policy framework, it is also required to consider additional characteristics. First, SMEs and large enterprises tend to operate in different sectors. As shown in figure 4, there is an overrepresentation of the former in low-knowledge intensity industries, especially regarding the service sector. On the other hand, there are very low shares of SMEs operating in the low, medium, and high-technology intensity industries. In fact, these sectors are more focused on the goods production. Compared with the percentages regarding large enterprises, SMEs tend to operate in a very different pattern.

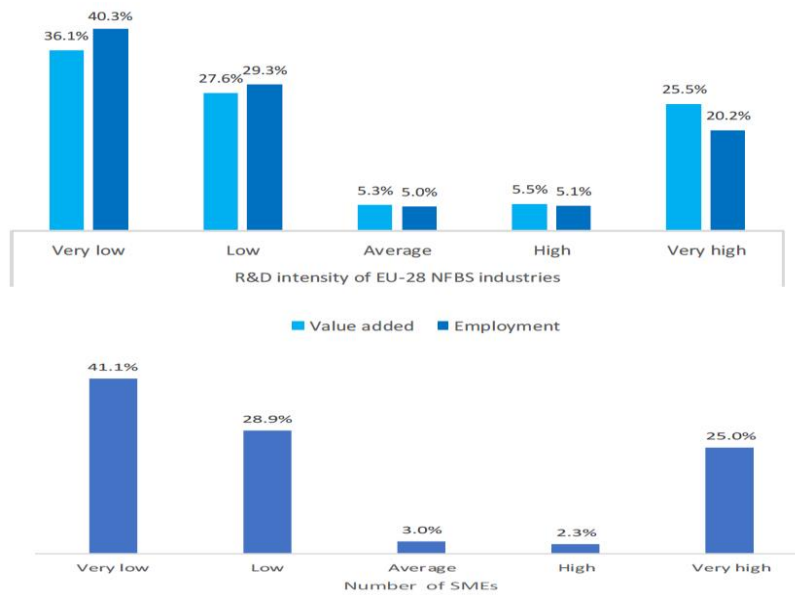
Figure 4. Enterprises by sectors.



Source: European Commission, Annual Report on European SMEs 2018/2019.

However, Figure 1 (Appendix) shows that medium sized enterprises share more features in common with larger enterprises, due to closer levels of employment and turnover. In details, scaling up to micro size, the smaller the enterprise, the less it operates in sectors with high technological requirements. However, this is not reflected in the knowledge intensity sector, where this relation is inverted. This should be reflected in the policymaking stage, addressing the specific concerns of the sector that is targeted.

Figure 5. Research and Development intensity - Value Added and Employment.



Source: European Commission, Annual Report on European SMEs 2018/2019.

Last, research and development (R&D) is a key factor influencing the future capability of growth for European enterprises. Figure 5 displays the role of R&D when considering the factors of employment and value added. On one hand, SMEs are overrepresented in two R&D intensity levels, which are low and very low, respectively accounting for the 70% of the total population. Consequently, only a third of total SMEs operate in industries that require higher levels of R&D intensity. This data reinforces the pattern highlighted in the previous section. On the other hand, enterprises operating with higher levels of R&D intensity are associated with lower levels of value added generated. Instead, almost two-thirds of the total value added in 2018 was generated in the lower levels of R&D intensity. Finally, a similar pattern can be found in the shares of employment, where industries with low and very low R&D accounted for nearly 70% of employment against the 25% derived from ones having high and very high level. To conclude, there are several other factors involved in the SME sector and policymakers should be conscious of the intrinsic differences between micro, small and medium business, alongside acknowledging their different aims and operating sectors.

## 2.4 Main Barriers to Growth

Understanding the main challenges faced by small and medium enterprises is a vital step to be undertaken before analysing the European policy framework. In fact, there are several factors that hinder the capacity of SMEs to be competitive and enter new markets, to increase their

R&D department and their performances. Moreover, this may lead to additional issues such as “lower profitability, higher staff turnover, lower rate of survival, less success in the field of innovation, lower capacity to invest in staff development and training”<sup>17</sup>. Finally, all these factors will negatively decrease the overall potential of economic growth or, in the worst scenarios, result in the failure of the enterprise. Despite the economic literature identifying two kinds of factors impacting negatively on SMEs, internal and external, the latter will be the focus of policymaking from the EU perspective.

The external factors mainly include the lack of skilled labour, access to finance and the regulatory and administrative framework<sup>18</sup>. This argument resonates with the challenges highlighted in the resolutions of the European Parliament, showing that the administrative burden and financial needs are among the main issues for SMEs<sup>19</sup>. Furthermore, smaller and larger firms need to tackle different issues and employ different strategies. As an example, it is expected that small firms would appear “more instrumental in their approach to management development, linking it less to future objectives and more to conserving or making better use of scarce current resources” (Gray and Mabey, 2005). In fact, small enterprises face growth constraints that are partially linked to their more difficult access to external sources of finance. Furthermore, this affects their ability to invest capital in the labour force and innovation. However, considering only the access to finance is not enough and a crucial role is played by institutions and the overall characteristics of the market. In the case that well developed financial markets and legal systems are absent, enterprises will struggle to grow in size and “SME-promotion strategies, since if it is optimal for firms to stay small when the business environment has weaknesses, subsidizing SMEs may be at best ineffective, but even counterproductive” (Thorsten et al., 2006). This implies that improvements in the financial sector and in public institutions will create a favourable environment especially for small firms.

The economic context changes, and SMEs are challenged by several constraints given their current time frame. To better assess the factors limiting the sector, European institutions as the European Commission and the European Central Bank periodically employ surveys to monitor the most pressing challenges. As an example, evaluating the main issues in the period ranging from 2009 to 2015, the difficulty of finding customers decreased (from 29% to 25%) together with the access to finance (from 17% to 10%). On the other hand, the issue regarding the

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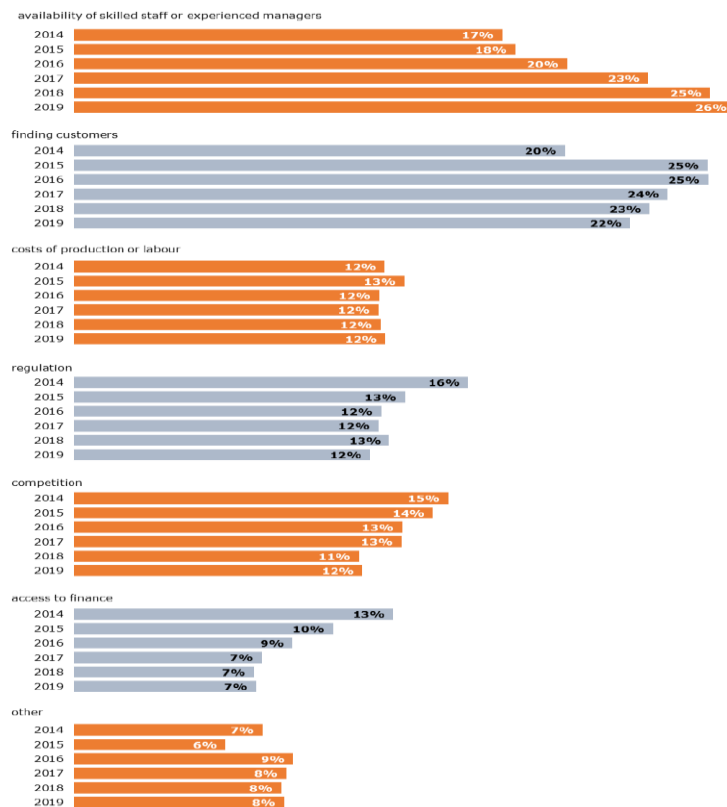
<sup>17</sup> European Parliament, “Barriers to SME growth in Europe”, 2016.

<sup>18</sup> European Union, “EU policy framework on SMEs: state of play and challenges”, 2019.

<sup>19</sup> See reference to note 16.

availability of skilled staff and managers rose (from 8% to 18%) together with regulation problems (from 6% to 13%), while the costs of production or labour increased slightly (from 9% to 13%)<sup>20</sup>. Analysing the subsequent period, several changes and patterns can be observed in the most pressing issues felt by the SME sector and crucial data can be found in the latest available SAFE survey<sup>21</sup>.

Figure 6. Most pressing issues for SMEs in the EU-28



Source: Survey on the access to finance of enterprises (SAFE), European Commission 2019.

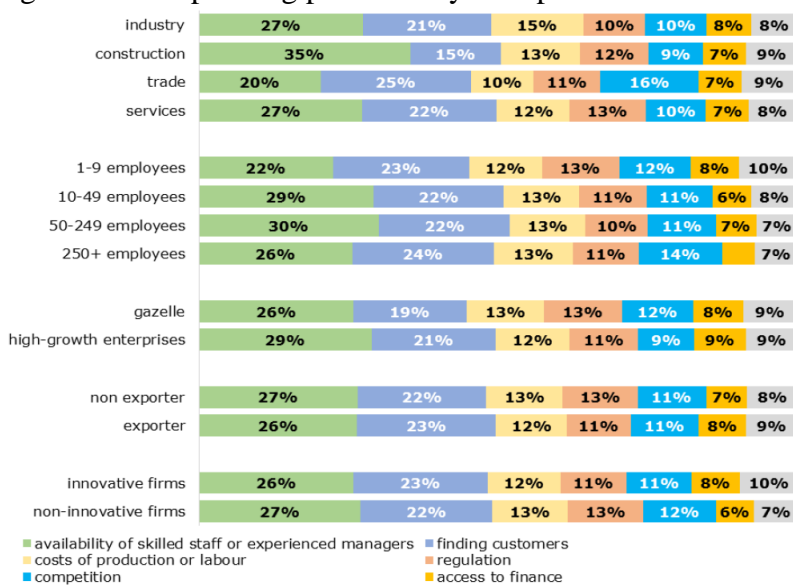
In fact, Figure 6 displays the most compelling issues for SMEs faced in the six months preceding the survey and they are divided in: finding customers, the availability of skilled staff, competition, regulation, costs of production or labour and access to finance. Clearly, higher percentages are associated with more pressing problems. Furthermore, it represents the results obtained from annual surveys covering the period 2014-2019, thus allowing the individuation of recurrent patterns. First, the lack of skilled staff and experienced managers is regarded as an increasingly problematic aspect since 2014. In details, the latest data shows that 26% of SMEs regard it as the most prominent. Second, despite the decrease after 2016, finding customers

<sup>20</sup> See reference to note 16.

<sup>21</sup> European Commission, “Survey on the access to finance of enterprises (SAFE)”, 2019.

remains the second challenge for these enterprises as indicated by the 22% of them. On one hand, issues regarding the costs of production or labour and regulation, albeit an initial decrease, have remained consistent through the five-year time span, accounting for 12% in 2019 as the third and fourth most pressing problems. On the other hand, competition and access to finance show an inverse pattern and the former was dimensioned from 15% to 12%. Instead, the latter has decreased steadily from 2014 to 2019, eventually becoming for SMEs the least pressing of the listed issues. Looking from a broader picture, from 17% in 2009, access to finance has declined to 7% in the ten years period.

Figure 7. Most pressing problems by enterprise characteristic.



Source: Survey on the access to finance of enterprises (SAFE), European Commission 2019.

Finally, considering the different categories under the definition of small and medium enterprises, Figure 7 displays a more accurate picture useful to design tailored policies. In detail, small and medium-sized enterprises express the most urgency concerning the availability of skilled staff or experienced managers respectively 29% and 30%. On the other hand, large enterprises view competition as a more pressing problem than SMEs. Micro enterprises present a higher percentage concerning regulations, showing how they could be the most affected. Dividing per sectors, finding customers is less of a problem in construction, while more relevant for enterprises in trade. For SMEs in construction, the major concern derives from the lack of skilled labour, while the cost of production or labour is considered more pressing in the industry sector. However, national factors must be considered because they directly and indirectly shape the challenges faced by their SME sector, thus driving the change of priorities. In some cases, urgency derives more from national characteristics rather

than differences in sizes. As shown in Figure 2 (Appendix), access to finance constitutes one of the main concerns for SMEs in some countries, such as Greece, Lithuania and Italy, while in Austria, Germany and the Netherlands they value more the lack of skilled labour. These key regional differences are an important political driver for policymaking at EU level.

### 3. Introduction to SME policies

The topics discussed in the last chapter were key points to be assessed, such as defining the actors and the issues. However, these dynamics are not exclusive to the European situation. At international level, the OECD provides several inputs for the creation of effective policy frameworks and provides suggestions regarding economic strategies. In fact, there are several elements that should be considered while developing and implementing SME policies<sup>22</sup>. The first is defining the economic development agenda and the strategic framework. At European level, the goal is to support the sustainable development of EU countries, increase employment and the resilience of the economies to face future crisis. Thus, SMEs are key actors to be supported to pursue the policy goals. Furthermore, there are differences among the priorities of the EU countries, mainly shaped by national characteristics, and the European institutions must strive for developing common strategies. Moreover, respecting national sovereignties and under the principle of subsidiarity, EU institutions are partially limited in their scope, and the implementation of policies, in many cases, remains in the hands of the governments. Thus, coordination and monitoring mechanisms are required to ensure regional coherence. As mentioned, at EU level, there is a single definition for SMEs ensuring consistency among Member States and transparency in the support programmes<sup>23</sup>. At EU level, policy goals are mainly produced in the European Parliament, that follows the will of the European population. However, the European Commission is the body having the task to design common policy instruments, programmes and initiatives and ensuring their implementation.

#### 3.1 The EU Policy Framework

In the last decade, European institutions addressed the main challenges faced by enterprises during the aftermath of the crisis and paved a path for their recovery. The European framework provided numerous legislative initiatives, policies and actions targeting SMEs. In fact, several examples were successful in addressing the main obstacles that limit SME growth. Analysing

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<sup>22</sup> OECD and European Union, “The Mediterranean Middle East and North Africa”, 2018.

<sup>23</sup> EUROSTAT definition of SMEs.



the policymaking history may provide useful insights for the creation of better policies, that match the current stakes without repeating some past errors. Furthermore, even in an ever-changing economic context, the understanding of past issues may be useful to raise awareness of new challenges and provide more targeted solutions. On the other hand, examples of excellences may provide a more positive outlook for the future and indicate a path for innovation and growth. Lastly, recognising and evaluating the best practices of past policies is deemed valuable for shaping the future of policymaking, providing tools and criteria that have been refined and proved successful over time. In fact, since 2000, the Commission has collected examples of good practices that are available in the European Charter for Small Enterprises.

### 3.1.1 The Small Business Act

Among the examples of commitment to SMEs, it is important to highlight the role of the Small Business Act (SBA)<sup>24</sup>. Adopted in 2008 by the Commission and regarded as a cornerstone for the European policy framework, the SBA was aimed at boosting the growth of enterprises and developing a new positive approach to entrepreneurship. In fact, the shift to a favourable financial and regulatory context for SMEs is essential for the creation of new businesses and their success. This policy agenda was backed up by the political partnership between the EU and Member States, in respect of the principles of proportionality and subsidiarity.

The SBA was primarily composed by a body of ten principles, that should guide the creation and implementation of policies at EU and national level, as shown in Annex 1 (Appendix). The first principle addresses the importance of creating a positive outlook towards the topic of entrepreneurship. The main target are young people, that may become future entrepreneurs. In fact, the sector lacks high-skilled labour and focusing on early education could provide the needed competences. In order to turn these principles into action, several programmes have been launched, as the “European SME Week” or “Erasmus for Young Entrepreneurs”, to give young students the possibility to gain professional experience and improve their skills<sup>25</sup>. The promotion of self-employment also attempts to shorten the gender gap, encouraged by the establishment of an EU network of female entrepreneur ambassadors. On the other hand, Member States are invited to stimulate young entrepreneurship, to improve access to education and to facilitate family-business transfer.

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<sup>24</sup> European Commission, “A “Small Business Act” for Europe Brussels”, 2008 COM (2008) 394 final.

<sup>25</sup> See reference to note 23.

Similarly, the eighth principle highlights the importance of skills upgrading in SMEs. The Commission is endowed with the task to promote innovation in the sector employing several best practices. First, it encourages Member States to develop a transnational cluster cooperation, facilitating the access to new markets and increasing participation of SMEs in innovative clusters. Second, it promotes the development of SMEs' competences suggesting a simplified access to public research infrastructures, to recruitment of skilled employees and to training programmes. Third, it invites Member States to open up national research programmes and to improve the access for SMEs to trans-national research activities and joint programmes. Finally, it advocates for the improved access to the Cohesion Policy Programme that provides funding for entrepreneurship and innovation. The application of these principles can also be found in the launch by the European Institutions of the Entrepreneurship 2020 action plan in 2012<sup>26</sup>. The second and sixth principles deal with the issues for SMEs to gain access to finance. In particular, the first promotes the possibility for honest entrepreneurs to have access to a second chance when filing for bankruptcy and when dealing with non-fraudulent cases. At the same time, it suggests a more positive attitude towards "fresh starts". Together with the sixth, it promotes easier access to public support, such as ESIF financial instruments, and the improvement of the regulatory framework.

The third and the subsequent two are focused on the specific needs of small businesses based on the "Think Small First" principle. The targets are to minimise the costs and burdens faced by SMEs, to adapt the policy tools at disposals to their needs and to improve the responsiveness of public administrations. To include the mentioned principle, a SME test is suggested to assess the impact of new legislation on the sector and consider the relevant results. In addition, it invites the legislators to develop and use specific measures for small and micro-enterprises, such as exemptions, derogations, or tailored approaches. Among other best practices, the principles include the reduction of fees required to register a new business, the acceleration of commercial operations through reduced permits and the establishment of a contact with stakeholders to better assess the pressure points<sup>27</sup>. Last, public procurement could be improved by online tools and portals that widen the visibility of opportunities and the accessibility to transparent information. The seventh principle is focused on the benefits related to the Single Market and the opportunities that it provides. In fact, the aim is to raise awareness on the topic

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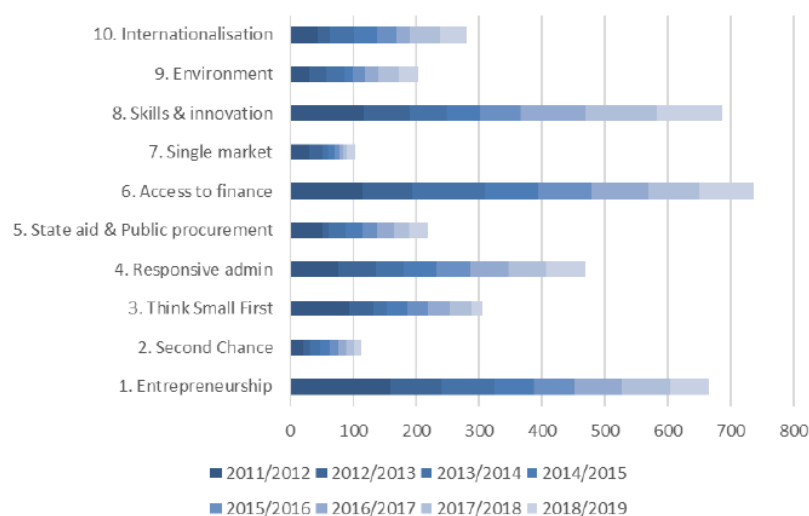
<sup>26</sup> European Commission, "Entrepreneurship 2020 Action Plan", 2012, COM (2012) 795 final.

<sup>27</sup> European Union, "Thinking Big for Small Businesses", 2011.

and to promote cross border trade, reducing the fragmentation of consumer protection rules. Principle nine relates to innovation with the topic of environment, promoting new forms of support for SMEs in the field of eco-innovation. In addition, it supports the practices of technology transfer and prioritises the funding of sustainable businesses. The last principle highlights the benefits of the Single Market, promotes the creation of new markets through negotiations and agreement, and it enhances the formation of international business networks. To conclude, the SBA set out the policy objectives for the following years and remains one of the cornerstones of the European policy framework<sup>28</sup>.

Looking at the implementation of the SBA principles, the overall outlook is positive despite several policy gaps remain. In particular, “more than 3,750 SBA policy measures have been adopted or implemented since 2011”<sup>29</sup> and Figure 8 highlights the policy progress that was made in aggregate. The period indicated is 2011-2019, with policy progress presented for each one-year period, thus supporting the creation of a comprehensive perspective. The Figure shows that the three categories with the most measures implemented are access to finance, entrepreneurship, and skill and innovation. Remarkable progress was made also in responsive administration and internationalisation categories, albeit slightly less. This indicate that, after 2011, the SBA principles were relevant to address the main concerns of European SMEs, as presented in the previous chapter. On the other hand, access to finance was the most prominent, despite its stead decline in the last years.

Figure 8. SBA policy implementation EU-28 since 2011.



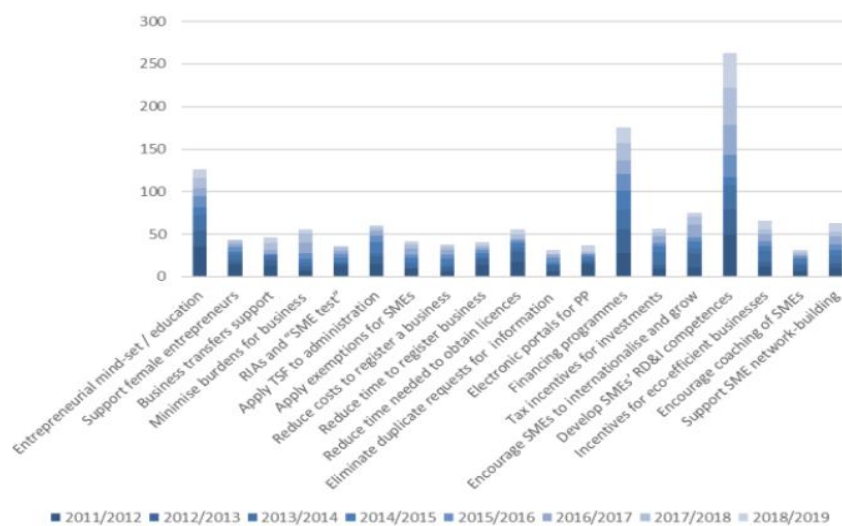
Source: European Commission 2019 SBA Fact Sheet & Scoreboard.

<sup>28</sup> European Commission, Review of the "Small Business Act" for Europe, COM (2011) 78 final.

<sup>29</sup> European Commission, SBA Fact Sheet and Scoreboard, 2019.

On the other hand, Figure 8 contains many types of measures that were implemented in the EU-28 in the period 2011-2018. Across the EU, the challenges regarding the R&D department and research, access to finance and lack of entrepreneurial education were the most addressed, thus displaying higher policy numbers. However, other key policy areas have yet not being fully or only partially addressed. As an example, the overall administrative and regulative framework’s policies lag behind others, showing only slight increases until 2019. The European Union and most importantly national governments should strive to improve the environment for the SME sector and many of the measures contained in Figure 9 may play a key role to support the future resilience of enterprises.

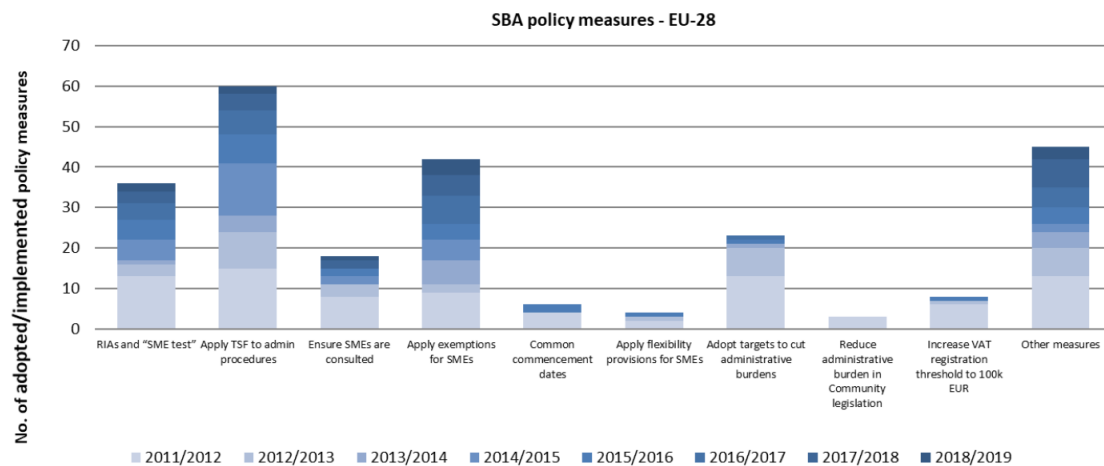
Figure 9. Common measures in EU-28 since 2011.



Source: SBA Fact Sheet and Scoreboard, European Commission 2019.

Finally, it is important to address the implementation of the “Think Small First” principle, focused in creating a beneficial environment for small enterprises. In fact, since its introduction in the SBA, it was aimed at guiding the policy and rule-making activities regarding the SME sector to improve the quality of measures and thus their effects. Since its introduction, there have been overall positive improvements for SMEs in the EU-28, as shown by Figure 10. Overall, more than 300 measures have been implemented, but the SME sector requires further improvements. In particular, the principle has been applied in several types of policymaking. EU countries take part in dialogues with stakeholders through consultations, and most countries perform Regulatory Impact Assessments (RIAs) and the SME test. However, some states are not yet capable of effectively applying these procedures.

Figure 10. SBA policy measures under “think small first” principle.



Source: SBA Fact Sheet and Scoreboard, European Commission 2019.

### 3.2 EU Programmes and Initiatives

After determining the importance of SMEs at European level, it is crucial to analyse the main EU channels used to support their economic progress. In fact, this is essential to understand how the limited resources are allocated and the funds distributed. However, the support endowed by the EU may take two forms, financial and non-financial. The former, most diffuse, utilises public resources to provide financial assistance in the form of loans, guarantees, grants and investments. The latter focuses on the general improvement of business conditions for SMEs. Thus, the creation of international networks and the development of new support services are also considered important factors that sustain SMEs’ future growth. Notwithstanding the high number of European initiatives supporting SMEs, it is possible to identify three main channels of support: shared management programmes, the European Investment Bank and direct management programmes.

#### 3.2.1 ESIF and EIB group

The first channel allocates the financial resources of the European Structural and Investment Funds (ESIF) and is characterised by a joint action between the Commission and Member States. Furthermore, over half of EU funding is channelled through ESIF and the purpose is to invest in job creation while promoting an environmentally sustainable economic growth. ESIF is characterised by a list of thematic objectives that guide its implementation<sup>30</sup>. In details, ESIF focuses mainly in the areas of research and innovation, digital technologies, low carbon

<sup>30</sup> European Parliament and the Council of the European Union, Regulation (EU) No 1303/2013, 17 December 2013.

economy, sustainability, and small businesses. The total amount of financial capability is divided into five different funds, each pursuing its own policy objective. The European regional development fund (ERDF) focuses on balancing the differences among EU regions. It directly supports SMEs to enhance their competitiveness and their possibility to grow in regional and international markets. Furthermore, it requires Member States to follow the principles stated in the SBA. Similarly, the Cohesion fund (CF) supports projects in countries where the gross national income is below the European average, prioritizing the formation of skills for workers in SMEs and social enterprises and the promotion of the entrepreneur spirit<sup>31</sup>. Instead, the support for employment projects and human capital development is channelled through the European social fund (ESF). Lastly, the European agricultural fund for rural development (EAFRD) and the European maritime and fisheries fund (EMFF) address specific challenges in those sectors. The distribution of the total contribution can be seen in Figure 3 (Appendix). To conclude, these funds are managed through partnership agreements by the EU countries. In fact, the latter are prepared in collaboration with the Commission to define the use of the funds and ultimately lead to investment programmes<sup>32</sup>.

On the other hand, the European Investment Bank Group (EIB) operates on a worldwide level and does not target SMEs directly. However, it is worth noting that it entrusts intermediaries with financial capabilities that are later used to provide lending, guarantees and investments. Moreover, the European Investment Fund (EIF), that is part of the EIB Group, affects SMEs through its financial relationships with banks, funds, and finance institutions<sup>33</sup>.

### 3.2.2 COSME, Horizon 2020 and EaSI

Unlike the channels mentioned above, the EU programmes that are carried out at a regional level are presented and briefly analysed in this section. In fact, they are managed by the European Commission and support SMEs to tackle challenges in the fields of finance and innovation. Indeed, it is worth to highlight examples of excellence and best practices to that have supported the SME sector across the Union. Moreover, the implementation is bestowed to the Executive Agency for Small and Medium-sized Enterprises (EASME) has been set-up by the European Commission to manage on its behalf a significant part of COSME and Horizon 2020 programmes. It was created with the intent to turn EU policy into action, while ensuring

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<sup>31</sup> European Union, “EU policy framework on SMEs: state of play and challenges”, 2019.

<sup>32</sup> European Commission, “European Structural and Investment Funds 2014-2020: Official text and commentaries”, 2015.

<sup>33</sup> See reference to note 30.

transparency and results from the allocation of funds<sup>34</sup>. The first to be mentioned is the program for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME), that had a planned budget of 2.3 billion euros for the time frame 2014-2020, and SMEs are targeted directly through different policy instruments<sup>35</sup>. One of the aims is to facilitate access to finance in all phases of the enterprises, such as creation, expansion, and business transfer. Support is channelled through local financing institutions in Member States and provides easier access to loans, guarantees and equity capital. In addition, COSME improves SME access to new markets and promotes cross-border financing, allowing the internationalisation of enterprises. One example is the Equity Facility for Growth, that finances equity funds investing in SME with risk capital<sup>36</sup>. Similarly, the Enterprise Europe Network has been funded to help SMEs finding new business and technology partners. The programme also facilitates exchanges of good practices and shared information, improving networking and increasing business opportunities.

The programme was aimed at promoting the entrepreneurial spirit as enshrined in the SBA principles. In fact, it supports education, mentoring and mobility programmes to improve the presence of skills and competences in the sector. Moreover, actions taken target specific groups, such as young people, women and senior to encourage them to overcome barriers in the market. Lastly, COSME supports the creation of a competitive environment, helping business to adapt and adopt new models. At the same time, it aims at reducing the overall burdens on SMEs, especially in the form of administrative and regulatory ones.

The second programme is HORIZON 2020, with nearly 80 billion of funding available for a time span of 7 years (2014-2020). It focuses on research and innovation, leading SMEs to future markets “by taking great ideas from the lab to the market”<sup>37</sup>, and it is the financial instrument implementing Innovation Union. In fact, research is viewed as an investment for future development and economic growth. The creation of a European Research Area is aimed at breaking down economic and political barriers, leading to a single market for knowledge and innovation. Its administrative framework strives to provide rapid and easy accessibility to transparent funds for excellent actors and best practices in the awarding of funds. Horizon 2020

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<sup>34</sup> European Commission, Implementing Decision establishing the ‘Executive Agency for Small and Medium-sized Enterprises’ and repealing Decisions 2004/20/EC and 2007/372/EC, 17 December 2013.

<sup>35</sup> European Parliament and the Council of the European Union, Regulation (EU) No 1287/2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 - 2020) and repealing Decision No 1639/2006/EC), 11 December 2013.

<sup>36</sup> See reference to note 30.

<sup>37</sup> European Union portal: Horizon 2020.

is founded on three pillars which are “excellent science”, “industrial leadership” and “societal challenges”<sup>38</sup>. The first pillar focuses on scientific and technological research, that are crucial to boost innovation, and the allocation of resources is distributed with grants to the best performing actors and examples of excellence in the EU. Accounting for 17 billion euros, the second pillar is the most relevant for the SME sector, and is divided into “leadership in enabling and industrial technologies”, “access to risk finance” and “innovation in SMEs”. Among the main practices, industrial leadership not only provides capital to enterprises to support research and development, but also fosters the creation of cross-national networks and public-private partnerships. Finally, SMEs included in the project with ad hoc conditions that ease their participation, through examples of blended finance<sup>39</sup>.

The third channel discussed is the Employment and Social Innovation (EaSI) program. It is a financing instrument with the aim to promote employment, social protection, improving working conditions and combating social exclusion. Alongside a budget of almost 1 billion euro, it coordinates three projects that were previously separated<sup>40</sup>. Focusing on SMEs, the programme facilitates the access of the latter to micro-finance and social entrepreneurship with the Microfinance and Social Entrepreneurship axis. Actions are taken through guarantees, granted to financial institutions that invest in the categories of social and micro-sized enterprises.

## 4. COVID-19, Health and Economic Crisis

The last chapters have provided a general outlook regarding the definition of SMEs in Europe, their role in the economy and the past challenges they faced. Looking towards the future, 2020 resulted in a turning point worldwide for most of the world and the effects of the economic shock will persist beyond the short and medium term. In fact, the global pandemic has challenged the status quo regarding economy and society in most countries, and it will have recently unprecedented consequences. Moreover, it clearly had a prominent influence on the changes in public policy and negative implications for the enactment of long-term strategies previously established. In addition, partially due to the mostly unforeseen nature of the outbreak and the lack of pre-emptive devices and measures, political actors were forced to

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<sup>38</sup> European Parliament and the Council of the European Union, Regulation (EU) No 1291/2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC, 11 December 2013.

<sup>39</sup> See reference to note 30.

<sup>40</sup> PROGRESS, EURES and Progress Microfinancing.



respond to the crisis rather than to manage it, especially in the first nations where the contagion has spread. Thus, institutions worldwide had to adapt their objectives to assess urgent short-term issues along with the need to find or design measures to tackle the current challenges and damper future drawbacks. Understanding the dynamics of the phenomenon, along with a macro lens on the links with the SME sector, will be crucial to address the future of European policy-making, from the first stage of laying out the objectives to the implementation of the policy tools to achieve them. In this chapter, it is present an overview of the measures employed to prevent the transmission of the contagion, the negative impact of COVID-19 on the economic sector and finally the analysis of actions undertaken in the European region to protect enterprises and their labour force.

#### 4.1 Diffusion and Containment Measures

The time frame in which the health and economic crisis has started can be divided into two main parts: the outbreak and the subsequent containment measures. Despite uncertainties regarding the initial spread of the virus, the World Health Organisation (WHO) was officially informed of cases of pneumonia on 31 December 2019 and later the novel coronavirus was identified as the cause and labelled “2019-nCov” on 7 January 2020 by Chinese authorities. In the subsequent months, the virus was named COVID-19 and the rapid increase of cases even outside China led the WHO on 11 March 2020 to qualify the ongoing outbreak as a pandemic<sup>41</sup>. In particular, by “mid-March 2020, the European Region had become the epicentre of the epidemic”<sup>42</sup>. The virus raised numerous concerns for the public health capacity due to its high transmission rate and the health hazards even for individuals without pre-existing medical conditions and due to the lack of specific medications for treatments. Focusing on the working environment, between March and July 2020, more than one thousand clusters of COVID-19 were reported in the European Economic Area and the UK in occupational settings. Despite the health sector accounting for the largest share, “large numbers of clusters were also reported from the food packaging and processing sectors, in factories and manufacturing, and in office settings”<sup>43</sup>. In fact, the initial absence of prevention mechanisms exposed workers to higher risks of COVID-19 in occupations with indoor settings, proximity with colleagues or requiring contact with the public, which are part of the traits found in several types of SMEs. After the initial period of uncertainty, several countries were required to employ measures, individual or

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<sup>41</sup> World Health Organization, Virtual press conference on COVID-19, 11 March 2020.














<sup>42</sup> World Health Organisation (WHO).

<sup>43</sup> OECD, “COVID-19 clusters and outbreaks in occupational settings in the EU/EEA and the UK”, 2020.

environmental, of physical and social distancing with the aim of halting the chains of transmissions or at least slowing down the rate at which the virus spread<sup>44</sup>. As presented by the Oxford COVID-19 Government Response Tracker, measures differed substantially across the EU-28 in terms of content, restrictiveness, and timeframe. In fact, governments responded in respect of their national situation and current degree of urgency.

On the other hand, regional cooperation was put in motion when the EU leaders decided to lift a ban for nonessential travel until the 30<sup>th</sup> June 2020 for those who are not EU citizens<sup>45</sup>. From the public policy perspective, the limitation of personal and economic freedoms was deemed necessary to respond to the unprecedented health crisis. As showed in Figure 11, in most EU countries public gatherings were not allowed, events were suspended, and schools were closed. Furthermore, more restrictive economic measures included travel and non-essential movement bans, the closure of non-essential businesses and ultimately the stop of non-essential production in two exceptional cases, such as in Italy and Spain. As showed in Figure 4 (Appendix), the target of these policies was to shape downward the curve of contagion, signalling a decrease of COVID-19 cases. However, as in the case of Italy, the effects are not immediate and the closure of businesses has been prolonged and made progressively tighter, fuelling social and economic uncertainties, in particular for small businesses.

Figure 11. Examples of COVID-19 national responses.

		Events suspended	All schools closed	Non-essential shops closed	Non-essential movement banned	Land borders closed	Non-essential production stopped	Date of third confirmed death
	Italy	Mar 5	Mar 5	Mar 10	Mar 10		Mar 26	Feb 25
	France	Feb 29	Mar 16	Mar 14	Mar 17			Mar 3
	Spain	Mar 10	Mar 15	Mar 15	Mar 16	Mar 16	Mar 29	Mar 6
	U.K.	Mar 17	Mar 23	Mar 21	Mar 24			Mar 9
	Belgium	Mar 14	Mar 15	Mar 17	Mar 17	Mar 20		Mar 12
	Germany	Mar 20	Mar 15		Mar 22	Mar 16		Mar 12
	Greece	Mar 8	Mar 10	Mar 16	Mar 23	Mar 15		Mar 15
	Poland	Mar 9	Mar 16	Mar 15	Mar 25	Mar 15		Mar 15
	Sweden	Mar 11						Mar 16
	Austria	Mar 10	Mar 15	Mar 16	Mar 16			Mar 17
	Portugal	Mar 11	Mar 16	Mar 16	Mar 16	Mar 16		Mar 20
	Hungary	Mar 11	Mar 16	Mar 17	Mar 28	Mar 17		Mar 21
	Czech R.	Mar 11	Mar 11	Mar 14	Mar 16	Mar 16		Mar 25

Source: <https://www.politico.eu/article/europes-coronavirus-lockdown-measures-compared/>

<sup>44</sup> WHO, “Coronavirus disease 2019 (COVID-19 Situation Report – 72)”, 2019.

<sup>45</sup> European Council, 2020/0134 (NLE) Recommendation “On the temporary restriction on non-essential travel into the EU and the possible lifting of such restriction”, 2020.

Moreover, despite the public debate in some European countries regarding the need of lockdowns, studies have shown that the measures adopted were related to a slowdown of the curve of contagion. Furthermore, as expected, more stringent rules and procedures are associated to lower transmission levels of the virus, due to the decreased mobility and contacts between individuals. On the other hand, less rigid lockdowns may result insufficient to reverse the outbreak (Vinceti et al., 2020). Finally, policymakers should be aware of the possibility of future resurgences of COVID-19. In fact, despite the measures enacted having suppressed the primary infection peak, studies show that a secondary peak is likely to occur in the period after the uplifting of the lockdown. Its strength will be associated also with the duration and success of the previous lockdown and premature withdrawals may backfire (Shovonlal, 2020).

## 4.2 Principal Economic Consequences for SMEs

As discussed above, the business sector was marked by a partial or complete shutdown in many sectors and nonessential mobility was restricted, directly harming most of enterprises. Furthermore, the difficulty of making previsions regarding the curve of contagion and the future creation of a vaccine have contributed to the creation of an environment of uncertainty in both the real economy and the financial markets. From a general perspective, it is complex to provide precise quantification of the impact this crisis had on the various economies. However, it is expected that this period will be associated with a contraction of trade, reduction of investments, lower levels of spending and an overall slowdown of the GDP growth. One of the early evaluations provided by the OECD suggests that many economies could experience a “decline in the level of output of between one-fifth to one-quarter, with consumers expenditure potentially dropping by around one-third”<sup>46</sup>, possibly surpassing the effects of the last global financial crisis of 2009. On one hand, GDP growth will be affected by several factors and this may only be an initial assessment. The scenarios vary consistently depending on the restrictive measures adopted, their duration and the fiscal and monetary countermeasures taken by governments. In fact, the rate of recovery will be likely related to the speed and effectiveness of the policy response to support workers and enterprises and their ability to restore the economic cycle. However, in addition to the short-term impact on growth of the shutdowns, policymakers should be aware not only of the indirect impact of the damaged business environment but also of the consequences stemming from the excessive use of support measures, such as the case of increasing public debt. At European level, both large and small

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<sup>46</sup> OECD, “Evaluating the initial impact of COVID-19 containment measures on economic activity” 2020.

enterprises were severely impacted by the consequences of lockdowns, travel bans and disruptions of the global value chains<sup>47</sup>. As introduced in the first chapter, despite being the economic driver for employment and value added, SMEs are less resilient than larger firms as a consequence of their size and need more time to restore their normal operations after an economic shock. In particular, this vulnerability has been observed in European SMEs in the subsequent period of the global financial crisis, where demand declined and the access to additional financial resources was very limited (Juergensen et al., 2020).

Contrary to the previous economic crisis, SMEs facing the pandemic were severely affected on both the supply and demand side. First, enterprises presented shortages in the supply of labour due to the direct ongoing contagion and workers' sickness, but also as a consequence of other factors such as the need to care for children after the school closures, fear of health risks, quarantines periods or restrictions of movements. Moreover, restrictive measures heavily disrupted or even totally interrupted the supply chains for intermediate goods, increasing the difficulty or not allowing the affected enterprises to operate. In particular, a recent study in Ireland shows that the supply chain may become a transmission mechanism of the shock generated by COVID-19 while considering cross-sectorial economic activities (McCann and Myers, 2020). Smaller firms also rely on more limited suppliers than larger ones, that are embedded in wider networks, and they are more likely have connections with different international actors. Thus, the disruption of regional and local supply chains is more detrimental to SMEs, that not only are vulnerable to this issue, but will also face more complexities to rebuild previous partnerships and return to the status quo. Regarding the demand side, several European countries required nonessential SMEs to remain closed and could not operate during the period of lockdown, in some cases, for more than one month<sup>48</sup> and this translates into a direct and immediate loss of revenue that is beyond the firm's control. On the other hand, even whilst being able to operate, enterprises have experienced a drop in demand from consumers. This may be partially explained by the mobility restrictions employed by governments. However, the effects of the overall climate of uncertainty, the fear of contagion and the widespread decrease of incomes should also be considered. In fact, this process may be observed in SMEs operating in tertiary services, such as tourism, transportation, and catering business, that have been particularly affected. As a consequence,

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<sup>47</sup> OECD, "Coronavirus (COVID-19): SME Policy Responses", 2020.

<sup>48</sup> The German Marshall Fund of the United States "European Coronavirus Lockdown Status" <https://www.gmfus.org/blog/2020/06/26/european-coronavirus-lockdown-status>, 2020.

hotels, restaurants, and other similar types of establishment were shut down and, in many cases, forced to lay off workers temporally or permanently<sup>49</sup>. This is particularly relevant for European countries such as Italy, or Spain, that heavily rely on tourism and services as an integral part of their GDP. This inability to sustain the cost of labour will eventually amount to an indirect effect on the overall economic cycle, increasing unemployment and reducing the total spendable incomes, slowing down the recovery phase.

As a consequence of the pandemic, the “dramatic loss of demand and revenue for SMEs severely affects their ability to function and causes severe liquidity shortages”<sup>50</sup> that cannot be sustained over a prolonged period of time. In fact, the European Commission has acknowledged that SMEs may be vulnerable to possible external shocks, due to already rooted issues of profitability and liquidity<sup>51</sup>. While the restrictive measures were active and in the following period, SMEs urgently need liquidity that the private sector is not necessarily able to provide. In this scenario, the intervention of policymakers is necessary to prevent further deterioration of the sector. A recent study, after estimating the overall liquidity demand in Ireland, suggests three possible types of intervention that include credit guarantee schemes, lending schemes, and direct fiscal supports (McGeever et al., 2020). Nevertheless, it points out that any measure ultimately involves certain trade-offs and thus should be employed carefully.

The last point to consider, as a direct consequence of the global pandemic, is the increase of costs that SME may face. In fact, the health hazard and the obligations enacted by governments require changes from the previous business operations, that may entail consequences, from small adjustments to dramatic shifts of the working processes. In some cases, enterprises need to follow practices to reduce the transmission of the virus that usually involve the use of additional resources, both in terms of finance and labour. In other circumstances, the adoption of new working procedures, such as shifting to telework, may represent a challenge for SMEs due to their limitations in terms of human, financial and technical resources (Martin et al., 2019). In particular, micro enterprises present lower margins of resilience and flexibility compared to larger firms that are more capable of adopting new strategies, practices and updating their working processes. Furthermore, the low degree of digitalisation that may be found in smaller enterprises could limit the development or adoption of the new technologies

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<sup>49</sup> European Parliament, “COVID-19 and the tourism sector”, 2020.

<sup>50</sup> See reference to note 46.

<sup>51</sup> European Commission, “Annual report on European SMEs 2018/2019 Research and Development and Innovation by SMEs”, 2019.

that are necessary to adjust to the current market. On the other hand, the lack of available expertise and skilled labour may hinder the profitability given by the employment of the new devices, even if they are introduced. In the case of teleworking, the challenges to be considered are the acquisition of adequate instruments, the adoption of new systems, the access to information and technical support and the training required for the staff, among other factors. To conclude, liquidity shortages and costs may lead to insolvency even for firms that generally do not struggle in normal conditions and thus, providing liquidity in the financial system should be considered a key policy strategy<sup>52</sup>. In addition, measures should ensure protection and upskilling for workers, facilitate the digitalisation process and support future innovation.

### 4.3 Short-Term Policy Response

After the initial period of uncertainty, the European governments started to address the challenges faced by SMEs and employed various types of support measures. The latter were put in place as short-term responses, having as the main objectives the mitigation of the detrimental effects produced by the coronavirus outbreak and to alleviate the subsequent impact on the economy, as presented by a recent OECD study<sup>53</sup>. In particular, measures adopted may be divided into three broad categories that are access to liquidity, employment safeguards and structural policies.

As outlined in the last paragraph, the survival of SMEs was heavily linked with the possibility to gain access to liquidity. Consequently, the focus of public policies was on providing short-term liquidity to SMEs and self-employed, and this intervention was complemented by measures taken by European institutions, as in the case of the European Central Bank. First, governments' action relied on giving incentives to banks, that in turn could expand their lending to SMEs in need. Thus, several European countries have employed or expanded their guarantee schemes to banks. In some cases, they were open to additional types of enterprises or raised the ceiling for the application of the guarantee. In Denmark, new loan guarantee schemes were activated, including one specifically targeting SMEs. In the case of Italy, Germany, Portugal and France, the funding available to enact these measures has been drastically increased. In addition, the public level of guarantee has been raised to different levels, up to 80% in Spain and to 100% in Germany and France, for certain types of measures<sup>54</sup>.

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<sup>52</sup> OECD, "Interim Economic Assessment Coronavirus: The world economy at risk", 2020.

<sup>53</sup> See reference to note 46.

<sup>54</sup> See reference to note 46.

Second, the proactive role of governments was showed by the enhancement of the direct lending to SMEs. In detail, some countries employed already available instruments or created new ones to include enterprises damaged by the virus outbreak, increased the funding available for loans and facilitated the accessibility to these instruments through expanding the list of recipients or proposing more suited conditions. Third, the most affected SMEs during the lockdown received direct financial support in the form of subsidies or grants or through new instruments, such as in France, where a solidarity fund was introduced targeting cash flow issues of micro-enterprises. Direct grants to SMEs were employed to cover the temporary halt of the business activities and could take the form of lump sums, for instance in Belgium and France, or a coverage of a certain percentage of the total lost revenue and fixed expenses as in Denmark. In some cases, these forms of support where extended and increased to include all types of SMEs and self-employed. Finally, most European countries have introduced tax deferrals and reliefs in order to preserve the remaining liquidity of enterprises. In particular, these instruments target both corporate and income tax and, in some cases, are expanded to include the value-added tax. Furthermore, they can be employed to cover specific sectors or time periods and used to, for instance in Greece, target companies “operating in areas affected by the outbreak and which shut down for at least ten days”<sup>55</sup>.

Regarding the challenges faced in the employment sector, it is clear that SMEs struggled to maintain the costs of labour more than larger firms. In fact, due to the pandemic, a large share of workers has been affected in both direct manners, such as sickness, and indirect, as the need to care for children due to the school closure and for elder people. Therefore, providing support to both enterprises and labour force is essential and “short-time work schemes can help protect jobs and provide relief to struggling companies, as evidenced during the last financial and economic crisis”<sup>56</sup>. The temporary support is required to bridge the timeframe in which enterprises will recover from the liquidity gaps, complementing the aforementioned fiscal measures. In fact, although the policy response varies across nations, support is usually given directly to enterprises in order to avoid lay-offs and to prevent the further increase of unemployment, while protecting workers’ income and livelihood<sup>57</sup>. In addition, specific measures are taken in order to allow the temporary reduction of the total working hours or, in

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<sup>55</sup> See reference to note 46.

<sup>56</sup> OECD, “Supporting people and companies to deal with the COVID-19 virus: Options for an immediate employment and social-policy response”, 2020.

<sup>57</sup> International Labour Organisation (ILO), “A policy framework for tackling the economic and social impact of the COVID-19 crisis”, 2020.

other cases, governments covered the costs related to sick leave. For instance, in Denmark employers are covered from the first day when an employee was undergoing quarantine or any sick leave. On the other hand, self-employed are not generally covered for sick leave or temporary unemployment and thus, due to their loss of income were, in certain cases, included in measures distributing subsidies and benefits<sup>58</sup>.

Finally, under structural policies, measures could be included to support the capacity of SMEs to be flexible in times of crisis. In these particular circumstances, enterprises needed support to adapt and renew their business in a short timeframe for transitioning to teleworking or upgrading their degree of digitalisation. For instance, in Italy the Ministry of innovation and Digitalisation launched the program of “Digital Solidarity”, in order to ease the access to digital services to foster the use of new devices and IT procedures<sup>59</sup>. In other cases, measures focused on the creation of alternative markets or provided support for innovation. Several programmes were opened in order to foster labour force training and reskilling, whose aim could be twofold. On one hand, such programmes ease the access for SMEs to specific skills during the crisis. On the other hand, they might contribute to meet the increasing demand for skilled labour and entrepreneurial capacity already existing before the crisis. The implementation and strengthening of the measures introduced above may boost SMEs’ future economic growth and support the factors of resilience to similar external shocks. At the same time, the adoption of new technologies and working processes might increase their future competitiveness and productivity.

## 5. Post-2020 Policy Analysis and Recommendations

In the previous chapter, the challenges faced by most SMEs were presented, highlighting their particular vulnerability to such immediate and external economic shocks, reopening the debate on how European policymakers could support enterprises’ future resilience. In the earlier stages, the political response was predominantly national and diversified, focusing on the most urgent issues, and addressing the phase of survival in which SMEs currently found themselves into. Therefore, action was taken with the primary objective of minimising liquidity shortages, employment losses and bankruptcies. However, notwithstanding the importance of the short-

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<sup>58</sup> See reference to note 46.

<sup>59</sup> Ministro per l’Innovazione tecnologica e la Digitalizzazione, “Coronavirus: la digitalizzazione a support di cittadini e imprese, “Solidarietà Digitale”, 2020.



term response, the extraordinary measures employed in the countries affected by the contagion cannot be prolonged and will pose a heavy burden on the overall public debt. The shift towards a phase of renewal and growth needs to be accommodated by a gradual and planned removal of the previous support, while introducing strategies looking beyond the immediate future (Juergensen et al., 2020). In fact, the extent of the recovery path will depend on the losses in terms of employment, revenue and investment, while the effects of the shock on productivity may persist beyond the initial provisions due to “deglobalisation, lower private investments and entrepreneurship, ‘zombification’ and a persistent shock to labour supply” (Erken, 2020). On a more positive side, the adoption of new technologies and working processes may accelerate the recovery in the shift out of the crisis, providing a pulse for innovation (Di Mauro and Syverson, 2020). In this regard, the renewal and growth phase will require the implementation of structural measures pointed towards resilience and long-term support. However, the action of national governments may lack the fiscal capacity and cooperation necessary to promote future stability. Thus, a strong intervention of the European Institutions will prove to be essential to look beyond 2020. The European Union has the capacity to lay the cornerstone of a future growth that is resilient, inclusive, sustainable, and digital<sup>60</sup>. Especially after the pandemic, the SME sectors can be the focus of regional programmes that improve the access to finance, promote the formation of skills and the entrepreneurship spirit, support a sustainable innovation and digitalisation, leading enterprises to the market of the future.

## 5.1 Access to Finance

For an enterprise, the capacity to obtain liquidity or capital is often essential to operate, innovate and remain competitive, encouraging policymakers to create an economic environment in which the access to finance is not perceived as a challenge. As 2020 has showed, facing a severe economic shock has dramatically stressed SMEs’ resilience and the possibility to access additional sources of liquidity has proven, in certain cases, to be a safeguard against insolvency. Additionally, cash holdings and precautionary savings may represent a buffer to dampen or overcome the effects of future crisis (La Rocca et al., 2019). Moreover, on several occasions it has been shown that firm age and size is often related to their possibility to access banks’ loans (Andrieu et al., 2018) and that small and micro enterprises are less confident of obtaining financing than larger enterprises. In fact, the access increases

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<sup>60</sup> International Trade Center, “COVID-19: The Great Lockdown and its Impact on Small Business”, SME Competitiveness Outlook 2020.

with size but is still dependent on the financial instruments analysed and the national circumstances<sup>61</sup>. Finally, finance gaps are still one of the main concerns for start-ups in most of EU, requiring a different approach from the traditional funding models due to their risk profile and capital structure<sup>62</sup>.

In the period post-2020, initiatives taken under ESIF will remain one of the predominant sources of support for SMEs and entrepreneurship in Europe. In detail, at LRA level ERDF is the most important EU financial source for SMEs, due to its volume and thematic orientation, making this consistent with the framework of the previous years. However, more emphasis should be placed on the active involvement of the European Union and its institutions, especially during the phases of recovery post-2020. In the period 2021-2027, InvestEU will be an initiative directly managed by the European Commission with the objective to promote financial investments in the EU with instruments provided by the EIB. In particular, the access to finance for SMEs will be increased, and support will be channelled through funding for investment, risk finance and working capital<sup>63</sup>. This initiative will represent an important step in the right direction for the EU and will contribute to sustain the future resilience of European SMEs.

Focusing on the immediate future, the access to finance will condition the future opportunity to grow and, given the recent economic shock, may be considered among the most pressing issue for SMEs. Instead, until the end of 2019, it weighted more lightly on the overall challenges faced by enterprises, as shown in the second chapter. In fact, resilience is not only explained by the access to finance and, in the first months of the pandemic, SMEs acknowledged that there “have been a rapid deterioration in the economic environment, despite generally accommodative financing conditions”<sup>64</sup>. In this period, the European Union can, through any instrument at its disposal, jointly facilitate the access to finance for SMEs and provide complementary support for skill formation and innovation, strengthening its programmes in terms of political support and funding. The access to its initiatives could be facilitated through ad hoc portals and transparent procedures along with a simplification of the most complex ones, with a close cooperation with national entities. Furthermore, assets may be allocated carefully at local level to the most affected sectors and regions, to target the most

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<sup>61</sup> European Commission, “Survey on the access to finance of enterprises (SAFE)”, 2019.

<sup>62</sup> European Commission, “SME Envoys Finance, SME access to finance situation in EU Member States”, 2019.

<sup>63</sup> European Union, “EU policy framework on SMEs: state of play and challenges”, 2019.

<sup>64</sup> European Central Bank, “Survey on the Access to Finance of Enterprises in the euro area October 2019 to March 2020”, 2020.

vulnerable micro and small enterprises, emphasizing the underestimated role of the European Union. Among other beneficiaries, the availability of capital may be particularly relevant for start-ups, now particularly damaged, providing incentives for their development and future contribution to the European economy. Therefore, extraordinary financial initiatives have been introduced by the European Commission to mitigate the effects of the coronavirus, such as “using every available euro” of the Structural and Investment Fund. The EU budget will also be employed in the creation of SURE (Support to mitigate Unemployment Risks in an Emergency), “a new EU solidarity instrument to help workers keep their income and help businesses stay afloat and retain staff”<sup>65</sup>. On the other hand, the European Investment Bank introduced the Pan-European Guarantee Fund (EGF) in response to COVID-19 crisis that will “provide finance to companies that are viable in the long-term”, in particular “at least 65% of the financing are earmarked for SMEs”<sup>66</sup>. Finally, on 21 July 2020, the EU leaders agreed on the Recovery Plan for Europe and the multiannual financial framework for 2021-2027<sup>67</sup>. The proposal of the European Commission included the introduction of the Next Generation EU and reinforcing the long-term budget of the European Union, in particular for the InvestEU programme. These exceptional measures will greatly contribute to the recovery and resilience of the economies of the Member States.

## 5.2 Entrepreneurship and skills

As enshrined in the Small Business Act and several official documents, promoting the entrepreneurial spirit is one of the main objectives of the European Union. In fact, the creation, development, and renewal of enterprises is seen as a motor for innovation, fostering economic growth and employment in Europe. In addition, the capacity to adapt to new markets, increase productivity and update the working processes can be seen as a factor of resilience to face the future challenges. Although the link between promoting entrepreneurship and economic growth is complex to define (Erken, 2008), studies have shown that nations facilitating entrepreneurial activities are more suited to benefit from globalisation and technological advancements and present lower unemployment and higher growth (Audretsch et al., 2001). Furthermore, other analyses point out that entrepreneurship is a “systematic driver of productivity” (Erken et al., 2018) and should be addressed by policymakers. In this regard, the

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<sup>65</sup> European Commission, “Coronavirus Response, Using every available euro in every way possible to protect lives and livelihoods”, COM (2020) 143 final, 2020.

<sup>66</sup> European Investment Bank, “Fact sheet: The Pan-European Guarantee Fund in response to COVID-19”, 2020

<sup>67</sup> European Council conclusions, EUCO 10/20 17-21 July 2020.

entrepreneurial mindset should be supported by an adequate economic environment especially for SMEs, that face greater burdens than the larger counterparts. For instance, starting a small business is impacted by complex administrative procedures and difficult access to internal and external finance, while future development may be hindered by the lack of qualified personnel<sup>68</sup>. In this regard, the lack of skilled labour was presented as the prominent issue faced by SMEs in 2019 and needs to be addressed at both national and European level. In fact, SMEs are limited by financial and human resource constraints. They are less capable of raising the skill level of the workforce and are less likely to employ internal training programmes than large enterprises (Marchese et al., 2019).

In Europe, entrepreneurship transforms ideas and opportunities into financial, cultural, and social growth, and it is strongly encouraged through financial support, education, and networking to achieve its potentials. In particular, the Entrepreneurship 2020 action plan<sup>69</sup> introduced several initiatives to promote this mindset, such as the European Entrepreneurship Competence Framework<sup>70</sup>, the Erasmus for Young Entrepreneurs and the supplying channels for networking, skill development and empowerment of women entrepreneurship. On the other hand, a suitable economic environment is sought through the facilitation of start-up procedures and giving entrepreneurs a responsive insolvency framework with a “second chance”<sup>71</sup>. Regarding the allocation of financial resources, the use of Structural Funds had an essential role in the promotion of entrepreneurship and skills, in particular through the ERDF and the ESF. The programmes received a new impetus from the introduction of the SBA<sup>72</sup> and will continue beyond 2020. In addition, the initiative of ESF+ will provide additional support to skill development, focusing on the policy objective of “smarter Europe”<sup>73</sup> and partially addressing the lack of skilled workers for SMEs. Instead, the Single Market Programme will address the initiatives previously under COSME, except for financial instrument that are shifted into InvestEU. Regarding SMEs, it will focus on enhancing the access to markets, internationalisation, and skill formation focused on entrepreneurship.

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<sup>68</sup> OECD, “SMEs, Entrepreneurship and Innovation”, 2010.

<sup>69</sup> European Commission, Entrepreneurship 2020 action plan COM (2012) 795 final.

<sup>70</sup> European Commission, “EntreComp: The Entrepreneurship Competence Framework”, 2016.

<sup>71</sup> European Parliament and the Council of the European Union, Directive (EU) 2019/1023, 20 June 2019.

<sup>72</sup> European Union, “Building Entrepreneurial Mindsets and skills in the EU”, 2012.

<sup>73</sup> European Parliament and the Council of the European Union, Regulation on the European Social Fund Plus (ESF+), COM (2018) 382 final.

In the period following the COVID-19 crisis, the promotion of the entrepreneurial spirit will be essential to ensure future growth and competitiveness for the European nations. In fact, the pandemic resulted in a severe economic shock highlighting the vulnerabilities of the SME sector and their intrinsic difficulty to be flexible and adapt to external challenges. This is particularly relevant for micro-firm and also the self-employed. Furthermore, unemployment is likely to increase in the subsequent years, albeit contained by the short-term policy response. Moreover, the economic environment will still be recovering and offering less incentives to put in practice the entrepreneur spirit and open new businesses. Nevertheless, a strong involvement of the European institutions in cooperation with the Member States may provide a new impetus for renewal and growth. Supporting the formation of skills will represent a long-term objective that is necessary for the resilience of SMEs that, particularly in this period, may not have the financial and human resources to start new forms of business and continue their development. Additionally, employing the best practices introduced by the Entrepreneurship 2020 Action Plan and following the principles enshrined in the SBA will provide forms of support in the business environment beyond the financial level. Furthermore, entrepreneurship in the EU should start from the local level. In this period of economic distress, networks that gather SMEs with similar needs may promote the exchange of information and new working processes. Moreover, they may allow the partial sharing of transaction costs, for instance in the internal training programmes and the creation of skill ecosystems<sup>74</sup>. Future initiatives could reignite the principles contained in the SBA, to propose tailored legislation that measures the impact on SMEs through RIAs and reduces the overall complexities in the administrative procedures through targeted smart regulations. Finally, in the period beyond 2020, the European Union may strengthen its action towards two types of enterprises that often fall under the category of SMEs, that are start-ups and social enterprises.

The former ones are still not qualified by a precise definition, but only characterised by common features such as being young, innovative, and aiming to scale up. In particular, all start-ups are SMEs, but not the contrary, and they are difficult to address for their number of employees and capital, despite the initial low turnover. However, they provide a great potential of innovation and job creation, particularly necessary in this timeframe, contributing to the future resilience of the European economy. In addition, analysing the population of these enterprises highlights that the entrepreneurship spirit is widely developed through teams,

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<sup>74</sup> See reference to note 66.

common leaderships, and share efforts<sup>75</sup>. This strengthens the proposition of endowing young European entrepreneurs not only with managerial skills, but also with sets of “soft skills”, to enhance cooperation and networking. Successful teamwork is complex to achieve but may offer more possibilities than an individualistic approach. Furthermore, European actors are able to promote an environment suitable to the creation of enterprises, facilitate the accessibility to human and financial resources and encourage the formation of partnerships and networks that spread beyond national level. Regarding the presence of predominantly male-all teams in start-ups and in the entrepreneurial sector in general, the European Union could continue to support programmes for women entrepreneurship and reduce the barriers they face<sup>76</sup>. In particular, women have assumed the role of the caretakers while the lockdown measures were active more often than men, possibly hindering their employment status or their future career (Alon et al., 2020). In this regard, policymaking at European level could support women to face their challenges through “gender-responsive budgeting”, reducing the wage gap and promoting “women’s active participation and leadership in COVID-19 response and beyond”<sup>77</sup>.

Second, social enterprises aim to provide solutions to unsolved societal problems and require support in many cases different from traditional businesses, due to their public responsibility<sup>78</sup>. At European level, social entrepreneurship and its innovation processes are already supported, for instance, through funding channelled through the EaSI programme. However, after the impact of COVID-19, their role in addressing social challenges should be highlighted and the formation of these enterprises can be encouraged through additional funding. Entrepreneurship and skills may be employed also to tackle societal needs and serving the community improving the quality of life in the European Union. To conclude, the action of European institutions for the development of the entrepreneurial spirit may be focused on the future resilience of SMEs, with a more active role helping SMEs to enter and adapt to future markets providing funds, networks and expertise while cooperating with national governments to reduce the administrative burdens and support the creation of a societal and SME-friendly environment.

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<sup>75</sup> European Commission, “Annual Report on European SMEs 2018/2019”, 2019.

<sup>76</sup> European Union, “Policy Brief on Women’s Entrepreneurship”, 2016.

<sup>77</sup> UN Women, “Women as drivers of economic recovery and resilience during COVID-19 and beyond”, <https://www.unwomen.org/en/news/stories/2020/7/statement-joint-w20-women-during-covid-19-and-beyond>.

<sup>78</sup> See reference to note 66.

### 5.3 Innovation and Sustainability

Addressing the factors contributing to resilience in SMEs, great relevance is given to the access to financial and human resources. However, these are not necessarily sufficient conditions to remain competitive in the market and to ensure economic growth. Innovation, especially in certain sectors, is essential to develop new products and working processes, while the creation of knowledge at the right time leads the firm having substantial competitive advantages over others in terms success and profit (Gonzalez-Loureiro et al., 2012). Focusing on enterprises, firm size and Research and Development intensity are positively related to process and product innovation, in turn enhancing overall productivity (Hall et al. 2009). On one hand, larger firms are more innovative on average due to the greater access to finance, human resources, and economy of scale. In fact, SMEs still face several barriers due to their compared smaller sizes. However, there have been several new positive trends for SMEs, that are increasingly more active in the sector of breakthrough innovations. In particular, “there is an uneven distribution of small firm innovation between a few highly innovative firms and the great majority of SMEs that innovate very little compared to their larger counterparts”<sup>79</sup>. The former often include high-potential enterprises and the “gazelles”<sup>80</sup>, that experience a rapid growth.

At European level, research and innovation are considered important investments that, in the long run, contribute to the competitiveness, employment, and growth of enterprises, while increasing the relevance of the union as one of the leaders in the world economy<sup>81</sup>. Furthermore, several long-term environmental policy objectives of the European Union include the development of new clean technologies and working processes, thus underlining the need to invest in a sustainable development. In the period 2021-2027, an important EU managed channel will be Horizon Europe, that will build upon the successful experience of the former Horizon 2020 project<sup>82</sup>. Through this programme, the European Union will be able to allocate relevant funding to scientific research and investments for innovation that will directly and indirectly enhance SMEs’ resilience and competitiveness in the future markets. Horizon Europe, as its predecessor, will operate under three pillars with the objective to generate knowledge and provide “innovative solutions in European industry, notably in SMEs, and society to address global challenges, including climate change and the Sustainable

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<sup>79</sup> OECD, “SMEs, Entrepreneurship and Innovation”, 2010.

<sup>80</sup> European Commission, “SMEs Annual Report 2018-2019”, 2019.

<sup>81</sup> European Commission, “Open Innovation, Open Science and Open to the World”, 2016.

<sup>82</sup> European Union, “EU policy framework on SMEs: state of play and challenges”, 2019.

Development Goals<sup>83</sup>”. Furthermore, the employment of financial instruments will be complemented by practices such as creating networks, developing public and private partnerships and exchange information and expertise. However, at this stage of the strategic planning, the involvement for SMEs is downplayed in contrast to Horizon2020, and this factor should be considered when addressing the overall impact on the sector.

Considering the negative impact of the COVID-19 shock and the prolonged phase of survival, European enterprises will struggle to maintain their progress in innovation and research, in particular where the contagion has severely spread. In fact, SMEs were required to postpone investments and will need time to return to their full capacity and reboot their long-term strategies for innovation. However, this may also be regarded as a turning point in innovation, accelerating the processes of technological adoption, digitalisation, and the transition to a more sustainable growth (Juergensen et al., 2020). European policymakers can support this process and for instance, tailor policies and funds for SMEs in the fields of renewable energy and environmentally friendly technologies. Furthermore, clearer distinctions could be drawn between enterprises that are leaders in eco-innovation and the ones following the minimum requirements in environmental regulation (Triguero et al., 2014). Regarding structural policies that contribute the resilience of SMEs, European policymakers should take a proactive stance for innovation, setting changes in motion rather than addressing the failures of the market (Schot and Steinmueller, 2018). This type of action entails the strengthening of grant and non-grant support through the ERDF, Horizon Europe, and other channels. In fact, skill shortages and lack of funds still remain among the principal barriers to innovation for SMEs<sup>84</sup>. Access to skill may be facilitated through shared efforts between the European Union and the Member States, introducing and supporting education in STEM disciplines, facilitating international exchanges, and including SMEs as stakeholders to define more clearly their specific needs. In addition, COSME’ initiatives and the Enterprise Europe Network have shown that innovative SMEs benefit from international cooperation, private-public partnerships and networks between SMEs, overall producing knowledge flows, innovation spill-overs<sup>85</sup> and access to expertise. On the other hand, access to finance may represent the prominent challenge after the impact of coronavirus, especially for small leading innovators (Veugelers et al., 2019). Thus,

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<sup>83</sup> European Commission, “Orientations towards the first Strategic Plan for Horizon Europe”, 2019.

<sup>84</sup> See reference to note 77.

<sup>85</sup> See reference to note 76.



European level financing could be facilitated and made accessible at all stages for SMEs willing to innovate, in particular regarding investments for a sustainable innovation.

## 5.4 Digitalisation

In the last decade, innovation in the technological and IT sectors opened the path of a digital transition for both the society and the market. On one hand, it has the potential to boost productivity, competitiveness, and well-being. On the downside, it may highlight the gaps between firms and regions that can or cannot participate and benefit from the phenomenon, thus increasing inequalities and requiring a strong policy action<sup>86</sup>. In fact, digital technologies may allow SMEs to be more resilient in the long run only if they have the financial and human resources to change and update. In detail, the digital transformation of business facilitates the access to new markets, connects networks and resources, and it increases the availability of information and access to specific skills and expertise. Furthermore, it shortens long distances and allows even the smallest enterprises to find a place in the market and in the global value chains, remaining competitive despite their sizes. In addition, it opens the access to new tools to determine future demand, for instance Big Data and behavioural analytics instruments, that contribute to the overall competitiveness. Finally, a digital transformation may also benefit the public sector and its quality, particularly reducing its administrative complexity, facilitating the interactions with society and more efficient user-centric policymaking<sup>87</sup>. Aside from large enterprises, high-potential SMEs and “gazelles” are usually very innovative and are suited to employ new technologies and digital processes. However, a great portion of SMEs is still lagging in the digital transformation. In fact, smaller enterprises are constrained by their limited capital and access to finance, as presented in the previous chapters. Moreover, similarly to innovation, digitalisation requires specific expertise and set of skills that are not easily accessible to SMEs, that are not capable of extensive training programmes or employing external services. For these reasons, the intervention of policymakers is required to ensure the future resilience and competitiveness of the smaller firms.

The European Union and the European Economic and Social Committee (EESC) fully recognise the benefits of going digital for SMEs and fully endorse this transformation. In fact, the policy objective of digitalisation has often been part of initiatives that supported innovation.

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<sup>86</sup> OECD, “The OECD Digital for SMEs Global Initiative”, 2019.

<sup>87</sup> See reference to note 76.

For instance, in early 2020 the EU introduced the program “Shaping Europe’s Digital Future”<sup>88</sup> and shortly after the European Commission published its SME strategy for a sustainable and digital Europe<sup>89</sup>. Furthermore, especially due to the impact of the coronavirus, the topic acquired even stronger relevance. For instance, digital instruments of artificial intelligence, supercomputing and monitoring were employed by the European Union to gather essential information regarding the spread of the virus. Alongside the action of Member States, the European Commission provided digital services to both SMEs and individual to facilitate the passage to the new technologies during the lockdowns. For instance, guidelines for digital competences were introduced alongside online courses, that may help both students and workers to increase their overall skills. In addition, the European Union increased the availability of information for the public regarding cybersecurity and strengthened telecommunications, networks and connectivity services.

Finally, the pandemic has highlighted how part of SMEs in Europe was lagging behind in this worldwide process, thus requiring a push for a phase of renewal. Future policy action may focus on providing a modern and robust digital infrastructure and increasing connectivity to meet the economic and societal needs. In fact, the use of internet services has risen during the pandemic and has highlighted the need for all enterprises to provide more digital services and remain updated. The market will increasingly require digital entrepreneurs and businesses that are relevant and can transact online, such as most forms of e-commerce. Furthermore, SMEs continue to face skill barriers to renew, adopt new technologies and successfully employ them in the market. For this reason, both the European Union and Member States could open programmes to educate citizens to the modern working processes and to introduce more possibilities for them to acquire digital skills, for both basic and advanced levels<sup>90</sup>. Investments in this field may provide incentives to entrepreneurship, thus having a positive effect on employment and raising the overall digital literacy levels among citizens. Finally, the European Union may tackle the financial barriers that SMEs face and allocate more resources for enterprises that are willing to innovate despite lacking the financial capabilities, particularly in the recovery phase. In this regard, the Next Generation EU Recovery Plan and the Digital

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<sup>88</sup> European Commission, Shaping Europe's digital future, COM (2020) 67 final, 2020.

<sup>89</sup> European Commission, An SME Strategy for a sustainable and digital Europe, COM (2020) 103 final, 2020.

<sup>90</sup> European Commission, “Digital Economy and Society Index (DESI)”, 2020.

Europe Programme will be essential to provide funds for the digital and green transition, contributing to build up the resilience of SMEs for their future challenges<sup>91</sup>.

## 6. Final Remarks

SMEs, due to their limited financial and human resources, are particularly vulnerable to economic shocks and policymakers should strive to promote their growth and enhance their resilience. In the last decade, the lack of skilled labour, the limited access to finance and the complexity of regulations were among the predominant barriers for SMEs. The European Union successfully lowered the market barriers and provided support for SMEs through both direct and indirect channels, targeting single, groups and networks of enterprises while improving the economic environment in which they operated. In detail, access to finance was facilitated by the funding mechanisms of ESIF, ERDF and by EIB instruments, while complementary support to entrepreneurship, skills and innovation was channelled through COSME, Horizon 2020 and EaSI. These initiatives have provided valuable insights and criteria for the design of future strategies. Nonetheless, European SMEs still present vulnerabilities to economic shocks and, in certain cases, do not possess the human and financial resources to innovate, digitalise, access new markets, and remain competitive. The global pandemic of COVID-19 disrupted the channels of globalisation and the global value chains, while its subsequent spread in the EU countries led to severe repercussions on both the demand and supply sides for SMEs. In addition, the containment and lockdown measures undertaken by governments to protect the public health lead SMEs to a state of widespread loss of revenue, financial distress, and insolvency. In most cases, governments employed short-term measures to sustain enterprises in the survival phase. On the contrary, in the period post-2020, the active involvement of the EU will be essential to develop a path of recovery for European SMEs and enhancing their resilience to future economic shocks.

In the medium-term, access to finance will represent a challenge for SMEs and extraordinary measures will be employed alongside the enhancement of previous programmes, as showed by the introduction of the EU Recovery Plan and Next Generation EU. Through financial support, enterprises may be capable to shift out from the survival phase and possess the required resources to operate and to invest in their growth. This may be particularly relevant for micro and small enterprises that needed to update their working processes and to digitalize. From

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<sup>91</sup> European Council conclusions, EUCO 10/20 17-21 July 2020.

another perspective, the formation of start-ups will benefit from an easier access to finance, facilitating the search for the initial capital. As a policy recommendation, European policymakers could inform the potential beneficiaries of the existent channels and lower the bureaucratic barriers, facilitating their access with ad hoc portals and procedures. In addition, financial support may complement other policy objectives such as promoting entrepreneurship, innovation and digitalisation. In fact, European institutions can support the entrepreneurial spirit providing funds, network and expertise for SMEs to grow beyond the period of recovery after COVID-19. This may entail a transformative process for European SMEs, adapting to the market with more flexibility, working processes and ideas. The EU can endorse the digital transformation with initiatives such as the Digital Europe Program, potentially pushing even smaller firms to innovate and grow. The resilience of the whole population of SMEs, albeit heterogeneous, may benefit from this process.

On the other hand, a strong R&D is not particularly diffused among SMEs due to their tighter human and financial resources. However, innovation is essential for maintaining competitiveness, finding new markets and pursuing the policy objectives of environmental sustainability. Even smaller firms can be relevant and greatly benefit from sharing efforts and clustering, solidifying their economic growth in the long run. The support provided by the EU in the form of funds, networking, expertise, technology and information transfers can complement the formation of an entrepreneurial mindset during the recovery period after COVID-19. In addition, practices from previous programmes, such as The Entrepreneurship 2020 Action Plan, can be employed to support individuals in their formation. Exchange initiatives, networks, mentorships, online courses among other tools, may empower young entrepreneurs, both female and male, with the right mindset and skills to develop their business. On the other hand, the European Union may cooperate with member states to lower the regulative barriers for SMEs and it may be beneficial for new firms, in particular for the micro and small ones. This process could follow the “Think Small First” principle enshrined in the SBA, while the latter could be strengthened in importance and updated for the future. Finally, the EU current definition of SMEs presents no particular reasons to need an eventual revision. However, future policymaking could benefit from further clarifications between the specific needs of enterprises, for instance differentiating between start-ups and developed enterprises.

To conclude, the period post-2020 will pose numerous challenges on both European SMEs and policymakers. However, the actions taken during the recovery phase will be the building blocks

to ensure a common and sustainable economic growth, while employing long-term strategies tailored on the needs of SMEs will support their future resilience.

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## 8. Riassunto in italiano

Nel 2020, la diffusione del COVID-19 in diversi paesi europei ha generato gravi effetti negli ambiti della salute pubblica e dell'economia. In particolare, le Piccole e Medie Imprese (PMI) si sono rivelate le più colpite dall'epidemia, in primis per via conseguenze delle misure anti-contagio e in secundis, a causa della rottura di alcune catene del valore globale e degli shock relativi alla domanda ed offerta. Ciononostante, questo periodo di grave crisi, attraverso forti azioni politiche, potrebbe mettere in moto un processo di trasformazione per queste imprese, velocizzando la ripresa dell'economia ed aumentando la resilienza delle PMI a fronte di futuri shock economici. Nel lungo termine, l'intervento dell'Unione Europea, in modo complementare alle strategie degli Stati Membri, può rivelarsi essenziale nel supportare questo processo e guidare la ripresa nell'ottica di una crescita economica improntata al futuro, comune e sostenibile. Per questa ragione, lo scopo primario di questa tesi è di analizzare il supporto europeo alle PMI, prima e dopo l'avvento del COVID-19, nell'ottica di fornire riflessioni, criteri ed iniziative riguardo alle future politiche europee che potrebbero essere usate per supportare queste imprese nella loro ripresa e rinforzare la loro resilienza futura.

Le PMI, sia a livello mondiale che europeo, costituiscono la quasi totalità delle imprese nelle economie moderne e rappresentano la principale forma di occupazione e valore aggiunto. Infatti, sono considerate il motore dell'economia, della crescita e dell'innovazione. Secondo i criteri dell'Unione Europea, le PMI sono definite in relazione al numero di impiegati e al fatturato annuale, che devono risultare inferiori rispettivamente a 250 individui ed EUR 50 milioni. Inoltre, le PMI sono ulteriormente suddivise in micro, piccole e medie imprese, dipendentemente dalla loro dimensione. In generale, le principali barriere alla crescita per queste imprese includono la carenza di personale qualificato, la difficoltà nell'ottenere risorse finanziarie e la complessità del sistema normativo ed amministrativo. In particolare, a differenza delle grandi imprese, le PMI tendono a possedere limitate risorse umane e finanziarie, che pongono limiti alla loro capacità di essere flessibili e resilienti, soprattutto nell'occorrenza di crisi economiche. A causa di questa vulnerabilità intrinseca, che si riscontra soprattutto in modo indirettamente proporzionale alla dimensione, le PMI necessitano di specifiche politiche a livello europeo, necessarie e complementari a quelle nazionali. L'analisi

delle esperienze passate può fornire esempi di pratiche e misure efficaci che possono essere reintrodotte dopo l'impatto del COVID-19.

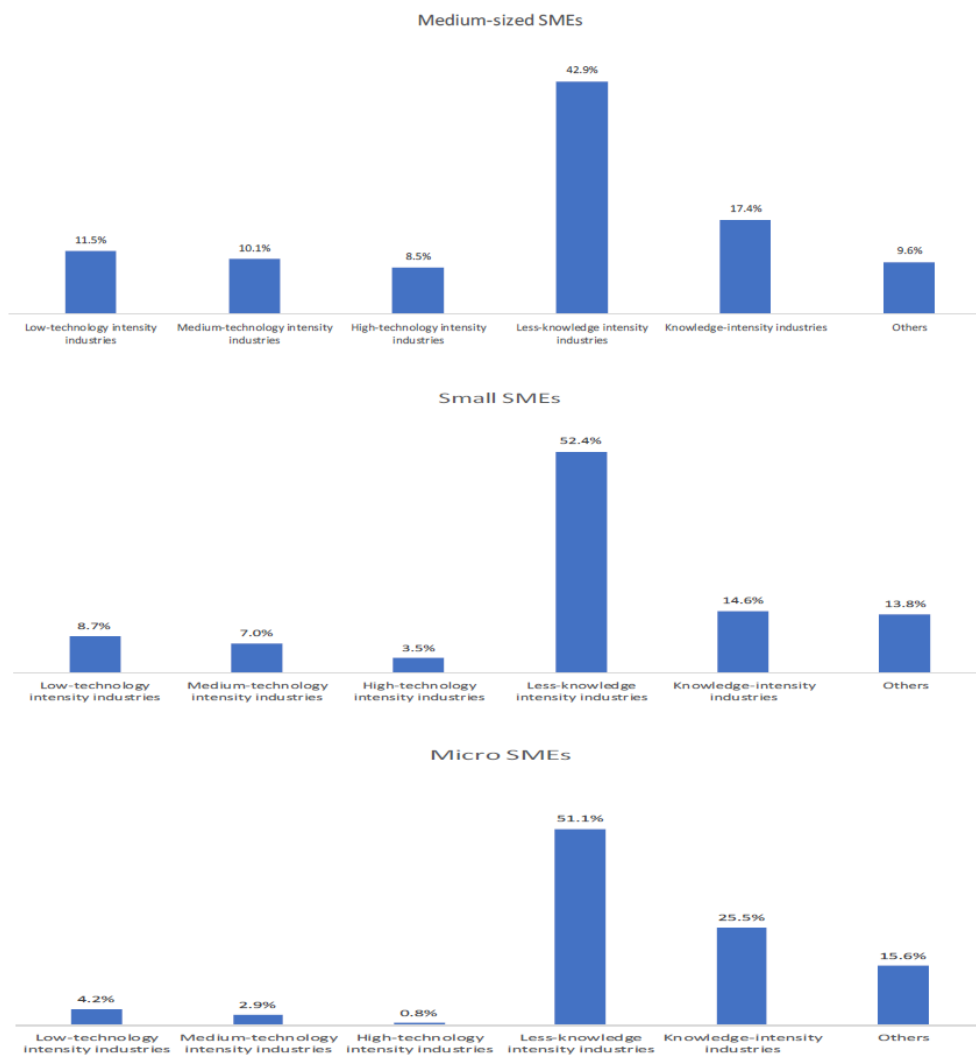
Infatti, durante lo scorso decennio, l'Unione Europea ha creato ed implementato con successo diversi programmi a sostegno delle PMI, supportandole nel superamento delle proprie barriere alla crescita. Inoltre, l'intervento dell'Unione ha facilitato la ripresa di queste imprese nel periodo seguente alla crisi finanziaria. Tra gli esempi dell'impegno europeo verso le PMI, lo Small Business Act (SBA), adottato nel 2008, è considerato una pietra miliare per la progettazione di politiche, sia nazionali che europee, atte a sostenere la crescita delle PMI e la formazione di un ambiente europeo, economico e normativo, che supporti lo spirito imprenditoriale. Per quanto riguarda la distribuzione dei fondi europei, gli European Structural Investment Funds (ESIF), tramite la cooperazione tra la Commissione Europea e gli Stati Membri, promuovono l'occupazione e una crescita economica sostenibile. Invece, tra i programmi amministrati dalla Commissione, COSME supporta in modo più diretto le PMI, semplificando l'accesso agli strumenti finanziari e promuovendo la loro competitività e la possibilità di accedere a nuovi mercati. Altri canali includono Horizon 2020, che finanzia in modo specifico le eccellenze nella ricerca e nell'innovazione, ed EaSI, che supporta le imprese che hanno un impegno sociale.

Nonostante il supporto, l'epidemia scatenata dal rapido contagio del COVID-19 ha cambiato drasticamente le previsioni di crescita nel 2020 per gran parte delle imprese nei paesi più colpiti. Infatti, questo shock comune ed esterno, oltre ai rischi riguardanti la salute pubblica, avrà ripercussioni negli anni seguenti e necessiterà di una forte azione politica, nazionale ed europea. Nelle fasi iniziali, diversi governi hanno implementato varie misure di contenimento per ridurre la formazione di catene del contagio, ad esempio, chiudendo le frontiere, limitando parzialmente o totalmente la mobilità e fermando le imprese non essenziali. Le politiche restrittive ed il clima di diffusa instabilità hanno fortemente ridotto la possibilità delle imprese di rimanere operative, creando un drastico calo delle entrate che aumenta il rischio di insolvenza, soprattutto per le PMI. La risposta nazionale, impiegata durante la situazione di emergenza, è stata in generale focalizzata sul fornire liquidità alle imprese ed alleviare i costi di mantenimento del personale, attraverso prestiti, finanziamenti, tagli della tassazione e retribuire i periodi di malattia. Tuttavia, a causa tramite l'interruzione di diverse catene del valore globali e gli effetti sulla domanda ed offerta, lo shock economico riterrà effetti negativi anche a lungo termine, rallentando la crescita futura.

Ciononostante, questa crisi potrebbe rappresentare un punto di svolta per le PMI, velocizzando il loro processo di innovazione e digitalizzazione. Un forte intervento politico ed economico dell'Unione Europea potrebbe accorciare la durata necessaria per la ripresa, sostenere la crescita e supportare la resilienza futura delle imprese. L'introduzione del EU Recovery Plan e soprattutto di Next Generation EU, focalizzato sul fornire fondi per gli investimenti e l'innovazione, ricopriranno in parte il ruolo di far ripartire l'economia europea. Inoltre, facilitando l'ottenimento di risorse finanziarie, le PMI saranno facilitate nell'investire su progetti di rinnovamento, rinforzando la propria competitività. In particolare, come osservato durante la pandemia, il processo di digitalizzazione delle imprese può rappresentare un importante fattore di flessibilità, fornendo nuove tecnologie e processi lavorativi. Tuttavia, le imprese di dimensioni ridotte spesso non possiedono il capitale necessario per completare questo passaggio e formare i propri dipendenti, rendendo essenziale un'azione politica mirata. Per contrastare i limiti delle PMI, le istituzioni europee potrebbero promuovere la cooperazione internazionale e facilitare la formazione di networks, tramite cui condividere i costi, scambiare informazioni e facilitare la ricerca e l'innovazione. Guardando oltre al periodo di crisi, la promozione dello spirito imprenditoriale in Europa e la riduzione delle barriere finanziarie ed amministrative e potrebbe fornire, soprattutto ai giovani, la spinta e la formazione necessaria per portare nuove idee sul mercato, creando una nuova generazione di imprese e facilitando l'occupazione. In conclusione, l'Unione Europea ha la capacità di influenzare l'esito di questa crisi, attraverso una risposta decisa ed unita. Le azioni di supporto che saranno impiegate nella fase di ripresa costituiranno le fondamenta di una crescita economica comune e sostenibile, mentre le strategie a lungo termine avranno il ruolo di promuovere la resilienza futura delle PMI.

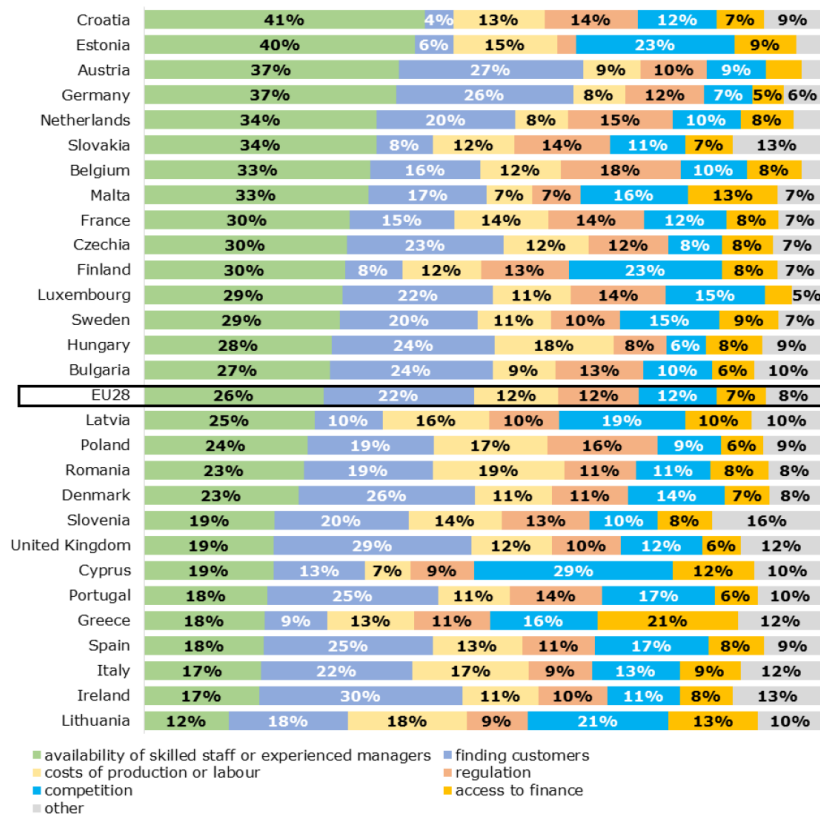
## 9. Appendix

Figure 1. Distribution of SMEs for technological intensity.



Source: European Commission, Annual Report on European SMEs 2018/2019.

Figure 2. SMEs perceived most pressing problems by country.



Source: Survey on the access to finance of enterprises (SAFE), European Commission 2019

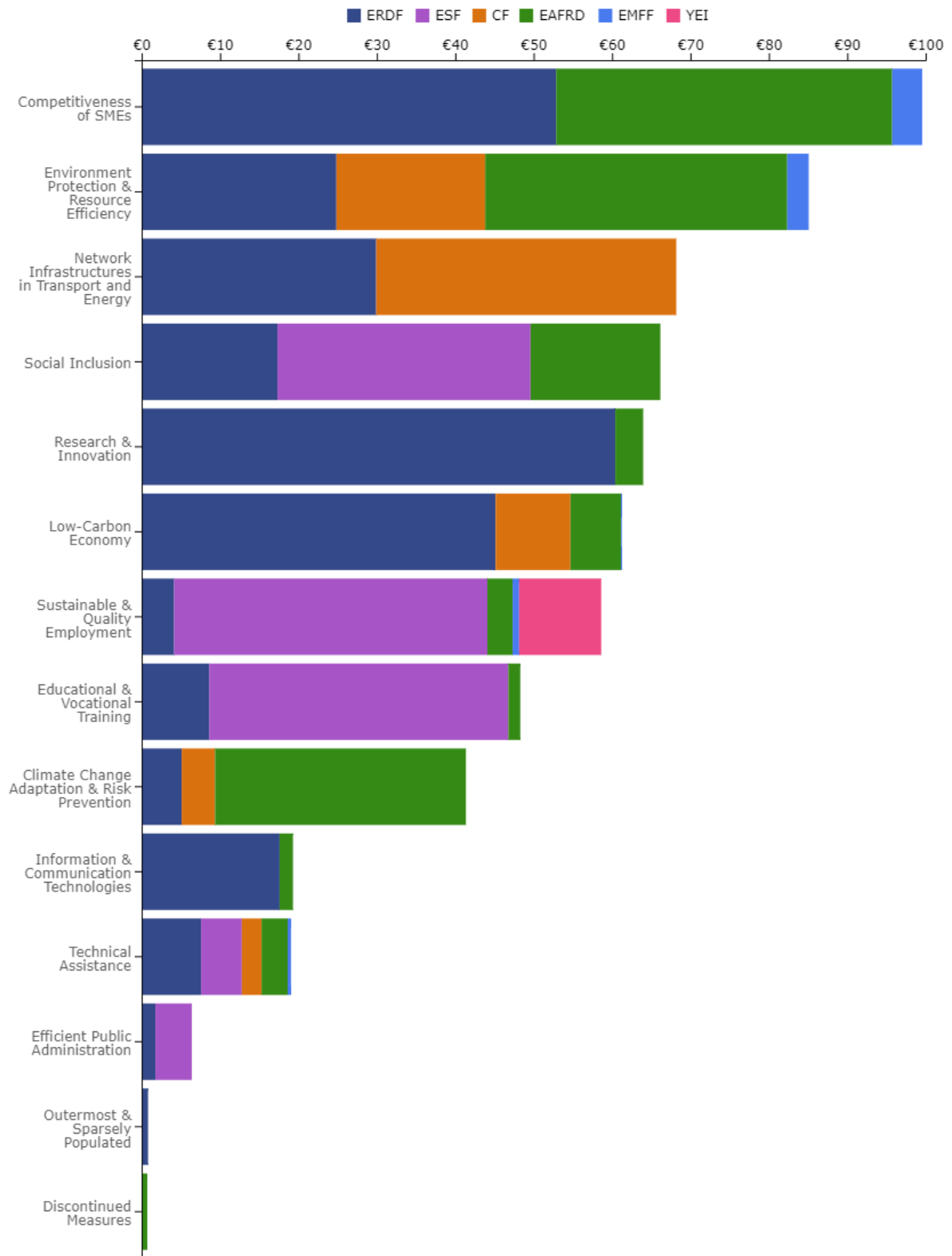
### Annex 1. 10 principles of Small Business Act.

- (1) strengthening research, technological development and innovation;
- (2) enhancing access to, and use and quality of, ICT;
- (3) enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF);
- (4) supporting the shift towards a low-carbon economy in all sectors;
- (5) promoting climate change adaptation, risk prevention and management;
- (6) preserving and protecting the environment and promoting resource efficiency;
- (7) promoting sustainable transport and removing bottlenecks in key network infrastructures;
- (8) promoting sustainable and quality employment and supporting labour mobility;
- (9) promoting social inclusion, combating poverty and any discrimination;
- (10) investing in education, training and vocational training for skills and lifelong learning;
- (11) enhancing institutional capacity of public authorities and stakeholders and efficient public administration.

Source: European Parliament and the Council of the European Union, No 1303/2013, 17 December 2013.

Figure 3. Distribution of ESIF by theme and programme.

ESIF 2014-2020: Total budget by Theme, EUR billion (daily update)



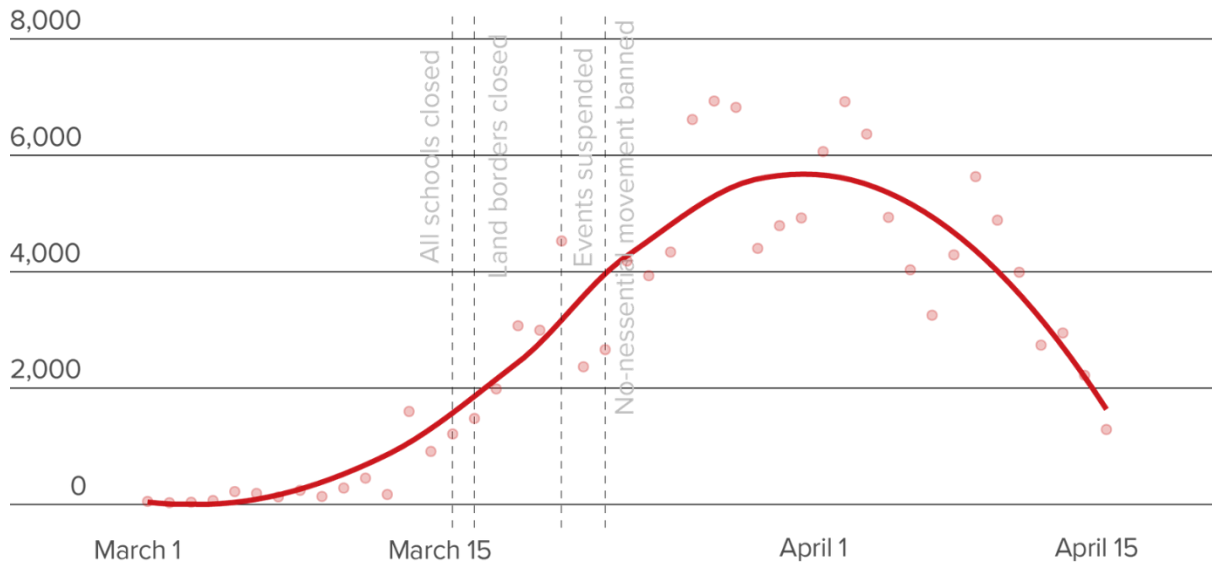
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Source: European Structural and Investment Fund, <https://cohesiondata.ec.europa.eu/overview>

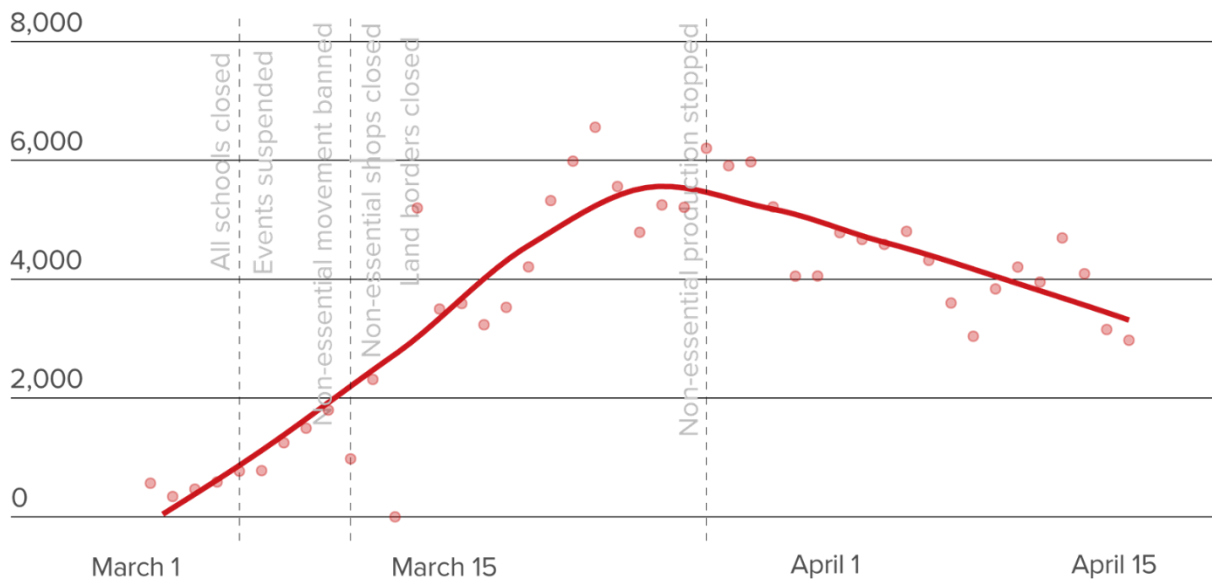


Figure 4. Examples of the effects of containment measures.

## Germany



## Italy



Source: <https://www.politico.eu/article/coronavirus-europe-lockdown-effectiveness-graphics/>.