SME Policies in Europe

Towards a Place-Based Approach

European Entrepreneurial Region

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1. Introduction

The 25 million small and medium-sized enterprises (SMEs)[1] in Europe account for 99.8% of all firms and are a significant source of job creation and prosperity, employing 66.6% of workers and producing 55.7% of value-added in the non-financial business sector.[2] Creating a SME-friendly environment for existing companies and new entrepreneurs is one of the EU's main objectives. The adoption of the Small Business Act (SBA) in 2008 and the Entrepreneurship 2020 Action Plan have been the most important European policy frameworks for SME policy during the past decade. In March 2020, the European Commission renewed its commitment to an SME-friendly environment with the presentation of an SME Strategy.[3]

Local and regional authorities (LRAs) are crucial partners in SME policy because SME competitiveness to a large degree depends on the strength of regional clusters and ecosystems. In return, many regions are highly dependent on the contribution of start-ups, scale-ups and established SMEs towards employment and innovation. The Committee of the Regions (CoR), therefore, has proactively taken up the issue of SME policy through an own-initiative opinion on the SME strategy. This report is written to support and expand upon the opinion of the Committee of the Regions rapporteur Mr. Van Hijum.[4] The opinion will be voted on during the plenary session of 12-14 October 2020.

Even though the rapporteur's team welcomed the work of the Commission, we also signalled three important lacunas within the SME strategy:

Firstly, the measures within the SME Strategy are, with some exceptions, not place based. Because most measures are not implemented at regional level they cannot respond to the vast regional economic differences in Europe. Few measures are directly attempting to strengthen regional ecosystems for SMEs. Overall, the Strategy is missing a coherent approach on implementation and does not tap into the potential of a stronger partnership between the EU, member states and the local and regional level.

Secondly, even though the Commission has acknowledged SMEs to be a heterogeneous group, few policy measures differentiate between different groups. SMEs differ in size (micro, small, medium), life cycle (start-up, scale-up, grown-up), ownership structure (e.g. family owned, partnership, cooperative), sector, and technology level. Boosting start-ups and facilitating scale-ups, especially within high-tech sectors, seems to be the most prominent policy priority of the European Commission. Family businesses, the most common form of ownership in Europe, are not explicitly addressed in the SME strategy. The Commission needs to step up its efforts in creating a level playing field for all businesses.

1 SMEs are defined by the EU as companies with fewer than 250 employees, less than € 50 million turnover and with a balance sheet total of less than € 43 million: COMMISSION RECOMMENDATION of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC), Official Journal of the European Union, L 124/36, 20.5.2003.

2 European Commission, Annual Report on European SMEs 2018/2019. Brussels: European Commission, 2019, 11.

3 European Commission, "An SME Strategy for a sustainable and digital Europe," Brussels, 10.3.2020 COM(2020) 103 final.

4 European Committee of the Regions. Draft opinion on the SME Strategy. Brussels, 23.6.2020. **cor.europa.eu/EN/our-work/Pages/OpinionTimeline.aspx?opId=CDR-1373-2020**

Thirdly, at the time of publication of the SME Strategy in early March, the impact of the COVID-19 pandemic on the economy was not yet foreseen. Only a few days later, most of Europe was in lockdown. Within the process of economic recovery, SMEs are perhaps vulnerable, but their greater flexibility will also allow them to test new business models in the post-pandemic economy. In addition, we wonder in what ways the current health crisis and recession will slow down or accelerate the transition towards sustainability and digitisation, two central challenges according to the SME strategy. Finally, regional ecosystems are central support structures for SMEs in the recovery process.

This report, together with the opinion, aims to complement the SME Strategy by offering a regional perspective on SME policy. The goal of this report is not only to inspire regions and the Commission with specific examples, but also to analyse the potential for a stronger partnership between the EU and the local and regional level built around SME policy. Three sets of questions are addressed in the report:

- What trade-offs do regions face when deciding upon a place-based policy strategy which seeks to strengthen the ecosystem for SMEs?
- What can the European Commission do to ensure a level playing field for SMEs and how can the Commission differentiate support to account for the heterogeneity of SMEs?
- How can local and regional governments and other regional economic actors contribute to the recovery of SMEs from the COVID-19 crisis whilst also progressing on digitisation and sustainability?

The three questions above are addressed in the next three chapters. The authors performed desk research and they draw on two additional information sources listed in the appendices.[5] Firstly, a questionnaire was sent out to CoR members and other relevant contacts of the CoR ECON secretariat. We received a total of 38 responses from 14 member states. Most respondents answered the questionnaire on behalf of a region or locality, while others responded on behalf of an intermediary entity, or business association. The aim of the questionnaire was to gather data and qualitative information on current practices and priorities in regional SME policies, as well as to inquire about EU measures and the potential for a closer partnership between the EU and the European regions.

Secondly, the rapporteur team undertook an extensive consultation process resulting in written input from local and regional authorities, as well as records of meetings with SME interest groups and experts. Twenty different stakeholders were consulted during this process. This consultation addressed the SME Strategy more directly, taking stock of what was missing within the SME Strategy and how measures can be delivered more effectively.

5 In appendix 1 and 3 the information derived from the two main sources (a survey and a consultation process) is summarised and positioned in relation to the SME strategy and the rapporteur's opinion.

2. Place-Based Recovery

The Commission launched the 2020 SME Strategy only a few weeks before the coronavirus started its worldwide spread. The pandemic has caused a cycle of reduced spending, production and investments, which had to be countered by significant state spending on emergency aid, including targeted measures for SMEs.[6] While these pubic interventions have significantly softened the blow of the crisis, it is already clear that a vast contraction of the European economy cannot be avoided and a long recession looms on the horizon. It is expected that the economic impact of the crisis will be highly unequal across Europe and dependent on structural factors and capabilities at the regional level. Regional and local authorities (LRAs) are closely positioned in relation to SMEs and are therefore in the best position to assess their needs. To be effective, European SME policies must have a stronger regional dimension. In this chapter we will explore how LRAs can be empowered to take full advantage of their position during the economic recovery process. Therefore, we introduce the notion of 'place-based SME policies', which seeks to balance a strategy of comparative advantage based on local potential, with a more inclusive approach of SMEs and the regional economy.

2.1 COVID-19 Crisis

The spread of the COVID-19 pandemic has had significant effects on the European Union. Both society and economy have changed rapidly. As of 23 September 2020, more than 2.9 million COVID-19 cases and 187,000 deaths have been reported across the EU. The economic impact also becomes more and more apparent. Eurostat calculated the change percentage of GDP within the European Union to be -3.2% for the first, and -11.7% for the second quarter of 2020.[7] An unprecedented figure since Eurostat first started keeping track of these data in 1995.

Resilience of European Regions: Which Type of Regions Recover Quickly?

Although no Member State is excluded from economic downturn in the second quarter, and only few managed to achieve a growth in the first quarter, the impact differs greatly between countries. The downturn ranges from severe in Spain (-18.5%), Hungary (-14.5%) and Portugal (-13.9%) to relatively mild in Finland (-3.2%), Lithuania (-5.1%) and Denmark (-7.4%). While currently no EU-wide economic data are available on the economic impact of COVID-19 in regions, differences in economic structure (e.g. sectoral specialisation, competitiveness of SMEs) as well as differences in the severity of the pandemic and corresponding strictness of lockdown measures will undoubtedly produce variation in performance.[8] Not only the impact of the crisis differs between countries and regions, the speed of their recovery and the measures taken in this process will also vary. But why are some regions more vulnerable than others, and why do some regions recover more quickly? In other words, what determines resilience and how is it build and shaped?

6 The size of the fiscal response differs significantly between countries, see: **www.bruegel.org/publications/datasets/covid-national-dataset**

7 Eurostat, "Spring 2020 Economic Forecast: A deep and uneven recession, an uncertain recovery." ec.europa.eu. 6 May 2020. **ec.europa.eu/commission/presscorner/detail/en/ip_20_799**

8 There is an estimate of the territorial economic impact on the Nuts II level of the Joint Research Centre which will be updated in the fall: A. Conte, P. Lecca, S. Salotti and S. Sakkas, "The territorial economic impact of COVID-19 in the EU: A RHOMOLO Analysis," Territorial Development Insights Series, JRC121261, Brussels: European Commission, 2020.

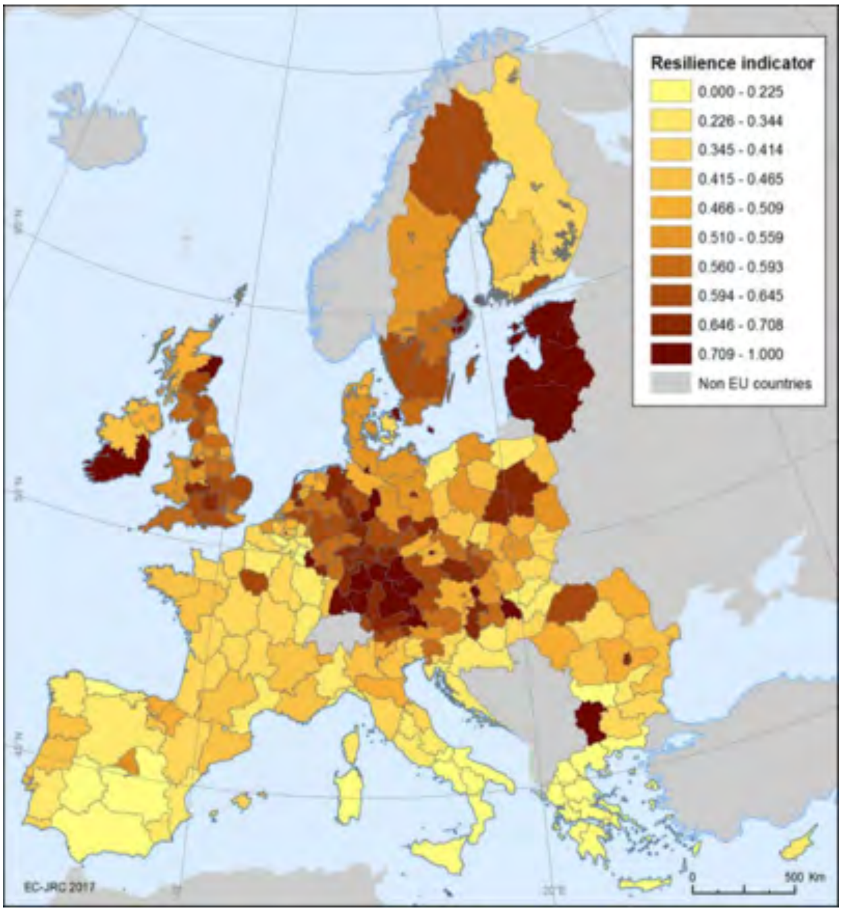


FIGURE 2.1: RESILIENCE OF NUTS II REGIONS | SOURCE: PONTAROLLO & SERPIERI (2018)

One way to examine this topic is to look at the regional economic impact and recovery rate after the global financial crisis (GFC) of 2008. Pontarollo and Serpieri measure resilience after the GFC on the NUTS II level (figure 2.1).[9] Both structural factors and adaptive capacities help to shape resilience. Strong economic activity, stable public finances and a favourable political environment help regions to endure the crisis and recover faster. Furthermore, a region with a wide variety of sectors has a greater resistance to economic shocks compared to a more specialised region.[10] Market size, access to a large external market and the presence of natural resources and human capital, too, are all characteristics of resilient regions.[11] Finally, ESPON found that urban centres contribute significantly to the resilience of the region and its surroundings.[12] However, more important for local and regional authorities (LRAs) showed to be their policy freedom, but only if the local or regional authority has the necessary capability, capacity, and willingness to use this freedom in the first place. ESPON's research showed that the limitation of policy freedom acts against the resilience of a region. In terms of adaptive capacities, regions with open networks for learning and knowledge exchange are more likely to be resilient.[13]

9 N. Pontarollo, and C. Serpieri, A composite policy tool to measure territorial resilience capacity Brussels. European Commission, 2018. The authors explored the linkage between the growth trend before (2000-2008) and after (2009-2015) the crisis of some key economic variables: GDP per capita, employment rate and productivity (defined as GDP per employee).

10 R. Martin, "Regional Economic Resilience, Hysteresis and Recessionary Shocks." Journal of Economic Geography 12 (2012): 1-32.

11 S. Davies, "Regional Resilience in the 2008-2010 downturn: comparative evidence from European countries. Cambridge Journal of Regions, Economy and Society, 2011: 4(3): 369-283

12 ESPON, Economic Crisis: Resilience of Regions (Luxembourg: ESPON; Cardiff: University of Cardiff, 2014), 41-44.

13 G. Bristow, "Resilient Regions: re- 'place'ing regional competitiveness." Cambridge Journal of Regions, Economy and Society 3, no. 1 (2010): 153-167.

An example of a high resilience region is Bratislava.[14] This Slovakian region has a large number of business entities – both SMEs and large enterprises. Although there are some clusters, the business economy is quite diverse. Academia, enterprises and government are highly connected in a triple helix model and the regional workforce is well educated. The Bratislava region has a high concentration of foreign direct investments, with ICT being one of the main drivers. The region experienced high growth before 2008 and, despite a temporal setback, the GFC did not change its favourable trajectory.

Impact of COVID-19 on Regional Economies

It is still too early to observe the economic impact of, and recovery from, the COVID-19 pandemic, but we asked respondents to compare their expectations to the impact and recovery of the 2008 GFC. Figure 2.2 displays the expectations of different regions. Nine respondents find it too early to tell what the impact of the COVID-19 pandemic is on SMEs in the region, while eleven respondents find it too early to tell what the path of recovery from the pandemic will look like. The Lisbon Municipality (Portugal) adds: *"We will have to wait and see how the national markets and the EU support mechanisms will respond to this crisis, because that response will make the difference for recovery".*

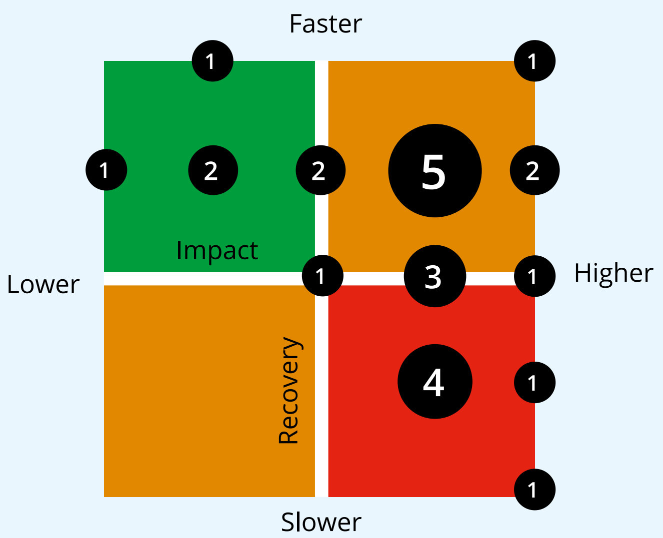


FIGURE 2.2: EXPECTED IMPACT AND RECOVERY OF COVID-19 PANDEMIC

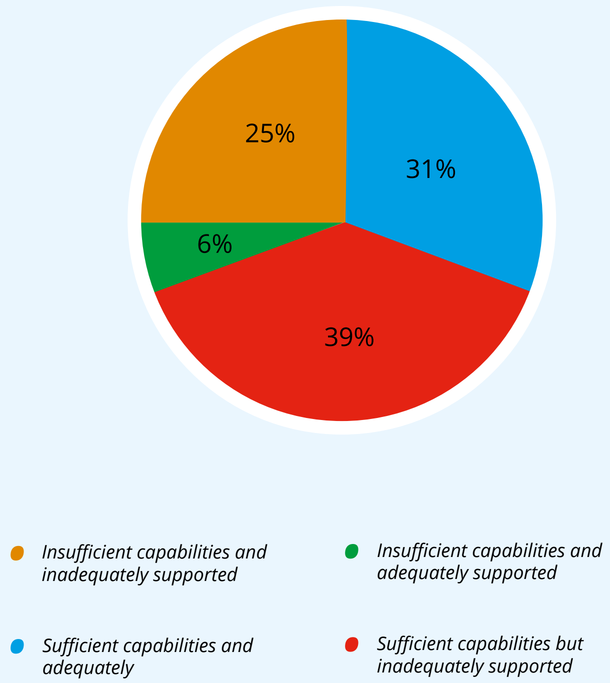


FIGURE 2.3: A FAVOURABLE ECOSYSTEM FOR SMES: CAPABILITIES AND SUPPORT BY LRAS

14 ESPON, Small and Medium-Sized Enterprises in European Regions and Cities (Luxembourg: ESPON, 2018), 32.

Eighteen out of the 25 respondents expect the COVID-19 pandemic to have a greater or much greater impact than the GFC. And a third of this group indicates to be gloomy about the recovery of SMEs in their region, as they expect it to take longer than after the GFC. The remaining seven respondents foresee a brighter future: all of them expect an equal or lower impact and an equal or faster recovery than in 2008. The results show a widespread expectation amongst the regions. The respondent from the Dubrovnik Neretva County (Croatia) exhibits this difference well as they explain: *"Our main economic driver is tourism and we are in complete lockdown. It will take time for SMEs to adapt to new ways of modified service patterns, and for the travels to become as swift as they were before the crisis."*

According to ESPON (2014), regions with LRAs that have more policy freedom are more resilient to crises, assuming they have the necessary capabilities and willingness to exercise this freedom. We asked respondents in our survey if they consider having the necessary capabilities to support a favourable ecosystem for SMEs, and if they are adequately supported by higher-level governments in terms of resources, coordination, and freedom to act. The results are shown in figure 2.3. The outcomes indicate that 70% consider having sufficient capabilities to support an ecosystem for SMEs, of which 31% also indicate to be sufficiently supported in this. Of the 30% of respondents who do not possess the necessary capabilities, 25% also indicate to be inadequately supported by higher-level governments.

To illustrate how capacity is built at the regional level, several place-based strategies intended to strengthen the entrepreneurial ecosystem for SMEs are introduced below.[15] Ecosystems can increase the performance and resilience of the regional economy and the SME community. In the aftermath of the current crisis, the strength of the regional ecosystem will, at least partly, determine the speed and quality of recovery. However, an ecosystem does not directly address the needs of individual SMEs struggling to survive in the current crisis. The Bretagne region exemplifies this distinction rather well: *"In times of crisis, one needs to address individual needs of SMEs, the ecosystem will not foot the bills."* Therefore, measures addressing the individual needs of SMEs, such as financial support for firms with liquidity issues, will be discussed separately in chapter 4.

2.2 Place-Based SME Policies

The idea of place-based policies has been popularised by the influential Barca report, which introduced a coherent approach to regional economic policy.[16] The place-based approach strives to counter social exclusion and the persistent underutilisation of potential in many regions. Places are defined as areas which are more conducive for development compared to smaller or larger areas. Places are therefore functional areas such as a labour market or a spatial cluster, rather than political unit such as a municipality or a province.

15 Entrepreneurial Ecosystems are defined as: "a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment' See: C. Mason and R. Brown, "Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship," Background paper prepared for the workshop organised by the OECD LEED Programme, January 2014, 5.

16 F. Barca, An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations, Independent Report, Prepared at the Request of the European Commissioner for Regional Policy, Danuta Hubner. Brussels: European Commission, 2009.

The place-based approach operates according to the following principles:

- Exogenous interventions are necessary to counter powerful interests of local elites and trigger positive institutional change.
- Public goods and services should be tailored to local conditions and all policies with a territorial impact should be as transparent as possible about their spatial impact to foster political discussion, impact evaluation and accountability.
- Place-based policies are best delivered through a multi-level partnership with higher-level governments setting priorities, rules and general objectives, while allowing lower-level governments, within the boundaries of the agreed upon framework, to design and implement their own policies. Special-purpose institutions (e.g. regional development agencies, private-public partnership) have an important role as intermediaries.

Barca stresses the importance of institutions and regional governance: many regions do not only lack the capacity to implement place-based development strategies, they may also suffer from local elites pursuing their own interests.
In our survey some respondents are critical on the capacity and willingness of LRAs to support economic development. A business intermediary in Ireland, for example, explains: *"Local authorities are too institutionalised, and their mindset has very limited comprehension of business. Staff, by and large with some exceptions, are functionaries with a self-serving rather than customer focus"*. The central idea of a place-based approach is that the European Commission tries to positively influence the capacity of regions to deliver efficient policy, not only by encouraging and supporting policy strategies implemented at the regional level, but also by increasing accountability and restraining the influence of local elites.

However, the SME Strategy lacks a place-based approach to policy. On the topic of governance and implementation the SME Strategy is remarkably silent, as is for example observed by the county of Tipperary: *"Despite confirmation that "the strategy will be underpinned by a robust partnership for delivery between the EU and member states, including regional and local authorities", little reference is made with regard to the role of LRAs in the delivery of the strategy. This most likely implies that this role will be defined by member states themselves, and therefore vary greatly between them. The fact that LRAs are very closely positioned in relation to SMEs is often forgotten in EU policy-making."* This opinion is shared by the region of Flanders, noting that the SME Strategy fails to acknowledge differences in the division of competencies between levels of government within member states.
For the governance of SME policy, the Commission relies on its network of national SME envoys. Already in 2017, the Committee of the Regions called upon the Commission to formally and systematically include regional and local SME envoys in this network.[17]

17 European Committee of the Regions, Own-initiative opinion of Christian Buchmann, "Smart regulation for SMEs", (COR-2016-05387-00-01-AC-TRA), 124th plenary session, 12-13 July 2017.

This lack of vision on governance and implementation in the SME Strategy, may decrease the efficiency and effectiveness of measures. Several consultations stress the lack of integration between regional innovation strategies (such as cluster policies and smart specialisation strategies) and EU SME policy initiatives. To ensure that SME policies are better aligned with regional priorities, funding opportunities for LRAs or other actors within regional ecosystems should be prioritised, for example within the Single Market Programme (2021-2027) a continuation of the COSME programme (2014-2020) for small and medium-sized enterprises.[18] Recent research on the governance of entrepreneurial ecosystems concludes that Austrian regions noticed that their interaction with the EU decreased significantly when they were no longer managing authorities of regional funding (ERDF) during the 2014-2020 period.[19] Without this interaction, EU level and the regional level policies can easily lose synergy.

Regional Strategies and SME Policy

Below, we distinguish three popular approaches to regional development policy: cluster policies, smart specialisation strategies and foundational economy policies. This is by no means an exhaustive list, but we wanted to include strategies which are currently widely adopted within EU economic policy (cluster policy and smart specialisation) and an emerging approach attempting to overturn the current status quo (the foundational economy). Cluster policies and smart specialisation strategies (S3) receive significant European Union support, not only in terms of programme funding, but also through technical support and knowledge exchange within European wide networks (The European Cluster Cooperation Platform and the Smart Specialisation Platform). The idea of the foundational economy represents a relatively new approach to policy, but is included because it attempts to counteract the idea of concentrating resources on a few competitive sectors in an area (cluster policies) or concentrating resources on the development of promising technologies and activities (smart specialisation).

18 **ec.europa.eu/growth/content/new-single-market-programme-empower-and-protect-europeans_en**

19 B. Schuh et al., How to improve regional and local governance of SME and entrepreneurship policy (Vienna: ÖIR; Brussels: Committee of the Regions, 2017), 47.

Place-Based SME Policies

Cluster policies

The concept of clusters was popularised by Michael Porter and has remained influential in economic policy over the past three decades.[20] Clusters are networks of related firms located in geographical proximity benefiting from positive externalities such as knowledge spill-overs, a skilled labour pool and input-output linkages. Companies within these clusters become world-class producers of specialised goods and services because they must compete fiercely with local competitors for survival, whilst also benefiting from positive externalities. Policies supporting regional clusters invest in innovations and skills related to the core economic activities of the cluster, including training programmes for workers or investments in start-ups by regional development agencies.

Smart specialisation strategies

The concept of Smart Specialisation was introduced by the Knowledge for Growth Expert Group.* A smart specialisation strategy is a more forward-looking approach compared to cluster policies. Rather than supporting existing regional clusters, the approach attempts to stimulate the early development of new technologies and economic activities which may eventually result in a new cluster. Smart specialisation is a collective and interactive process between private and public regional actors with the aim of developing a shared innovation agenda which concentrates resources on a select number of emerging opportunities. This so-called entrepreneurial discovery process is at the heart of smart specialisation strategies. SME support in this model is focused on innovation, including stimulating technological spin-offs and supplying seed or start-up capital for new firms.

Foundational economy policies

The concept of the foundational economy was introduced by a collective of European geographers and economists.[21] Proponents of this approach argue that regional development policy has focused on a selective part of the economy, namely those companies and sectors producing competitive and tradeable goods. In contrast, foundational goods and services have been neglected, even though they are essential for daily life and represent a much larger share of the economy. They argue that investments in the infrastructure of daily life (e.g. utilities, ICT networks, food supply) as well as investments in public services (e.g. health care, education) have a larger impact on wellbeing compared to investments in output growth (gross value added, GVA). In their view, economic policy should focus more on how to sustain and grow locally grounded firms, rather than attract inward investment. Policies priorities for SMEs include an accessible public procurement system which helps build SME capabilities, facilitating succession and firm continuity and strengthening the position of SMEs within the supply chain.

* D. Foray, P.A. David and B. Hall, “Smart specialisation: the concept”, in Knowledge for Growth: Prospects for science, technology and innovation, Report, EUR 24047, European Union, 2009.

20 M.E. Porter, The Competitive Advantage of Nations. New York: Free Press, MacMillan, 1990.
21 J. Bentham, et al, Manifesto for the Foundational Economy Manchester: CRESC, 2013. **foundationaleconomy.com**

Regions develop a comparative advantage through specialisation in a niche which links existing capabilities and resources in the region to opportunities in the market. Research shows that SMEs situated within a cluster are more competitive than other SMEs.[22] One of the challenges of cluster policies, however, is to organise the adaptability of clusters to changing circumstances.[23] While some clusters are successfully renewed, it is unclear whether policymakers should attempt to reverse fortunes of clusters in decline or whether they are better of diversifying the regional economy towards new activities.

Unlike cluster policy, a smart specialisation strategy does not reinforce the existing economic specialisation but rather attempts to establish a new focus area. One challenge, however, of the smart specialisation strategy is that it requires significant entrepreneurial and administrative capacity at regional level in order to initiate and sustain a successful entrepreneurial discovery process, making the strategy particularly challenging for less developed and peripheral regions.[24] On the other hand, large and diversified urban centres and leading knowledge regions will be less relevant for smart specialisation strategies because most sectors and technology fields will be present.[25] Smart specialisation, therefore, is viewed to be an appropriate policy strategy for intermediate regions, where enough government capacity exists to implement the demanding strategy but where a concentration of resources is necessary because innovations and start-ups in every technological domain cannot be sustained.

While SME policy must be aligned to regional industrial strategies such as smart specialisation or cluster policies, many regions agree that SME policy is not merely an extension of these strategies. The county of Tipperary in Ireland, for example, maintains that funding must be distributed around the policy principle of “leaving no one behind”. Even though smart specialisation or cluster policies may promote the ‘utilisation of potential’ they do not address and may even reinforce social exclusion. Economically successful spatial clusters like Silicon Valley often suffer from high levels of social exclusion.[26] From a perspective of utilisation of potential backing, a group of innovative entrepreneurs may boost development of a peripheral region, but from a social inclusion perspective, investment in public services may be more beneficial.

To impact social inclusion, SME policies should go beyond selective investment strategies in start-ups and scale-ups active in promising industries. Investing in the continuity and growth of regionally embedded and mature SMEs (e.g. family businesses) can improve social inclusion, because these firms exhibit higher levels of social responsibility, are more long-term oriented and are less likely to move out of the region. Moreover, transitions such as digitisation and sustainability affect all SMEs and can only be faced successfully when SME policies are inclusive.

22 A. Karaev, S.C.L. Koh, and L.T. Szamosi, The Cluster approach and SME competitiveness: A review. Journal of Manufacturing Technology Management 18 (2007): 818-835.

23 R. Martin and P. Sunley, “Conceptualizing Cluster Evolution: Beyond the Life Cycle Model?” Regional Studies 45, no. 10 (2011): 1299-1318.

24 D. Foray, Smart Specialisation: Opportunities and Challenges for Regional Innovation Policy London: Routledge, 2015.

25 P. McCann and R. Ortega-Argilés, “Smart Specialisation in European Regions: Issues of Strategy, Institutions and Implementation,” European Journal of Innovation Management 17, no. 4 (2014): 409-427.

26 A.L. Saxenian, “The Silicon Valley Model: Economic Dynamism, Social Exclusion.” In Reconceptualizing Development in the Global Information Age, by M. Castells, & P. (eds.) Himanen. Oxford: Scholarship Online, 2014.

Cluster Policies and Smart Specialisation

Many respondents (42%) believe some kind of industrial policy (either cluster policy or smart specialisation) contributes to the long-term resilience of SMEs in the region. As described above, both smart specialisation strategy and cluster policies depend on continuous training and investments in innovation. Therefore, the innovation capacity of firms and knowledge institutions and supportive infrastructure for human capital development are of great importance. In the survey, these answers were mentioned a lot (respectively 53% and 33%). In Catalonia, for example, the smart specialisation strategy (RIS3CAT programme) focuses on new economic opportunities in emerging areas, such as ICT (new microelectronics and nanoelectronics), nanotechnology, photonics, advanced materials, biotechnology and advanced manufacturing technologies. Catalonia has leading universities and research and technological centres, as well as first-class scientific technological infrastructures and a great capacity for interest in international programmes.

Another region with a smart specialisation strategy is Silesia. One of its goals is to develop a modern economy based on innovation and creativity. According to the Marshal Office, *"this strategic objective should be achieved by operational goals such as: 1) strengthening the innovative potential of universities and R&D sector entities, and 2) supporting the development of infrastructure facilitating the location and operation of business-economic and economic activity zones, including special economic zones, technology parks".* Regional Innovation Strategy of the Silesian Voivodeship for 2013-2020, is another important document affecting the resilience of SMEs in the region. It identifies several areas that will give the region a competitive advantage of the so-called smart specialisations: medicine, energy, ICT, emerging industries and the green economy.

Within the regional ecosystem, regional development agencies (RDAs) can financially support the development process. RDAs play an important role in fostering the growth environment for SMEs, for example, through participation in high-risk projects. In the survey, we asked whether the regions have one or multiple RDAs with a participation company investing in SMEs. There are eighteen regions (47%) with participation companies. An almost equal number – 16 respondents or 42% – answered this question in the negative, while the remaining four respondents did not answer the question. Of the eighteen respondents who indicated that the region has an RDA, twelve respondents actually stated the name in the explanation. In Denmark, for example, you have the 'Vækstfonden', in Ireland the 'Western Development Commission' and in Brabant the 'Brabant Start-up Fund'.

According to our survey, most RDAs attempt to finance start-ups or new companies. RDAs mostly invest in seed capital for new ventures (72%) and start-up capital for new ventures (78%), while less attention is paid to growth financing for established firms (61%). In comparison, the number of RDAs investing in replacement or turnaround capital for established firms is marginal (both 17%). Likewise, high-tech industries such as biotech & healthcare (61%) and ICT (50%) are most popular in terms of sector specialisation, while less attention is paid to 'traditional' industries such as construction (22%), hospitality, leisure and tourism (22%) and transportation and logistics (33%).

Other regions, however, while using RDAs to support their smart specialisation strategy, are nevertheless hesitant to fully concentrate resources on specific sectors. The Voivodeship of Silesia, for example states: *"The Silesian Development Fund supports, among others, projects falling under one of the Smart Specialisations of the Silesian Voivodeship: energy, medical, communication and information technologies and green economy. However, this does not close the way to financing projects in other areas".* And even those regions who have decided to concentrate their resources in a cluster strategy, may be inclined to spread the funds across many sectors. The Brandenburg region, for example, has identified no less than 9 clusters within its area.[27]

In the European Union, there are significant differences in regional innovation performance. Boschma argues that related variety and knowledge complexity are crucial variables determining place-based development.[28] Regions with many technologically related industries, are in a better position to branch out new industries form existing ones. Whereas related variety determines the options for new specialisations, the levels of knowledge complexity determine whether regions have the capabilities to integrate complex technologies in their economies. Within this framework, every region can find a smart specialisation policy by adjusting its ambitions to the local economic context.[29]

In North-Brabant, for example, there is a strong focus on high-complexity technologies in the electrical engineering domain. It is the most industrialised province in the Netherlands and ranked as one of the top 10 most innovative regions in the EU. To stimulate innovation in this region, the Tilburg Social Innovation Model (TiSIL) has been drawn up. The main achievements of this model are: 1) an extended triple helix network, 2) a stronger entrepreneurial mentality, focused on cooperation and collaboration, 3) facilitating new developments by providing knowledge, infrastructures, people, and environment, and 4) promoting the region as interesting and enjoyable and thereby attracting domestic and foreign knowledge workers.

While North-Brabant is an innovation leader, Murcia (Spain) on the other hand is a moderate innovator.[30] This region has a prevalence of traditional sectors. The region lacks a strong relationship between universities and SMEs, has low R&D expenditure and low interest in innovation compared to the EU average.
To overcome these deficiencies, the Murcia region focusses on the development of business and entrepreneurship through increased SME capacity.

These are just a few examples of how innovation differs between regions. Each region has its own characteristics and capabilities, which respond to individual territorial needs. It enables some regions to further develop sectors that excel in their regions, whilst other regions find it more useful to support a broad playing-field.

27 These clusters include energy technology, food industry, life sciences and healthcare, plastics and chemistry, media and ICT, metal, photonics, transport, mobility and logistics, and tourism.

28 R. Boschma, "Smart Specialisation and Regional Innovation Policy," Welsh Economic Review 24 (2016): 17.

29 P. Balland, A. R. Boschma, J. Crespo and D.L. Rigby, "Smart Specialisation Policy in the European Union: Relatedness, Knowledge Complexiity and Regional Diversification," Regional Studies 53, no. 9 (2018): 1252-1268.

30 t33, OIR and SWECO, Fostering innovation at regional level: lessons from the European Entrepreneurial Region (EER) experience (Brussels, Committee of the Regions), 33-34.

The Foundational Economy

Our survey results show that foundational economic strategies or not yet widely adopted. Investments in infrastructure (25%) and living conditions (10%), rank much lower compared to the industrial strategies (42%), innovation strategies (53%) and human capital strategies (32%) discussed above. Many regions, however, do think that the current COVID-19 crisis may be a reason to reconsider priorities. In the aftermath of the crisis, more than half of the respondents (56%) believe that stimulating the development of essential sectors such as health care, food and education will be an important priority in the years to come. The same number of respondents believe that demand for local products will become more important.

While the concept of foundational economy has not yet been widely introduced within European regional policy or supported by EU policy programmes, some regions express uneasiness about the concentration of resources on a few high-tech sectors. The province of Drenthe, for example, stresses that the EU SME Strategy overemphasis high-tech start-ups and scale-ups and that the broader base of SMEs companies, who cover most of our economy, must not be forgotten. According to the region of Calabria, circular economy strategies, central to the transition to sustainability, will offer opportunities for sectors often forgotten within SMEs policies, including the agricultural, food processing and construction sectors.

Other regions decide to invest in the infrastructure of daily life and investments in public services. One respondent from Ireland, for example, stresses the importance of the rollout of high-speed broadband and controlling the costs of provision of public services. These basic provisions are even more important in remote regions such as the Island of Guadeloupe which is working to solve water supply issues. But even the wealthy city of Barcelona realised that while it was globally competitive in attracting investment, talent and visitors, it did not improve the quality of living of its residents. Neglect of the cities basic infrastructure resulted in power outages and water supply issues. Interruption of these basic networks leads to an immediate standstill of the entire economy.[31]

With regard to training and education within the foundational economy approach more emphasis is placed on training owner-managers of SMEs and micro firms.[32] This not only involves applied business education delivered closer to small businesses, but also provides a way to spread the values and culture of grounded firms and collaborative ecosystems and networks. One example of such as an approach are the family business policies in the province of Overijssel, discussed more elaborately in the next chapter.

31 O. Estela, "The Foundational Economy and strategic planning in Barcelona: reshaping the urban economy from the bottom up," Renewal 27, no. 2 (2019), 33-39.

32 J. Earle et al., What Wales Can Do: Asset Based Policies and the Foundational Economy (Manchester: Crew, 2017), 38.

2.3 Interregional Networks

Cross-border networks can help SMEs and regions take advantage of complementarities with other regions in Europe. These interregional linkages may help strengthen the flow of outside knowledge towards the region in order to avoid getting locked in an unfavourable development path. But these networks may also compensate a lack of local capabilities in a specific area because they provide access to complementary capabilities through interregional connections. [33]

Many respondents in our survey are active in cross-border networks. Collaboration between industries and sectors based on the region's profile or smart specialisation strategy (58%) and systemic networking and exchanges of best practices between regions (55%) are the most important forms of cooperation. But cooperation on research and innovation (45%) and skills and labour mobility (42%) are also frequently mentioned. Some of these networks have a long history. Since 1988 the region of Catalonia, for example, cooperates with Auvergne-Rhône-Alpes (France), Baden-Wurttemberg (Germany) and Lombardy (Italy) in the Four Motors Network.

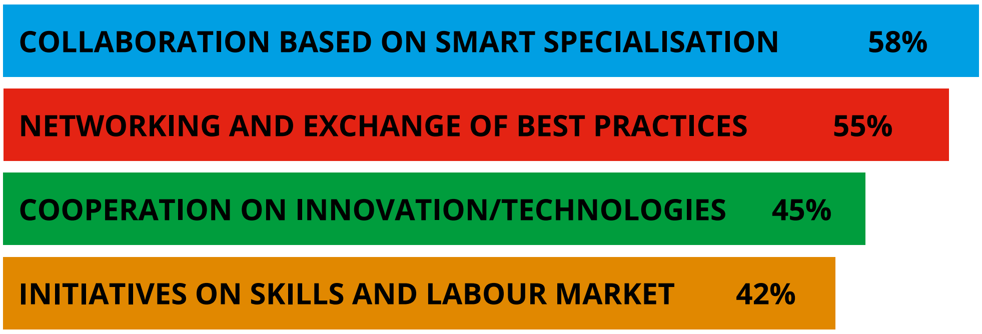


FIGURE 2.4: CROSS-BORDER AND TRANS-REGIONAL INITIATIVES UNDERTAKEN IN THE REGION

In Europe, there are several initiatives to promote interregional collaboration. From the side of the Commission interregional cooperation is supported through the Smart Specialisation Platform.[34] This initiative stimulates cooperation within thematic platforms on Agri-Food, Industrial Modernisation and Energy, but also supports knowledge exchange and learning amongst low growth, less developed and sparsely populated regions trying to devise their smart specialisation strategy in challenging circumstances. Finally, transnational cooperation within EU macro-regions is also promoted within the platform.

Other cross-border networks of ambitious and likeminded regions are seeking to lead by example in innovation and entrepreneurship policy. The Vanguard Initiative, for example, is dedicated to advancing industrial innovation in Europe.[35] Based on the unique strengths of every region, these regions cooperate to offer a platform for businesses, clusters and knowledge institutions, to meet and join forces in finding new innovative solutions. The Vanguard Initiative facilitates those who want to get access to new business partners, to exchange information and to build investments. It has developed and implemented a four-step approach: learn, connect, connect and commercialise. The ultimate goal is to increase the competitiveness of companies and to scale up regional businesses in Europe wide value chains.

33 P. Alexandre-Balland and R. Boschma, Exploring the impact of inter-regional linkages on regional diversification in Europe in the context of smart specialisation (Brussels: European Commission)

34 **s3platform.jrc.ec.europa.eu**

35 **www.s3vanguardinitiative.eu**

36 **www.interregeurope.eu/ieer**

Likewise, the European Entrepreneurial Regions (EER) network has encouraged European regions and cities to boost the entrepreneurial spirit, enhance the competitiveness of SMEs by improving access to finance and to cut red tape. Only those regions with the most credible, forward-thinking and promising vision plan are granted the label European Entrepreneurial Region for a year. In 2020, Gdańsk and Pomorskie (Poland), Navarra (Spain) and Gothenburg (Sweden) are granted the label.

The EER award has provided opportunities for a further in-depth cooperation on entrepreneurship and innovation policies among the labelled regions and other associated regions, notably through the funding available from the Interreg Europe programme. One of such initiatives, the iEER project[36] led by the Helsinki-Uusimaa region, has led to establishing a fruitful cooperation on youth entrepreneurship among ten European regions, providing opportunities for peer-learning, knowledge exchange and sharing of best practices.

A complete list of regions who have been granted the label of European Entrepreneurial Region since 2011 can be found in appendix 4.

3. Inclusive SME Policies

The 25 million SMEs in Europe account for 99.8% of all firms and are the source of a significant share of job creation. That is why creating an SME-friendly environment for existing SMEs and potential entrepreneurs is one of EU's main objectives. In June 2008, the European Commission adopted the Small Business Act (SBA). Key priorities are to improve access to finance, reduce regulatory burdens, improve access to (foreign) markets and promote entrepreneurship. The SBA invites the Commission to, among others, design rules according to the think small first-principle. In this chapter, we first question whether the Commission delivers on the promise to create an SME-friendly environment within the European Single Market. We then move to the issue of public procurement and question to what extent local and regional authorities are able and willing to improve the accessibility of public tenders to SMEs. A third topic of this chapter questions how the EU could differentiate its support measures to account for heterogeneity amongst SMEs. This section focuses specifically on policies for family businesses. While there has been some initial progress on EU policies for family businesses, the SME Strategy fails to mention this group of firms altogether. Together these three priorities are the building blocks of a more SME-friendly environment, in which SMEs can compete fairly whilst also accounting for the heterogeneity amongst SMEs.

3.1 Think Small First Principle: A Multi-Level Approach

Whether the EU has made significant progress on its 'think small first principle' was questioned by the interest organisations included in our consultation process. Recently SME United, the main representative body for SMEs in Europe, warned that the obligatory SME test risks being 'a box ticking exercise' and that the think small first principle is of little use when the Commission does not 'act accordingly'.[37]

Regulatory costs and complexity are a larger burden for SMEs, due to their smaller size and lower turnover. In a recent Eurobarometer survey, 55% of SMEs report that 'the administrative burden and regulatory obstacles' are a significant problem for their enterprise.[38] Bigger companies have the means to comply with different sets of rules, but SMEs are the first to be penalised, especially when crossing borders to conduct business within the Single Market. These barriers are partly responsible for the only modest participation in cross-border trade of SMEs. In 2020 an estimated 26% of all SMEs exported their products or services to other member states, while 9% exported outside the EU.[39] Of these exporting companies, 70% of exports were to other member states while 30% went to third countries.[40] However, many SMEs who do not export are still confronted with trade regulations due to their position in global supply chains, whereas all SMEs face the competitive pressures of an increasingly global economy. SMEs and the European economy will benefit from a more integrated Single Market, with fewer barriers and more opportunities for free and fair trade with other member states and third countries.

37 **smeunited.eu/news/sme-test-discussed-at-council-working-group**

38 European Commission, Flash Eurobarometer 486 SMEs, Start-ups, Scale-ups and Entrepreneurship (Brussels: European 39 Commission, 2020), 154.

39 Idem, Table 28.

40 European Commission, Annual Report on European SMEs 2017/2018 (Brussels: European Commission, 2018), 11.

Below, we summarise some initiatives taken to improve the regulatory environment for SMEs and to remove barriers for the internationalisation of SMEs within and beyond the Single Market. We will illustrate that acting on the 'think small first' principle is not the sole responsibility of the European Commission but is a multilevel challenge involving all levels of government.

Regulatory Environment

Policy makers are obliged to give full consideration to the interests of SMEs by performing an SME test when drawing up new regulation. According to Eurochambres 'a SME test is a crucial element of the impact assessment that European Commission services cannot neglect considering the dominant role of SMEs in the economy and the disproportionate effect of regulatory costs and administrative burdens on them'. The 2013 SME Test Benchmark, however, reveals that the SME test is not yet an integral part of the impact assessment (IA) reports.[41] Out of fourteen selected IA reports, only eight (57%) SME tests have been conducted (2011: 44%). The overall level and quality of the information provided is disappointing: three tests (21%) are of average quality, while the rest (79%) is considered poor. Although the quality has slightly improved in 2017, less than one third of the analysed AIs performed the SME test on a good level, while 54% of the tests are of an (extremely) poor quality.

		2011	2013	2017
Quantity: SME test conducted?	Yes	44%	57%	-
	No	56%	43%	-
Level and quality of the information	(Very) good	-	0%	31%
	Average	-	21%	15%
	(Extremely) poor	-	79%	54%

SME impact assessments are a means to scrutinise new regulations, but much of the regulatory burden is a legacy of the past. In order to screen and reform existing regulations, the Regulatory Fitness and Performance programme was initiated in 2015. This programme is continued within Fit for the Future Platform established in May 2020. Regional and local representatives are given a more prominent role in the Fit for Future Platform compared to its predecessor through the inclusion of the RegHub Network in the government group of the platform.[42] The RegHub Network aims to monitor the implementation of EU regulations at the regional and local level. This more prominent role of LRAs may improve awareness within the platform about the impact of EU regulations on the ground level.

Strengthening the Single Market

Despite the real accomplishments of the Single Market, businesses and consumers still report many hurdles. In October 2018, at the final European Parliament of Enterprises, almost 70% of businesses answered negatively when asked whether, in their opinion, the Single Market was sufficiently integrated. In the Barriers

41 Eurochambres, SME Test Benchmark 2013. Assessment of the European Commission's application of the SME test Brussels: Eurochambres, 2013.

42 Communication, (2020) 2977 final COMMISSION DECISION of 11.5.2020 establishing the Fit for Future Platform. Brussels, 11.5.2020. ec.europa.eu/info/sites/info/files/c2020_2977_en.pdf

Report presented simultaneously with the SME strategy, thirteen obstacles for further integration are identified.[43] These obstacles include complex and fragmented information on market opportunities and regulations, high trade costs (e.g. high costs of international postal services), as well as poor harmonisation and integration between the legal, fiscal and cultural conditions in member states (e.g. differences in taxation, language barriers, regulatory barriers).

The 2020 Single Market Enforcement Action Plan intents to give a new impetus to the integration process.[44] Because many of the actions in this plan are a shared responsibility of the Commission and the member states, close cooperation between the EU and member states is emphasised as a crucial component. The plan includes 22 actions on the transposition, implementation, application and enforcement of Single Market regulations, as well as actions to improve access to information on rules and requirements and actions aimed at building capacity within member states. An annual report on the performance of the Single Market is used to monitor progress.[45]

The New Industrial Strategy (2020) tries to seek a balance between keeping the Single Market open and competitive in a world increasingly dominated by protectionism, while at the same time not being naive about the real threats of unfair competition or undesirable foreign interference.[46] One of the concerns is the distortive effects of foreign subsidies on the functioning of the Single Market. In June 2020, the Commission published a white paper on the impact of foreign subsidies, and legal instruments to combat this issue will likely follow in 2021.[47]

Local and regional governments have their own responsibility in the functioning of the Single Market and the ability of SMEs to profit from it. These responsibilities are primarily in the realm of SME-friendly public procurement, discussed more elaborately below. In addition, the European Commission has introduced a new pilot programme for cross-border partnerships of regions seeking to enforce the single market and remove administrative barriers in their border area. These partnerships between regions must address specific barriers such as the posting of workers, recognition of professional qualifications or cross-border provision of services.[48] The region of Bretagne is critical of this pilot, because these barriers are not only faced by companies in border regions but by all internationally active companies in Europe.

International Trade

In recent years the EU has negotiated several Free Trade Agreements to facilitate trade with other regions and countries across the globe.[49] Under these agreements, preferential treatment on trade are agreed between the EU and third countries including lower tariffs and duties as well as regulatory cooperation. SMEs exporting to third countries often do benefit from FTAs because the compliance costs for receiving the benefits of preferential treatment (e.g. rules of origins requirements) do not outweigh the savings generated by preferential treatment. This is related to the relatively small size of SMEs and the corresponding low value or small batch size of exported goods.

43 European Commission, "Identifying and addressing barriers to the Single Market," Brussels, 10.3.2020 COM(2020) 93 final.

44 European Commission, "Long term action plan for better implementation and enforcement of single market rules," Brussels, 10.3.2020 COM(2020) 94 final.

45 COMMISSION STAFF WORKING DOCUMENT, Single Market Performance Report 2019.

46 European Commission, "A New Industrial Strategy for Europe," Brussels, 10.3.2020 COM(2020) 102 final.

47 European Commission, "WHITE PAPER on levelling the playing field as regards foreign subsidies", Brussels, 17.6.2020 COM(2020) 253 final.

48 This pilot was announced in the SME Strategy. The call for applications is open until 30 October 2020: **ec.europa.eu/growth/content/call-expression-interest-pilot-border-regions-overcome-barriers-cross-border-provision_en**

49 For an overview: **trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf**

Initiatives attempting to reduce the effort and cost involved in compliance with FTAs agreements may help more SMEs take advantage of preferential treatment. Recently, the commission on international trade in the European Parliament has requested the European Commission to develop a digital instrument for SMEs which makes it easier to comply with rules of origins requirements and benefit from preferential treatment.[50]

Many SMEs who do not directly trade across borders are nevertheless affected by the regulatory burden of FTAs because of their position in global value chains. Their customers further up the supply chain need documentation in order to comply with rules of origins requirements.[51] However, even without active or passive participation in global trade, all regions and SMEs are affected by free trade agreements because better market access leads to more competition from abroad. A recent joint survey of the Committee of the Regions and Eurochambres (2019) found that regions and chambers of commerce believe not enough is done to mitigate international competitive pressures, fearing that third countries offer more firm subsidies and have more lenient social and environmental legislation.[52]

Another finding from this survey is that regional authorities and chambers of commerce want a more active role in the implementation of free trade agreements. They envision informing SMEs on the opportunities of FTAs, as well as helping SMEs position themselves in global value chains with supportive measures. However, they also state that they need better information on the benefits of new trade agreement for their regional economy. Moreover, they argue that when the free trade agreement is balanced in terms of its treatment of SMEs, less measures on the national and regional level are needed to facilitate uptake or compensate undesired effects. The recent pledge of the EU to include a dedicated SME chapter in FTAs might improve the consideration of SME interests during the negotiation process.[53]

3.2 SME Friendly Public Procurement

According to the European thematic factsheet on public procurement, authorities within the EU spend around 14 percent of GDP on public procurement every year.[54] The 2014 revision of the public procurement directive offers more opportunities to use public procurement as a tool for stimulating regional development and as a means to progress on social development goals. Three measures within the new directive are specifically aimed at SME-friendly procurement. Firstly, contracting authorities are encouraged to divide large contracts into smaller parts, which allows smaller companies to participate in large tenders.

50 LETTER: RULES OF ORIGIN CALCULATOR FOR SMES, 14 November, 2019.

51 COMMISSION IMPLEMENTING REGULATION (EU) 2015/2447, OJ L 343, 29.12.2015, 558–893.

52 European Committee of the Regions and Eurochambres, "Survey Results Note Implementation of Free Trade Agreements: Challenges and opportunities for businesses and regions." **cor.europa.eu/en/events/Documents/ECON/Survey_Note_CorEurochambres_Survey_15_November_2019.pdf**

53 The SME chapter was first included in the 2018 FTA between the EU and Japan: **trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157228.pdf**

54 European Commission, European Semester Thematic Factsheet on Public Procurement (Brussels: European Commission, 2017), 1. **ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_public-procurement_en_0.pdf**

Secondly, the annual turnover requirements have been relaxed. Small businesses can now obtain bigger contracts. Lastly, the European Single Procurement Document (ESPD) enables businesses to self-declare their financial status, abilities and suitability for a public procurement procedure. While many SMEs welcome the digitisation of procurement via the ESPD, others consider that ESPD creates a massive additional burden. The Flemish Government adds that the re-use of an ESPD is rarely possible in practice: *"Contracting authorities set the qualitative selection criteria for each procurement procedure, depending on the subject matter of the contract".*

Within the literature on the foundational economy, particular emphasis is placed on the role of public investments in building capacity amongst local SMEs.[55] But also, within smart specialisation strategies significant opportunities exist to expand the role of public procurement to stimulate innovation. A recent publication calls public procurement "the sleeping giant" of innovation policy.[56]

Within our survey, 82 percent of the respondents agree (of which 45 percentage point strongly agree) that LRAs should establish SME-friendly public procurement policies in order to provide equal conditions for SMEs to compete with large companies on tenders. A respondent from Spain elaborates: *"By supporting SMEs, we are truly supporting one of the greatest resources of a city, region and country because they are the first to create jobs and reactivate the economy of a city and region."* Despite the importance of SME-friendly public procurement, other strategic goals are supported more frequently than public procurement (figure 3.2).

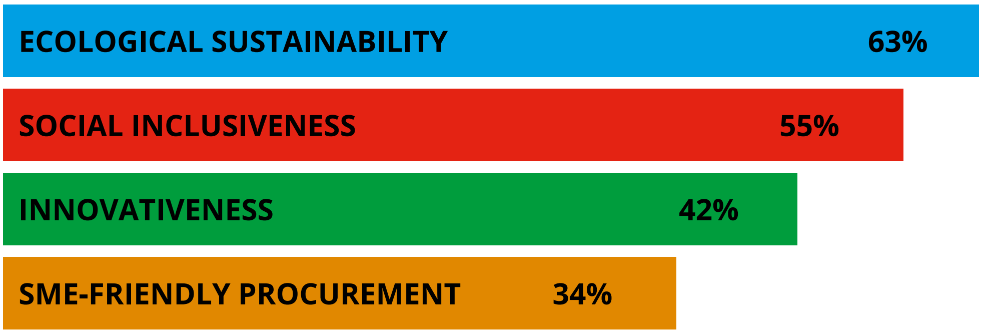


FIGURE 3.2: MOST MENTIONED STRATEGIC GOALS FOR PUBLIC PROCUREMENT

In other regions the trend of 'strategic public procurement' is not yet on the agenda. Respondents from Ireland, Portugal and Finland explained that LRAs in their region still use classis procurement standards (mostly based on a cost-benefit analyses and funds saving). The respondent from Ireland, for example, adds: *"Public procurement is of little benefit to the majority of SME's. It is very cumbersome and is used as a tool for perceived cost saving primarily by local and national Government. It is totally counterproductive to supporting local businesses, particularly small-scale family businesses in rural environments [...] If a police car breaks down 250 miles from the capital, the vehicle cannot be repaired locally because of public procurement."*

55 L. Brill, et al. What Wales Could Be. Manchester: Centre for Research on Socio-Cultural Change, 2015.

56 P. Marques, and K. Morgan. "The Heroic Assumptions of Smart Specialisation: A Sympathetic Critique of Regional Innovation Policy." In New Avenues for Regional Innovation Systems – Theoretical Advances,, Empirical Cases and Policy Lessons, by A. Isaksen, R., Martin & M. (eds) Trippl. New York: Springer, 2018.

3.3 Policies for Family Businesses

About 70% of all firms in the European Union are family businesses.[57] A strong rationale for family business policy is not only their importance on the aggregate level, but also their different behaviour compared to non-family firms. Family firms often have strong social and economic connections with the region, affecting the regional factors, regional processes, and regional proximity dimensions crucial to regional development outcomes, in both favourable and unfavourable ways.[58] There is evidence that family businesses are outperforming non-family businesses in regions with sub-optimal or unfavourable economic conditions such as small towns or rural areas. [59] Their ability to bind employees to their company enables them to grow in the absence of abundant human capital.[60] Moreover, their strong participation in regional networks can provide them with a competitive edge in innovativeness.[61]

However, the tendency of family firms to participate in strong regional networks can lead to lock-in, because poorly developed interregional connections will decrease the openness and adaptability of the region to the global environment.[62] Moreover, whereas continuity of family firms may be an important goal for policy, it does not simply mean guiding the family through the financial and legal obstacles of the succession process. With the generational change the successor needs to be prepared for the responsibilities as owner and manager, the entrepreneurial spirit of the family and the company must be rejuvenated and the regional ecosystem in which the firm is embedded is of vital importance to maintain the competitiveness of the firm.[63]

From the 1970s up to the start of the 21st century, family businesses only played a minor role in European SME policies, except for the 1994 recommendations of the European Commission on the environment for business transfer.[64] This changed slightly with the Small Business Act of 2008. The SBA specifically mentions that it its primary goal is to create an environment in which 'entrepreneurs and family businesses can thrive'. In 2007 and 2008 the Expert Group on Family Business produced policy recommendations. One outcome was a shared European definition on family business.

57 European Family Businesses. Family Business Statistics. n.d.
www.europeanfamilybusinesses.eu/media-centre/efb-policy-documents-studies/family-business-statistics
While there is no common definition for family businesses, a generally accepted definition for statistical purposes has been developed by the Expert Group on Family Business (2009) with four components: (1) The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs. (2) The majority of decision-making rights are indirect or direct. (3) At least one representative of the family or kin is formally involved in the governance of the firm. (4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.

58 R. Basco, "Family Business and Regional Development. A Theoretical Model of Regional Familiness," Journal of Family Business Strategy 6, no. 4 (2015): 259-271.

59 M. Baù, F. Chirico, D. Pittino, M. Backman, and J. Klaesson, "Roots to Grow: Family Firms and Local Embeddedness in Rural and Urban Contexts," Entrepreneurship Theory and Practice 43, no. 2 (2018): 360-385.

60 A. De Massis, D. Audretsch, L. Uhlaner, and N. Kammerlander, "Innovation with limited Resources: Management Lessons from the German Mittelstand" Journal of Product Innovation Management 35, no.1 (2018): 125-146.

61 J.H.Block and F. Spiegel. "Family Firm Density and Regional Innovation Output: An Exploratory Analysis," Journal of Family Business Strategy 4, no. 4 (2013): 270-280.

62 R. Boschma, "Proximity and Innovation: A Critical Assessment." Regional Studies 39, no. 1 (2005): 61-74.

63 R. Basco, and I. Bartkevičiūtė, "Is There any Room for Family Business into European Union 2020 Strategy? Family Business and Regional Public Policy," Local Economy 31 no. 6 (2016): 709-732.

64 OJ L 385, 31.12.1994, p. 14–17

However, few policies for family businesses have since then materialised.[65] The SME strategy, for example, makes no mention of family businesses and does not address their specific challenges including succession or shared ownership. This neglect of family business issues stands in stark contrast to a recent resolution adopted by the European Parliament (2015) and opinions of the European Economic and Social Committee (2015, 2017) urging the Commission to develop policies for family businesses, as well as recent comments by Commission President Ursula van der Leyen (2019) on the importance of family business for the European economy.[66]

Succession and Business Transfers

Family business owners are often driven by their desire to pass the firm on to the next generation of the family. According to the European Commission Entrepreneurship 2020 Action Plan (2013), this is the greatest challenge faced by family business. In the survey we asked Local and Regional Authorities whether specific policies for family businesses have been implemented. The majority (74%) answered this question negatively. The Region of Crete (Greece) points out: *"Measures for family businesses belong to the sphere of responsibility of the central state of Greece, so our region cannot be differentiated in terms of national measures. There are no specific regional policies for family business transfers because they are governed by the national tax and legal framework".* Some regions (21%) on the other hand have implemented initiatives focused on family owned businesses and their specific challenges. The Secretariat of Business and Competitiveness (Spain) replied: *"In Catalonia, support measures to improve the competitiveness of SMEs take into account the family origin of a significant part of SMEs".*

However, the broader issue of business transfer is taken up more frequently at the regional level. We asked Local and Regional Authorities whether regional measures to stimulate and facilitate business transfers are necessary, in addition to the tax and legal environment shaped at the national level. Two thirds (66%) of the respondents agreed with the statement, of which 34 percentage point strongly agreed. The remaining respondents were either undecided (18%) or disagreed (16%). The Helsinki-Uusimaa region (Finland) states that facilitating business transfers is not the region's mandate. The Breda region (the Netherlands) adds: *"Our region does not differ from the country as a whole, so national measures should be okay".*

We then asked what regional measures have been implemented. Advice and mentoring is mentioned the most (45%), followed by financing (42%), awareness-raising measures (32%) and match-making (29%). An example of the latter is the Reempresa programme. According to the Diputació de Barcelona (Catalonia, Spain): *"It aims to facilitate the access of one or more entrepreneurs to the ownership of a company in operation, to make it grow without having to go through the phase of creating it. It is, in short, about creating a favourable environment for the transfer of companies between business owners and entrepreneurs".*

65 For an overview **ec.europa.eu/growth/smes/promoting-entrepreneurship/we-work-for/family-business_en**

66 European Economic and Social Committee, Own-initiative opinion of Dimitris Dimitriadis, "The potential of small family and traditional businesses to boost development and economic growth in the regions," Official Journal of the European Union C 81/1, 2.3.2018; European Economic and Social Committee, Own-initiative opinion of Jan Klimek, "Family businesses in Europe as a source of renewed growth and better jobs," Official Journal of the European Union C 13/8, 15.1.2016; European Parliament, "European Parliament resolution on Family Business in Europe 2014/2210(INI)", adopted 8 September 2015; Speech in the European Parliament Plenary Session of Ursula von der Leyen President-elect of the European Commission, Strasbourg 27 November 2019.

Match-making on the online Reempresa platform is done in six steps. After introducing the parties, a confidentiality agreement is signed. Then, terms and conditions of the transfer are negotiated and a letter of intent is signed. Optionally, the buyer can arrange a due diligence investigation or external audit. Finally, the purchase contract is signed. The company has now changed hands.

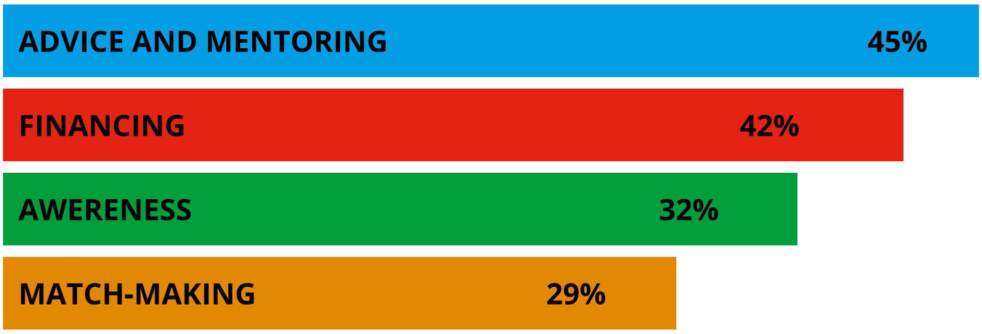


FIGURE 3.3: MEASURES IMPLEMENTED TO FACILITATE BUSINESS TRANSFERS IN THE REGION

Examples of Family business Policies
In the Baden-Württemberg region (Germany), many business owners are overwhelmed with the complex task of finding a successor. They most often are too busy with the day-to-day operation and want to avoid the public eye. To secure existing businesses, the Ministry of Finance and the Economy and Heilbronn-Franken IHK therefore developed the concept of 'succession moderators'.
They perform key tasks in raising awareness at an early stage of the business transfer process. A moderator makes the transferor aware of the importance of a succession plan, mentions possible emotional aspects (especially, but not only, when the business is transferred to the next generation of the family),
and raises awareness of the commercial, legal and fiscal issues. Later in the process, the moderator and transferor discuss potential successors, after which contact is established between the transferor and the potential successor.
In short: a moderator draws up a 'succession road map' and helps to implement it. In nearly four years (from April 2008 to the end of December 2011), more than 7,000 companies in the Baden-Württemberg region have been supported by ten subsidised succession moderators.

The Overijssel region (the Netherlands) has been active in family business policy since introducing subsidies for young business successors in 2017.** This subsidy was intended for successors under the age of 41 who need to invest in order to guarantee the continuity of their family business. A total of € 600,000 was available for this subsidy, with a maximum of € 20,000 per applicant. The region has recently launched the Family Next programme with the goal to support approximately 750 SME family businesses by 2022 in the transition to digitisation and sustainability. For business owners ready to transfer their (family) firm, support is provided by experienced and successful entrepreneurs (coaches). The programme is built around the assumption that knowledge exchange is more effective in a peer-to-peer setting. The Family Next programme aims to preserve current regional employment and create new employment opportunities. In addition, the transition to a more sustainable business model can contribute to the climate goals in the Netherlands.

** The subsidy for young business successors was part of a wider policy programme which included knowledge sessions on family business governance and succession as well as a statistical dashboard on family businesses.

4. Challenges and Opportunities on the Horizon

The twin transition to a digital and sustainable Europe is temporarily overshadowed by the more urgent matter of battling the virus and its economic consequences. At the same time, European regions are convinced that the challenges of digitisation and sustainability are still high on the agenda. These regions not only expect the crisis to potentially accelerate progress on these transitions, but also believe that digitisation and sustainability are central to the competitiveness of SMEs and for the future of their regional economy. In this chapter we focus on the challenges SMEs face in the coming years and how local and regional authorities (LRAs) in cooperation with other levels and other actors in the regional economic ecosystem can support SMEs in their response to these challenges. We start by looking at measures taken to help SMEs cope with the impact of the crisis on their financial position, whether it aggravates the already poor access to finance of many SMEs, and what the longer-term consequences of the crisis are for SME financing. We then turn towards the challenges of sustainability and digitisation, discussing both regional and European measures.

4.1 COVID-19 Recovery Measures

The measures taken by the member states, such as social distancing, lockdowns and travel restrictions, are intended to stop the spread of the coronavirus and get the society back on track as quickly as possible. To support the economy – and to help companies facing liquidity issues – various financial measures have been taken on European, national and regional level.

We asked respondents to determine crucial factors for SME resilience when dealing with the fallout of the COVID-19 pandemic in the coming years. The respondents were especially worried about the financial position of SMEs, as the most given answers were Access to debt and equity financing (45% of respondents) and Financial reserves (45%). A survey by SME United supports this concern, concluding that over 90% of SMEs report a decrease in turnover with as many as 40% of SMEs facing liquidity problems. About 20% of SMEs reported losing 100% of turnover for several weeks due to the lockdowns.[67] Similar results are obtained by a survey of SME Europe, which also reports that roughly two-thirds of SMEs are postponing planned investments due to the COVID-19 outbreak.[68]

An underlying issue is that SMEs are reporting more issues with access to finance (21%) compared to large companies (11%) according to a recent Eurobarometer survey.[69] In our survey we included a question on what the most important EU priorities should be regarding access to finance.

67 SME United, The economic impact of COVID-19 on SMEs in Europe, 3 July 2020.
smeunited.eu/admin/storage/smeunited/200630-covidsurvey-results.pdf

68 SME Europe, SME Impact Assessment for COVID-19, 18 May 2020.
www.smeeurope.eu/wp-content/uploads/2020/05/Business-Impact-Assessent-Covid19-survey-presentation.pdf

69 European Commission, Flash Eurobarometer 486, T86.

There is strong support amongst respondents for additional debt and equity financing for SMEs in financial distress due to COVID-19 (50%) as well as for measures diversifying the sources of finance (45%), and, to a lesser extent, for better SME access to subsidies of the European Structural and Investment Funds (26%). Specific measures for better SME access to finance and emergency packages for SMEs in financial distress are summarised in the text box below.

Beyond financial issues, our respondents also mentioned Innovative business models attuned to social distancing (32%) and Crisis management efforts of owners and managers (18%) as contributing factors to SME resilience. The Region of Crete (Greece) for example explains: *"Firms that can react quickly to changing conditions may be able to fill gaps in the market and reap greater market shares while at the same time proving resilient to this crisis. The role of the Region is to encourage the SMEs in this direction"*. A similar statement is given by the Region of Madrid, stating: *"We have seen SMEs being flexible enough as to transform their production and supply chain in just a few days, moving from manufacturing clothes or car-engines to masks and breathers. There are multiple examples of that, being just instances of how adaptability is key to overcome the pandemic effects on the GPD."*

The COVID-19 pandemic has put the European economy to the test. While all member states have been affected badly, some have been affected more than others. That is why financial action was soon taken at European level against the crisis. In March, the European Commission relaxed the state aid rules to counter the economic impact of COVID-19.[70] The temporary framework for state aid measures aims to help businesses get access to the liquidity and financial support they require to survive the crisis. In the same month, the ECB announced a € 750 billion Pandemic Emergency Purchase Programme (PEPP). The goal is 'to counter the serious risks of the monetary policy transmission mechanism and the outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus'.

On 21 July 2020, EU leaders agreed on a comprehensive financial support package worth € 1,824.3 billion. Of this, € 1,074.3 billion comes from the multiannual financial framework (MFF) and € 750 billion has been made available under NextGenerationEU. In the reconstruction of Europe, governance must address digitisation and climate change. For example, it was agreed that 30% of the total expenditure of the MFF and NextGenerationEU would go to climate-related projects. The majority of NextGenerationEU's financial resources come from the Facility for Recovery and Resilience programme (€ 672.5 billion), followed by ReactEU (€ 47.5 billion), Just Transition Fund (€ 10 billion) and rural development (€ 7.5 billion). The Facility for Recovery and Resilience will be discussed extensively in the upcoming plenary session of the Committee of the Regions on 12-14 October 2020.[71] Given that LRAs are responsible for more than half of public investments and a third of total public expenditures, a strong regional and local dimension in the recovery plan is the main point of discussion between the Committee of the Regions and the Commission.[72]

70 COMMUNICATION FROM THE COMMISSION, "Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak," Brussels, 19.3.2020 C(2020) 1863 final.

71 European Commission, "Proposal for a Regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility, Brussels, 28.5.2020 COM(2020) 408 final.

72 The European Semester, a framework for coordinating economic policy between member states, is used as the main governance mechanism for the facility. The CoR rapporteur on the facility has voiced concerns about the limited role of LRAs within the European Semester framework: Committee of the Regions, opinion of Christophe Rouillon, 'Recovery plan for Europe in response to the COVID-19 pandemic: Recovery and Resilience Facility and Technical Support Instrument," 140th plenary session, 12, 13 and 14 October 2020, COR-2020-03381-00-02-PAC-TRA.

EU Financial Instruments for SMEs

The coronavirus outbreak is a major shock for the European and global economy. The crisis has forced many companies to reduce their staff and limit the working hours of their employees. To limit the extent and impact of employment losses, member states have mobilised significant financial resources. Europe's SURE instrument (Support to mitigate Unemployment Risks in an Emergency) acts as a second line of defence. It provides financial assistance up to € 100 billion in the form of loans. The establishment of SURE is an expression of Union solidarity, whereby the member states agree to support each other by making additional financial resources available through loans.

More direct measures for SMEs in financial distress are implemented by the European Investment Bank (EIB). Two support packages for SMEs affected by the crisis have been developed. The first package was announced in March and intents to mobilise € 40 billion of additional financing for SMEs. It does so by 1) launching dedicated guarantee schemes to banks based on existing programmes for immediate deployment, 2) accelerating and repurposing the EIBs' multi-beneficiary intermediated lending facilities and other frameworks loans so that banks across Europe could specifically come to the aid of impacted businesses, and 3) reprioritising some EFSI resources to make working capital available for those who need it the most through the purchase of € 2 billion worth of asset-backed securities from banks.

The second package, called the Pan-European Guarantee Fund (EGF), is part of the EU recovery package and plans to mobilise up to € 200 billion in financing. At least 65% of this financing goes to SMEs. It aims to support companies that are viable in the long-term but are struggling in the current crisis. Especially now during the COVID-19 crisis, it is important to strengthen the liquidity of SMEs so that they can continue to run their business.

The InvestEU programme, part of the Multi Annual Financial Framework, is an additional support programme for SME finance by the EIB. It will run between 2021 and 2027 and aims to trigger at least € 650 billion in additional investments. The four policy areas: *are sustainable infrastructure, research, innovation and digitisation, small and medium-sized enterprises, and social investment and skills.* The InvestEU Fund is flexible, meaning that it has the ability to react to market changes and policy priorities. The Fund's main partner will be the EIB Group (for 75% of the EU guarantee). Other partners that can get involved (for the remaining 25%) are international financial institutions and national promotional banks. The opening of the guarantee to national and regional promotional banks aims to better address where the financing needs are and how best to serve them.

As the COVID-19 pandemic struck hard in regions, Local and Regional Authorities (LRAs) started implementing measures to support their economy. We asked the respondents to indicate what short-term and medium-term measures were introduced for SMEs in response to the crisis. The initiatives Informing SMEs on national and European aid measures (68% of the respondents), Subsidies, loans or guarantees offered by my LRA to secure the liquidity of SMEs (61%), Postponing tax obligations for SMEs (50%) and Coordinating the crisis response strategy of local and regional actors, e.g. banks, chambers of commerce and trade organisations (39%) were mentioned the most. The Region of Breda in the Netherlands also helps SMEs to think on a strategic level in order to make them more resilient for the future. They explain: *"We offer coaching and help for SMEs in difficulties, we organise challenges for the new situation and recovery, we help SMEs with the online/ digital transformation, we offer online training and we have programmes to help SMEs rethink their business model."*

Besides LRAs, additional measures were developed by special-purpose institutions such as regional development agencies and private-public partnerships. In the Joensuu region (Finland), for example, webinars are held to share advice from legal professionals and questions are answered on the helpline. In Extremadura (Spain), measures are related to financing and tax payment. A micro-credit line (up to € 25,000 per company at only 1.5%) has been deployed and taxes are (partially) suspended or postponed. The region of Nouvelle-Aquitaine (France) has developed an online platform to link industrial initiatives, while the Trento region (Italy) took actions related to access to credit, simplifying procedures and unburden fiscal (and thereby streamlining processes). Finally, all business owners in the Cantabria region can request a so-called resistance check.

The measures are further strengthened by policies that will potentially improve the resilience of regional economies for the fallout of the COVID-19 pandemic in the oncoming years. The contributing regions mentioned the *Reskilling of workers in affected sectors* (45% of the respondents), *Stimulating the development of essential economic sectors, e.g. food, housing, utilities, healthcare, education (13%) and Stimulating local demand for producers and retailers, e.g. public procurement policies, buy local campaigns, local retail platforms (13%)* the most.

There seems to be a large difference in how policies should be arranged. The Region of Barcelona in Spain motivated: *"The resilience of SMEs will depend mainly on their ability to finance themselves during the period of falling incomes, either in the form of loans or non-refundable grants. Likewise, the ability of owners and managers to reorient their business and digitally transform the company will be key to overcoming this crisis."* Whereas the Region of Breda, the Netherlands, state: *"Two things are of major importance: how is the perspective in your sector, and can management respond to the (changed) perspective? If you have a good plan and the management is capable to implement this, money is mostly not a problem to get."*

4.2 Digitisation

Since the outbreak of the COVID-19 pandemic, the digital transformation has gained momentum. People were forced to work from home. More than ever, network and information systems are the backbone of economic growth and play a crucial role in society. Some regions, however, have a less developed digital infrastructure and/or make a slow progress towards digitisation. Moreover, more than 60% of SMEs are facing barriers when it comes to digitisation according to a recent Eurobarometer survey. Uncertainty on future digital standards (24%) and lack of financial resources are the most frequently mentioned barriers (23%).[73] Below, we discuss regional and European support for SMEs in the digital transition.

The Digital Economy and Society Index

As figure 4.1 illustrates, member states perform differently in terms of connectivity, human capital, use of internet services, integration of digital technology and digital public services.[74] Finland, Sweden and Denmark score highest on the Digital Economy and Society (DESI) index, while Bulgaria, Greece and Romania all have scores well below the EU average. The differences are even more pronounced at the regional level. In terms of broadband infrastructure and individuals using the internet on a daily basis, for example, rural areas most often lag behind the more densely populated urban areas. Because of the vast differences in starting position and pace of the digital transition across Europe, the Commission's 2020 SME Strategy and other EU initiatives on the digital performance of SMEs must be tailored to regional conditions.

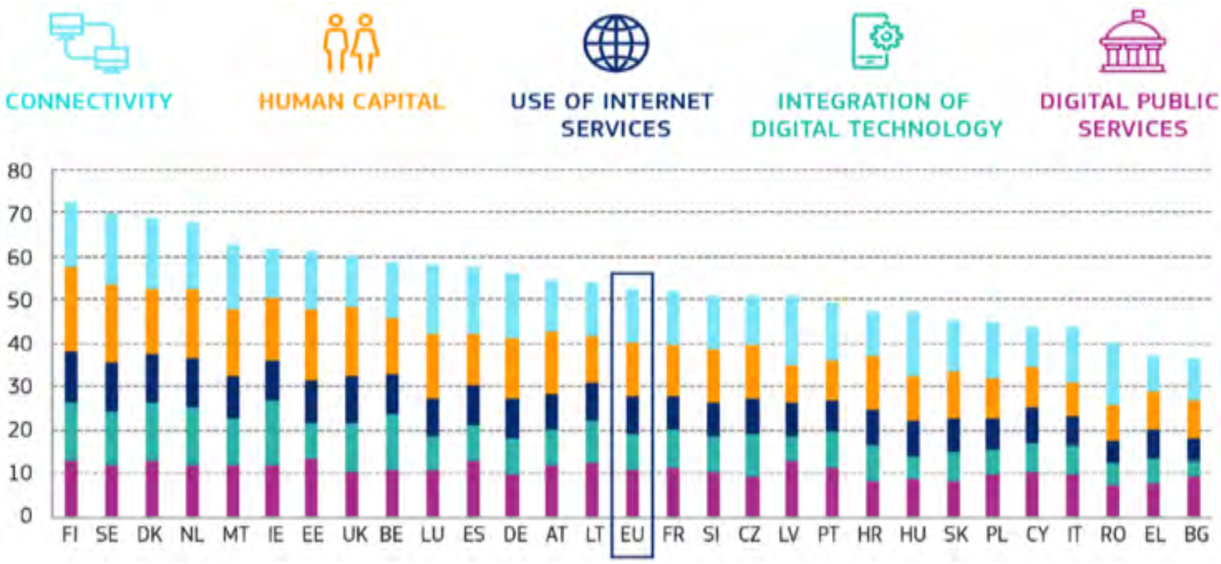


FIGURE 4.1: THE DESI INDEX SUMMARISES THE DIGITAL PERFORMANCE OF MEMBER STATES

An example of a place-based initiative within the SME Strategy is the support of a dense network of up to 240 Digital Innovation Hubs (DIH). The one-stop shops have a regional character and help companies to become more digitised. They provide skills and training, technical expertise and experimentation ('test before invest') and support to find investments. DigitalHUB in Aachen, for example, promotes knowledge exchange between digital enablers (IT firms and digital start-ups) and a growing group of digitally dependent SMEs.

73 European Commission, Flash Eurobarometer 486,219.

74 European Commission, Digital Economy and Society Index (DESI) 2020 Brussels: European Commission, 2020.

Digitisation and European Support

Competitive sustainability is Europe's guiding principle for the future. Achieving a climate neutral, resource efficient and agile digital economy requires the full mobilisation of SMEs. This transition to a more economically, environmentally and socially sustainable Europe must go hand in hand with the digital transition. We asked Local and Regional Authorities whether they agree that digitisation is one of the most important transitions for SMEs. Almost 95 percent of the respondents agreed with the statement, of which 55 percentage point strongly agreed. The Region of Crete (Greece) summarises the relevance well: *"Digitisation is an important development strategy tool for SMEs. Their technological modernisation provides them with a competitive advantage and enables them to maintain and expand their market share. Especially now with the COVID-19 pandemic, we saw that companies that were technologically one step ahead managed to continue their activity without major problems."* LRAs, however, should be supported in this digital transition on an EU level.

We asked the LRA's what the most important priorities are regarding EU level support in the digital transition for SMEs. The four most frequently given answers are illustrated in figure 4.2. The region of Oikeuslaitosta (Finland) added: *"Security and individual protection are increasingly emphasised in the digital age. Judicial cooperation is needed at European level. Support for best practices is required."*

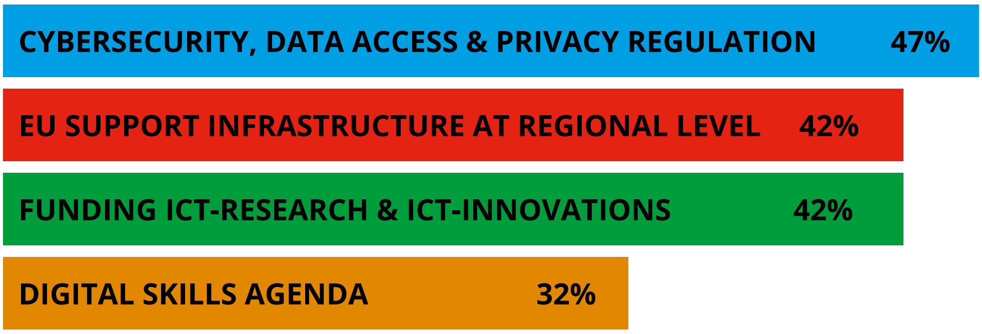


FIGURE 4.2: MOST IMPORTANT PRIORITIES REGARDING EU LEVEL SUPPORT IN DIGITISATION

According to the Region of Catalonia (Spain): *"Europe needs to take the lead in the development of future ICT, that will be the key to guarantee business growth. We need, therefore, strong funding programmes supporting the development of ICT focusing on future SME needs from the very beginning."*

Increased digitisation and connectivity increase cybersecurity risks. Most respondents are aware of the vulnerability to cyber threats, as 47% indicate that cybersecurity, data access and privacy regulations are an important priority for EU level support. In 2019, the Cybersecurity Act came into effect.[75] It allows the Union to better cope with cross-border cyber-attacks. The mandate of the European Union Agency for Network and Information Security (ENISA) has been expanded, as it received more resources and new tasks. To make sure that ICT systems and services comply with specified requirements, ENISA got a key position in establishing and maintaining a cybersecurity certification system. In addition, ENISA supports member states in the field of awareness-raising (the so-called 'cyber-hygiene').

75 European Parliament and European Council, "Cybersecurity Act (Regulation (EU) 2019/881)," Official Journal of the European Union, L151, 7.6.2019, 15-69.

76 European Commission, "A European strategy for data", Brussels, 19.2.2020 COM(2020) 66 final.

Regardless of EU support, LRAs can also (partially) stimulate and facilitate this transition for SMEs on their own. To achieve this goal, the most-used initiatives are *Investments in digital infrastructure (47% of the respondents), Human capital agenda on digitisation (45%), Investments in e-government solutions (42%) and Start-up or Scale-up policies for digital SMEs (39%).* A respondent from Portugal said: *"We support the competitiveness of SMEs. We do so by using ICT as a strategic investment vector to enhance their position in the market and to provide advantages to compete in international markets".*

EU Goals and Measures
By 2025, Europe wants to use technologies, innovation and artificial intelligence to provide people with competitive jobs, better health and better public services. To achieve this vision, an increase in data (exchange) is needed. To enable the data economy for the next five years, the 2020 European strategy for data has been drawn up.[76] It consists of four actions. First, a cross-sectoral governance framework must be implemented, meaning that all the member states and sectors can access and use the same data. Secondly, Europe must strengthen its capability to host, process and use data. The third action aims at increasing competences. Individuals should be in control of their personal data and digital skills should be improved. Whereas in 2020 only 57% of the EU population has basic digital skills, this number will grow to 65% by 2025. Finally, in strategic economic sectors (such as health care, agriculture, mobility and energy) and domains of public interest, common European data spaces will be developed.

Another recent measure to improve Europe's competitiveness in the digital economy was the Digital single market program. The 2014-2019 strategy was built on three pillars. Firstly, the Union has made it easier to get full access to digital goods and services across the continent. The second pillar consisted of creating an open, democratic and sustainable digital society. Companies of all sizes – micro, small, medium and big – should be able to compete online. Lastly, the Digital single market programme tried to maximise the growth potential of the digital economy by addressing barriers in the European data economy, defining priorities for standards and interoperability and supporting an inclusive digital society.

4.3 Sustainability

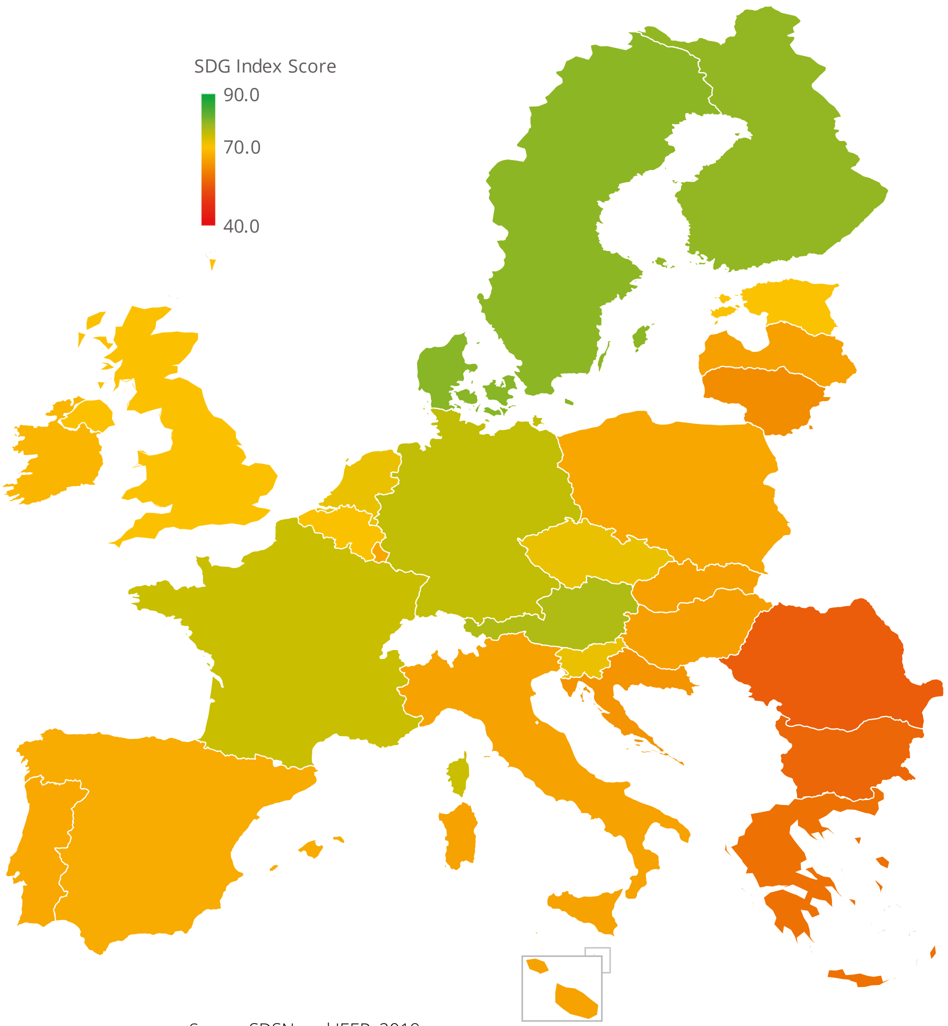
In 2015, the United Nations defined seventeen Sustainable Development Goals (SDGs), ranging from good health and well-being to affordable and clean energy and from good jobs and economic growth to reduced inequalities. So far, the European Union has progressed towards most of these goals even though significant challenges remain, especially related to responsible consumption and production, climate action, life below water and life on land.[77] Significant progress on these goals cannot be achieved without SMEs. Not only because of their significant environmental impact, but also because SMEs are at the forefront of climate action as innovators in green technologies and green business models. In a recent Eurobarometer survey, however, 70% of SMEs report barriers in their transition to sustainability. Especially lack of consumer or customer demand (30%), financial constraints (27%), incompatible business models (24%) and lack of awareness on how to integrate sustainability in the business model (23%) are viewed to be important barriers.[78] Below, we describe the sustainability measures taken by the European Union (such as the 2019 European Green Deal) and discuss the importance of the local and regional level in supporting SMEs in the transition towards sustainability.

77 Institute for European Environmental Policy, 2019 Europe Sustainable Development Report. Towards a Strategy for Achieving the Sustainable Development Goals in the European Union Brussels. Institute for European Environmental Policy, 2019.

78 European Commission, Flash Eurobarometer 486, 251.

The Sustainable Development Goals Index

As figure 4.3 illustrates, member states perform differently in achieving the SDGs.[79] Denmark, Sweden and Finland score highest on the SDG Index, while Cyprus, Romania and Bulgaria all have scores well below the EU average. Again, the differences are even more pronounced at the regional level. Therefore, a local and regional implementation of SDGs is needed. In its recommendations to the Commission, the UN Sustainable Development Solution Network underlines the relevance of LRAs in the transition to a sustainable Europe: *"65% of the 169 targets that form the base for the 17 SDGs can only be reached if coordination with and inclusion of local and regional governments is assured. Successful implementation of SDGs requires integrated policies that take into account the specificities and social, cultural, environmental and economic dimensions of the territories and that follow a community-based service approach. LRAs need to be the primary government tier to implement this approach".*[80]



Country	SDG Index Score
Denmark	79.8
Sweden	79.4
Finland	79.1
Austria	76.7
Germany	75.3
France	74.7
Netherland	71.8
Czech Republic	71.8
Slovenia	71.7
Estonia	70.4
Belgium	70.3
United Kingdom	70.2
Ireland	68.2
Spain	66.8
Portugal	66.2
Poland	66.1
Luxembourg	66.0
Italy	65.3
Slovak Republic	65.2
Latvia	65.2
Hungary	65.1
Croatia	63.2
Lithuania	62.6
Malta	62.3
Greece	58.9
Bulgaria	57.1
Romania	55.9
Cyprus	55.0
European Union	70.1

Source: SDSN and IEEP, 2019

FIGURE 4.3: THE SDG INDEX SUMMARISES THE SUSTAINABILITY PERFORMANCE OF THE EU

79 Institute for European Environmental Policy, 2019 Europe Sustainable Development Report, 5.

80 UN Sustainable Development Solution Network, Getting Started with the SDGs in Cities. A guide for Stakeholders, (Paris; New York: UN Sustainable Development Solution Network, 2016), 16.

In the Netherlands, such a place-based sustainability strategy has been initiated with the development of Regional Energy Strategies (RES) in thirty different regions. These regions decide upon their own challenging yet realistic goals and how they intend to combat climate change. The goal of the RES Foodvalley, for example, is to be energy neutral by 2050 (generating as much energy as it uses) and to reduce CO_2 emissions with 55 percent in 2030 compared to 1990. To achieve this, regional governments collaborate with stakeholders such as the business community, residents, social partners, energy cooperatives and network operators. In the years to come, the plan will take shape.

EU Goals and Measures

To tackle climate and environmental-related challenges, the European Green Deal has been drawn up.[81] It aims to 'transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use'. To do so, a plan of eight elements has been drawn up, as well as proposals to finance the transition to a sustainable future.
This is shown in figure 4.5 below.

FIGURE 4.5: THE GREEN DEAL CONSISTS OF EIGHT ELEMENTS AND A FINANCING PLAN

The European Green Deal will be the central strategy for Europe to move forward on the sustainability transition and includes several components, such as the Farm to Fork Strategy (2020) laying out plans on the food system, the Circular Economy Strategy (2020) on the transition to a circular economy and the legal framework proposed in the European Climate Law (2020).[82]

81 European Commission, The European Green Deal, Brussels, 11.12.2019 COM(2019) 640 final.

82 European Commission, "A Farm to Fork Strategy for a fair healthy and environmentally-friendly food system, Brussels", 20.5.2020 COM(2020) 381 final; European Commission, "A new Circular Economy Action Plan For a cleaner and more competitive Europe," Brussels, 11.3.2020 COM(2020) 98 final; European Commission, "establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law)", Brussels, 4.3.2020 COM(2020) 80 final 2020/0036(COD).

The response of SME interest groups to the European Green Deal has been mostly positive because it will provide a clear framework for the future.[83] They stress the importance of international climate diplomacy because Europe cannot tackle the climate crisis on its own and more lenient climate laws outside Europe may result in unfair competition. At the same time, EU climate leadership is also seen as a potential competitive advantage. Eurochambres president Christoph Leitl recently stated: *"The EU has the world's most ambitious climate policy framework. We must transform these targets into business opportunities, then other regions will follow suit."*[84] Stakeholders stress the need for a thorough impact assessment of the more ambitious climate goals. This impact assessment must provide results on a sufficiently granular level by differentiating consequences for companies of different sizes, within different sectors and based in vastly different regions in Europe.

Importance of Sustainability and European Support

According to the Commission, tackling climate and environmental-related challenges has become this generation's most defining task.[85] We asked respondents whether they agree that sustainability is one of the most important transitions for SMEs. Over 92 percent of the respondents agreed with the statement, of which 63 percentage points strongly agreed. The Region of Crete (Greece), too, agreed with the statement and provided the following explanation: *"The transition of SMEs towards a sustainable business model will provide them with competitive and economic advantages, as well as making a decisive contributing to the EU's green economy agenda."*

The Green Deal contains goals and strategies concerning this transition, but we also asked LRAs what they consider to be the most important priorities regarding EU level support in the transition to a sustainable economy for SMEs. The four most frequently given answers are shown in figure 4.4.

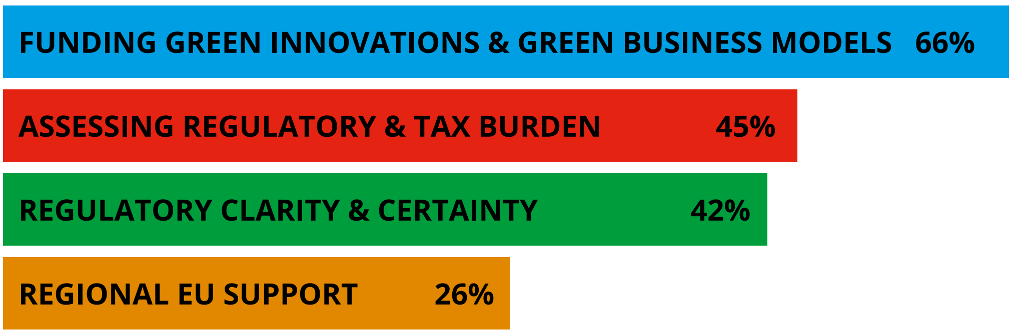


FIGURE 4.4: MOST IMPORTANT PRIORITIES REGARDING EU LEVEL SUPPORT IN SUSTAINABILITY

83 SME United, "SME United's first reaction on the European Green Deal", 24 February 2020; Eurochambres, EUROCHAMBRES' reaction to the European Green Deal, Brussels, 12 December 2019.

84 Eurochambres, Climate target plan must be based on free market fundamentals and multilateral cooperation, Brussels, 17 September 2020.

85 European Commission. "The European Green Deal."

The Region of Silesia (Poland) describes its perception: *"The challenge lies in the harmonisation and transparency of rules that do not impose too many formal and financial obligations on the business sector. Currently, administrative burdens for entrepreneurs are very high. It crucially affects obstacles in running a business, enforce the need for external services or hinder access to support instruments."*

The Region of Catalonia (Spain) shares the infrastructure that is necessary to successfully engage in this transition: *"From the Catalan experience, sustainability challenges require new business models and more regulatory clarity to ensure the introduction of these new innovations into the market. Also, EU support advisors at regional level would be an interesting figure to enhance green initiatives/SMEs."*

Regardless of the support at the EU level, LRAs can also (partially) stimulate and facilitate this transition for SMEs on their own. The survey showed that the most-mentioned initiatives were: Circular economy policies (55% of the respondents), *Energy efficiency policies (53%), Investments in renewable/clean energy production (50%) and Climate adaptation policies (39%).* The Region of Breda (the Netherlands) shared: *"A sustainable society is the ultimate goal of the regional development policy. It is part of all the other programmes. So, there is no specific programme, but it is incorporated in everything."*

Appendices

Appendix 1: Survey Respondents

Even though the questionnaire covers many of the priorities within the SME Strategy it does not directly assess the strategy's reception. Most of the 38 respondents support the three pillars within the SME Strategy (access to finance, reducing regulatory burden and supporting the transition to sustainability and digitisation). Nearly all of the respondents see the digital and sustainability transitions as crucial priorities (95% and 92% respectively). Moreover, access to finance and financial reserves are considered to be key factors determining the resilience of SMEs during the current crisis (both selected by 45% of respondents). However, the respondents have different ideas on how these priorities are to be translated into concrete actions both at the European and at the local level.

Figure A2	Participating regions in survey
Country	LRA or organisation
Belgium	Business association
Croatia	Dubrovnik Neretva county
Denmark	Danish Business Authority - decentralized business promotion Greater Copenhagen
Finland	Regional Council of Pirkanmaa (Tampere Region) Oikeuslaitosta Helsinki-Uusimaa Pirkanmaa s.o. Tampere Region University
France	Guadeloupe
Germany	Steinbeis 2i GmbH Land Brandenburg
Greece	Private sector business Region (2018) Region of Crete
Ireland	Business intermediary Business Innovation Centre
Latvia	Local municipality
The Netherlands	Province of Noord-Holland Province of Gelderland City of Breda Leeuwarden
Poland	The Marshal Office of Silesia Region Marshal's Office of the Lodzkie Voivodship
Portugal	Network of Regions Instituto de Desenvolvimento Empresarial, IP-RAM (Madeira) Lisbon Municipality Public employment services of the Autonomous Region of Madeira Poder local
Spain	Madrid Activista Social y Lobbying Bajo Nalon Rural development Group Galicia, Igape (Instituto Galego de Promoción Económica) Diputació de Barcelona Cantabria Secretariat of Business and Competitiveness, Government of Catalonia Province of Teruel
Sweden	Swedish Association of Local Authorities and Regions Region Skåne

Appendix 2: Survey Questions

Figure A1	Survey Questions
1	Which Member State are you representing? And on behalf of what type of authority are you responding to this questionnaire?
2	What are the most important policy priorities for the long-term resilience of SMEs in your region?
3	Does your LRA have the necessary capabilities to support a favourable ecosystem for SMEs, and is it adequately supported by higher-level governments in terms of resources, coordination and freedom to act?
4	What cross-border and trans-regional initiatives are undertaken in your region, to support SMEs expansion and scaling-up across the borders?
5	How do you expect the impact of the COVID-19 pandemic on SMEs in your region to compare to the 2008 financial crisis?
6	How do you expect the path to recovery from the COVID-19 pandemic for SMEs in your region to compare to the 2008 financial crisis?
7	What short- and medium-term measures for SMEs were implemented by your LRA in response to the COVID-19 pandemic?
8	What factors do you expect to be crucial for the resilience of SMEs in your region, when dealing with the fallout of the COVID-19 pandemic in the coming years?
9	What policies for the ecosystem in your region will potentially improve the resilience of SMEs, when dealing with the fallout of the COVID-19 pandemic in the coming years?
10	What policies for the ecosystem in your region will potentially improve the resilience of SMEs, when dealing with the fallout of the COVID-19 pandemic in the coming years?
11	Do you agree that regional measures to stimulate and facilitate business transfers are necessary, in addition to the tax and legal environment shaped at the national level?
12	In order to facilitate business transfers in your region, which of the following measures are implemented?
13	Does your region have specific policies for family businesses?
14	Does your region have one or multiple RDAs with a participation company investing in SMEs?
14a	In which categories of firms does/do the RDA(s) in your region invest?
14b	In what industries does/do the RDA(s) in your region invest?
15	What (other) solutions are on offer for SMEs in your region for better access to finance?
16	What should be the most important priorities at the EU level for SMEs' access to finance?
17	Do you agree that the European guidelines for procurement, including relevant thresholds, are fair and create a level playing field?
18	Do you agree that LRAs should establish SME-friendly public procurement policies, in order to provide equal conditions for SMEs to compete with large companies on tenders?
19	Does your LRA have specific strategic goals in its public procurement priorities, and what do they consist in?
20a	Do you agree that digitisation and sustainability are the most important transitions faced by SMEs in your region? : Digitisation
20b	Do you agree that digitisation and sustainability are the most important transitions faced by SMEs in your region? : Sustainability
21	What should be the most important priorities regarding EU level support in the digital transition of SMEs?
22	How does your region stimulate and facilitate the digital transition of SMEs?
23	What should be the most important priorities regarding EU level support for the transition towards sustainability of SMEs?
24	How does your region stimulate and facilitate the transition towards sustainability of SMEs?

Appendix 3: Consultations of the SME Rapporteur

We consulted five interest groups, five experts and ten local and regional authorities. We asked them direct questions on the SME strategy. Many of the opinions from the consultations are incorporated in our opinion on the SME strategy. Especially the absence of a clear strategy for the governance and implementation of the SME Strategy is a widely shared concern amongst stakeholders. A stronger partnership between the Commission, member states and LRAs in SME policy is necessary for policies to impact regional ecosystems and intermediaries working in close proximity of SMEs. Moreover, the need for a level playing field for SMEs was also strongly felt. Many stressed a more thorough application of the SME test and the 'think small principle' when the Commission introduces new legislation or scrutinises the regulatory burden. Finally, the consulted organisations and individuals recognise the prioritisation of start-ups, scale-ups and high-tech sectors within EU SME policy and agree that more established firms and overlooked sectors should benefit more from these policies.

However, not all of the consultations are mirrored in our opinion. Regions such as South-Holland, Bretagne and Prague for example, place more emphasis on regional innovation strategies and stimulating start-ups and scale-ups. This does not necessarily mean that these priorities clash with our opinion, but we wanted to instead stress the blind spots surrounding established firms and family businesses within EU SME policies.

Figure A3	Consulted Organisations and Individuals
Interest Groups	
SME Alliance (Annika Linck)– April 1, 2020	
SME United (Veronique Williams) – April 1, 2020	
SME Europe (Horst Heitz) – April 3, 2020	
FBNed (Albert-Jan Thomasson) – April 1, 2020	
Eurochambres (Ben Butters) – April 17, 2020	
Experts (written and digital consultations)	
Pieter Waasdorp – Dutch SME Envoy	
Rodrigo Basco – Associate professor in Family Business American University of Sharjah	
Andrea Calabrò – Professor of Family Business & Entrepreneurship IPAG Business School	
Matthias Nordqvist – Professor of Business Administration, Jönköping International Business School	
Nadine Kammerlander – Family Business Professor, Otto Beisheim School of Management	
Local and Regional Authorities (written consultations)	
Province of Zuid-Holland (the Netherlands)	
Province of Drenthe (the Netherlands)	
Province of Limburg (the Netherlands)	
Region of Prague (Czech Republic)	
Region of Bretagne (France)	
Region of Calabria (Italy)	
Region of Flanders (Belgium)	
County of Tipperary (Ireland)	
Region of Bohemia (Czech Republic)	
Oost NL (Regional development agency, provinces of Overijssel and Gelderland)	

Appendix 4: List of EER-Regions

Figure A4	European Entrepreneurial Regions since 2011
Country	**Region**
Austria	Styria (2013) Lower Austria (2017)
Denmark	Southern Denmark (2013)
Belgium	Flanders (2014)
Finland	Helsinki-Uusimaa (2012)
France	Nord-pas de Calais (2013) Île-de-France (2018)
Germany	Brandenburg (2011)
Greece	Western Greece (2017) Central Macedonia (2018) Thessaly (2019)
Ireland	County Kerry (2011) Northern and Western Region (2018)
Italy	Marche (2014) Lombardia (2016)
Poland	Małopolska (2016) Gdansk and Pomorskie (2020)
Portugal	Lisbon (2015)
Slovakia	Trnava (2012)
Spain	Murcia Region (2011) Catalonia (2012) Valencian Region (2013) Extremadura (2017) Asturias (2019) Navarra (2020)
Sweden	Gothenburg (2020)
the Netherlands	North Brabant (2014) Gelderland (2019)
United Kingdom	Northern Ireland (2015) Glasgow (2016)

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