

Exit & Recovery Strategy – COVID-19 crisis: Proposals from SMEUnited

SMEUnited, the Association of Crafts and SMEs in Europe, very much appreciates the measures developed and actions taken at the European level to mitigate the socio-economic impact of the COVID-19 crisis across Europe.

The crisis nevertheless has dramatically changed the business environment for SMEs, which has a **huge negative effect** for hundreds of thousands of SMEs, and also threatens fundamentally the **core role** which SMEs play in our everyday life.

SMEs ensure a decisive part in **social stability** at local and regional level, where SMEs are the “basic fibre” of society. SMEs are at the **centre** of the European Social Welfare Model. Owner-managers of these enterprises are interested more in the middle and long-term development of their company and the local economy than in short-term profits and turnover.

Furthermore, Crafts and SMEs have always been **pacemakers** for cultural developments in Europe and play an important role in driving sustainable changes and preserving heritage, values and know-how. Now more than ever, SMEs are **crucial** for the vitality of **city centres** and for the attractiveness of **rural areas** as they provide in the day to day needs of the population and guarantee social security and cohesion.

As representative voice for Crafts and SMEs, SMEUnited wants to share with you the views of our members throughout Europe on what needs to be done to help SMEs **recover** from this crisis and **thrive** again.

Emergency actions

Access to finance has gained huge importance for SMEs, ensuring that they can get the necessary liquidity during the actual emergency stage of the crisis. And also, in the exit and recovery phase, allowing them to invest for further development in the digital and green transformation.

Tackling the issue of **late payments** in an effective way is one instrument to this end and should be a priority for ensuring sufficient liquidity for SMEs. SMEUnited therefore calls again on public authorities to pay their invoices in due time and for solidarity among businesses.

SMEUnited also welcomes the wide range of measures taken at European and national level to help SMEs to survive the crisis. This includes support for **liquidity** (EIB Group, additional guarantees from EFSI, allowing banks to keep SME financing ongoing). However, the differences in the implementation of these measures through national financial intermediaries seem to cause delay and arbitrary discretion in responding to SMEs liquidity needs. Consequently, these measures have to be **implemented faster** and should provide the needed flexibility to reply to the real needs of SMEs, which is not the case with the current guarantee schemes from COSME and INNOVFAN.

Furthermore, the measures have to reach SMEs and should not be used as support for intermediaries. We receive complaints from members that banks ask for extraordinary high interest rates (EL, IR, ES) or promotional banks applying above market interest rates in order not to crowd-out private banks (EE).

Others complain that some banks use new guarantees to restructure old loans instead of providing additional needed finance and enforce cross-selling of other products (ES).

SMEs also depend to a large extent on national support structures and measures, which have a heavy impact on **public finance**. Therefore, SMEUnited supports the European measures (namely EIB loans, ESM loans, the ECB purchasing programme and SURE), which help national governments to finance **liquidity measures**, and income support for self-employed or short-term work schemes to allow SMEs to keep their employees. However, the reality proves that SMEs also need support to compensate for **loss in revenues**, making them able to finance fixed costs, in order to avoid bankruptcies.

For the next months, **liquidity support** remains necessary to allow viable companies to exit the crisis and to make a fresh start. In the later phase the measures will have to move from support for working capital to instruments which allow the **financing of investments and innovation**. This has to be kept in mind, when designing the next generation of schemes using the pan-European Fund from the EIB and any kind of European recovery programme.

The **Support to mitigate Unemployment Risks in an Emergency (SURE)** should be activated **as soon as possible**. This should allow Member States on the one hand to provide a significant support to self-employed to compensate their loss of income. On the other hand, it gives room for small and micro-businesses to be able to restart their activity with all their workers while a possible continuation of the short term work schemes for respecting the health and safety rules to mitigate the COVID-19 risk.

Exit strategy

SMEUnited welcomes the European roadmap for **lifting coronavirus containment measures** presented by Commission President von der Leyen and Council President Michel on 15th April. Given the fact that we are living an unprecedented crisis for which no one has a script available we need to adapt continuously. The exchange of best practices and continuous adaptation is a necessity.

SMEUnited supports a **tailor-made and gradual lifting** of containment measures, which respect local /regional specificities. On the other hand, it must be **coordinated** among Member States in order to avoid cross-country spill-over effects, as pointed out in the Roadmap. **Solidarity values** at the European level need to continue being promoted in order to overcome the crisis together. Insufficiently coordinated health measures at European level will have negative effects on the internal market. They will create difficulties for the transport sector and for the supply of goods.

A gradual **restart of work** must be accompanied by simple and accessible **Occupational Health and Safety guidance**. The guidance can be **adapted** to different national, sectoral and enterprise situations. Such guidelines and protocols should be drafted together with national social partners to prevent and mitigate risks. The EU should encourage national governments to promote hygiene and social distancing measures, collective protection and use of personal protective equipment (PPE), including masks. Restart of work must also be accompanied by support to the reorganisation of the work space to ensure the necessary sanitary standards and security distance among staff and customers.

SMEs will need the support of **National Occupational Health and Safety (OSH)** inspectorates and external specialised OSH services to assess this new risk, to correctly implement such measures and reduce the related burdens and costs. Moreover, it will be crucial to provide the necessary **personal protective equipment for employees** to be able to go back to work. Transparency and a good communication are essential towards suppliers, subcontractors and consumers.

SMEUnited is exchanging **protocols and practices** among its members to facilitate implementation and reduce time to get back to work.

For securing the sufficient **supply of personal protective equipment and medical devices**, the European Union needs to make direct investments and provide technical assistance to build the production capacity of SME manufacturers as well as to ensure SMEs' compliance with European legislation and with relevant harmonised standards. SMEs are part of the solution. They provide important services such as cleaning reusable medical protective equipment. Local tailors and workshops are facing increasing demand for hand-knitted protection masks for citizens.

SMEUnited calls on European and national authorities and consumer organisations to provide clear and concise **information to consumers** on how to behave and comply with hygiene and health and safety measures as a key tool for reducing further risk of the COVID-19 propagation.

The **free movement of goods** has to be ensured and disruptions in the supply chain need to be addressed. As deconfinement strategies will vary from one country or region to another, information on the state of play has to be easily accessible and fully transparent for internationally active SMEs. **Coordination** among the national authorities, especially in cross-border regions, will be key in this regard.

The corona crisis poses challenges for international trade and thus also for our globally interconnected economies. Since this is a **global pandemic**, it will require **global solutions** to address the problem comprehensively. We need a global, open and rules-based trade that fully respects WTO-rules.

Many of our businesses are dependent on keeping global **supply chains** uninterrupted. At the same time, transparent, non-discriminatory and proportionate **emergency measures** have to be implemented during a limited timeframe to deal with the crisis.

A renewed view on trade policy must also focus on SMEs and help them to secure and rebuild their **value chain** and support them to be less dependent on third-country companies. Moreover, SMEs should be informed and accompanied on new **export modalities**, taking advantage of digital opportunities.

It would be advisable to coordinate at EU level the **gradual streamlining of procedures** for import and export from and to third countries, while promoting the conclusion and implementation of free trade agreements. In order to revive the economy, an **open trade policy** that relies on cooperation and common rules must be an integral part of any future recovery plan.

To **support SMEs in (financial) difficulties** across Europe, SMEUnited urges Member States to fully implement **Articles 3 and 4 of the Insolvency Directive (EU) 2019/1023** concerning preventive restructuring frameworks. By doing so they can provide professional support to SMEs for a **viable turnaround** or getting a **second chance**. The business support services need to address the financial dimension as well as the physical and mental health effects of the crisis on entrepreneurs. We call on the Commission to promote and facilitate the access to existing **good practices** in different Member States (cf. the Early Warning Europe). Moreover, they should also encourage the use of **Cohesion and Structural Funds** to facilitate SME organisations intensifying tailor-made coaching and mentoring services to SMEs impacted by the crisis. The Commission should also recommend Member States to consider a **temporary moratorium on bankruptcy** for companies within this crisis period.

The deconfinement has to be approached from the **point of view of the various activities**, as they are very different in their given methods of work. While some are able to continue working remotely with relatively low impact, others will be limited in their activities for a longer period.. Especially for the services sector (like health care, hairdressers, beauticians, retail, tourism, food & beverage, etc.) where the physical contact with the client is the essential service. SMEUnited is demanding **compensation** for reduced or loss of revenues, while costs are still existing.

SMEUnited highlights that a **continuation of the emergency measures** should be applied when and where needed, based on the experience of European countries, with an effective EU coordinated approach. For instance, providing liquidity, short-term work schemes for activities which cannot or only partially be taken up, income support for self-employed in such sectors and loss compensations where needed to allow SMEs to survive.

Further **flexibility** should apply at national level for **short time working schemes** adapted to the micro-enterprises. Additionally, flexibility and incentives should be applied **on working time**, such as overtime and shift work, to face the current needs and avoid the health and safety risks of contagion. Free movement of cross-border and seasonal workers within the EU should be respected, fully taking into account the necessary prevention measures, for sectors such as agri-food and essential services.

Recovery Strategy

In order to develop a fully-fledged recovery strategy SMEUnited believes that a clear view on the full **duration** of the crisis is required. However, we should already develop now an **ambitious evolving plan** which will add new initiatives when the full impact of the crisis is clear.

Therefore, SMEUnited presents a **first batch of proposals for the recovery strategy** and will follow up with further initiatives as time moves on.

Although the **SME Strategy** was published only a few weeks ago, the business environment for SMEs has **dramatically** changed for the worse. Because of the unprecedented challenges with which SMEs are confronted, SMEUnited calls on the Commission to adapt the SME Strategy in light of the **new context** we are living and working in.

We need to draw lessons from what has happened and avoid going back to doing things the way we were used to. The innovations and changes introduced during this crisis will force SMEs to **reconsider working methods, business models and habits**. To further sustain this shock in their activities, SMEs need support to invest in further developing their **new way of working** (e.g. online sales, teleworking, etc.). In this regard, it is necessary to support **education and training** to close the digital divide, especially as digitalisation has allowed during this emergency to continue some work to a certain extent.

We believe the recovery of our economy will depend on how the **digital and green transformation** of SMEs is fostered. Especially now that entrepreneurs are confronted with the simultaneous challenges of **surviving** the Corona crisis and **preparing** for the twin transition, a more elaborate strategic approach is required. SMEs function in a specific **investment timeframe** that must be taken into account when setting out policy and new requirements. For example, the so called upward-revision clauses (e.g. Energy Efficiency Directive) must be considered very carefully. Additional burdens on SMEs during the recovery phase needs to be prevented, notwithstanding the twin transition must be **part** of recovery plans.

SMEUnited calls for a **multilevel and multi-actor governance** for the implementation of the SME policy. An alignment in actions and budget between different governance levels – European, national, regional and local - and real involvement of business support organisations in the decision-making process is crucial. Actions on all levels need to fit into each other smoothly, as should the budgets dedicated to certain policy aspects. It does not make sense to all invest in the same activities and target groups.

An effective recovery will need **huge investments**, to finance the **twin transition**, allow companies to stay **competitive** and enable the **fresh start** of new enterprises. In order to make such extraordinary

investments possible, the European Union will have to adapt and extend its existing instruments (MFF, InvestEU, Cohesion and Structural Funds, Horizon Europe, Digital Europe, etc. and financial support by the EIB Group plus the deployment of the ESM), keep introduced flexibility and find **additional instruments** to help Member States master the upcoming challenges. Such new European instruments should be based on the principles of **solidarity and responsibility** and they should contribute to strengthen the **fiscal resilience** of all Member States and the EU as a whole. Any new priorities for financial assistance should not shift away too much funding from existing and still relevant priorities.

We have to be aware that neither European nor national fiscal instruments will be sufficient to finance the needed investments in businesses and public **infrastructures**. Therefore, all these instruments should be used in a way, which **crowds-in private investments** as much as possible. The lessons learned from the deployment of EFSI can be used to improve the impact of taxpayers' money by increasing the flexibility of such programmes and to target it better to the economical and societal needs. This implies a strong focus on the **Green Deal**, specifically on **circular economy** and the "Renovate Europe action plan". In addition, it should support **growth and jobs** in all companies and the creation of all types of new enterprises. However, such programmes should aim to create **high leverage** and avoid distortion of competition.

Climate change remains an imminent challenge and the recovery will necessarily have to link the restart and growth of the economy with the objectives of the **Green Deal**. SMEUnited insists that for the roll-out of the Green Deal the investment perspective of SMEs is taken into account and that **intermediate milestones** are set to guide the transition. The implementation of the Green Deal must focus specifically on those aspects that will yield quick wins without losing sight of strategic elements of the Deal. On the other hand, considering the serious shock for the economic system due to the Covid-19, it will be important to **guard the feasibility of initiatives** in the Green Deal for SMEs. The economic measures vital for a right transition must be strengthened and focus on providing the best possible support to SMEs to recover and transform towards a low-carbon economy.

The **economic recovery** should allow the transformation to become a reality by 1) ensuring that our **energy networks** are fully integrated, interconnected and able to provide the huge amount of clean energy needed to remain competitive worldwide, 2) maximising the **production of every form of clean, renewable energy**, 3) fostering the development of every carbon-free technology which allows fossil fuels to quickly become less essential and 4) increasing **smart section integration** and strengthening effectiveness, efficiency and multimodality in our current transport systems.

SMEUnited asks to invest in **Europe's energy independence**. Priority has to be given to investments for interconnection of energy networks, the production of renewable and clean energy and in the development of carbon-free technologies, in order to guarantee access to energy at an affordable cost at the European level. However, any disbalance of the energy trio (sustainability, cost-efficiency, security of supply) at the expense of cost-efficiency must be prevented for the time being.

Buildings represent one of the major sources of GHG emissions due to their heating and cooling systems and waste derived from demolition. Consequently, a European initiative aimed at **increasing energy efficiency in buildings**, such as "the renovation wave" should start as soon as possible. It would immediately increase activities for the building sector, which is based on SMEs.

As **circular economy** at local level has the capacity to continuously keep resources in a loop, it should be further strengthened. The full involvement of SMEs and of their organisations, is required to **maximise** this process. This means supporting all activities involving reuse, maintenance and repair services, ensuring good quality secondary raw materials as well as stimulating **short value chains** and the setting up of **industrial symbiosis**. Moreover, we need a European programme providing SME organisations with

the **capacity building** to act as one-stop-shop for information and technical assistance related to circularity and sustainability in order to stimulate their uptake in SMEs. Freely accessible, multilingual databases on **Life Cycle Analysis** of product groups should be financed by the EU to allow SMEs, which are unable to generate these data directly, to manufacture in a greener way.

We must not forget adaptation and mitigation strategies targeted to the different **climate and geographical areas** of the EU, that will urgently have to be conceived and financed if we want to preserve the maximum of our economic potential and infrastructures from the harshest consequences of climate change.

The corona crisis shows how important the **digital transformation** is for maintaining business operations. The promotion of digitisation of SMEs in all sectors must be accelerated and expanded. Initiatives need to focus on the **practice-oriented promotion** and expansion of digital business processes in SMEs, IT security and digital skills development, instead of a sole focus on the development of further developed technologies. **Digital Innovation Hubs (DIH)** must be technology-open and aim to digitalise local SMEs.

Investing in development and deployment of digital technologies will be an important element in ensuring growth and innovation after the COVID 19-crisis. The **European Digital Strategy** should therefore be implemented more ambitiously and **digital single market rules** should continue to be harmonised. SMEs need fair and legally regulated **data access** in the B2B area, even more so due to the power imbalance intensified through the crisis. A voluntary access to data or a self-regulative commitment by companies in the B2B sector as well as the establishment of a data sharing support centre are not sufficient measures against the increasing data monopolies. The existing **gaps and shortcomings** of the digital infrastructure, digital services and tools that appeared during the COVID crisis should be analysed and remedied.

We see an increased need for SMEs to **go digital** in order to offer online services that were previously carried out in a more traditional way. This means re-thinking how to provide a certain good or service through digital means. An **awareness campaign** to facilitate SMEs' access to existing B2C platforms would facilitate the transition through appropriate **training support** on all aspects of e-commerce. More harmonisation at EU level can make it easier for enterprises, and especially SMEs that lack sufficient resources, to offer goods and services cross-border. The **Platform2Business regulation** needs to be strictly monitored and enforced to avoid that platforms take advantage of the current increase of providers on the platform. The collection and exchange of **best practices** among SMEs should be supported.

The current development also shows how dependent our economy is on digital services and how important **cybersecurity** is. Along with the exponential increase of opportunities, the number, complexity and scale of **cybersecurity threats** and their impact on the economy and society have also grown.

Security of the internet has to be ensured. SMEs must be supported to be enabled to carry out their activities in a safe and efficient way. The existing gaps must be closed as quickly as possible in the area of wired and mobile infrastructure. Improving **internet services and the related infrastructure** to guarantee high standard of broadband connections and 5G, cloud computing will be crucial for SMEs across all sectors. It has to be ensured that all over Europe these services are available with high quality at competitive prices and avoiding lock in effects.

E-government has a key role to play, allowing for **online administrative procedures** in order to remove barriers and speed up processes. By digitising themselves, through 'e-government' initiatives, and by **reducing red tape** and regulatory burdens for SMEs, public authorities should create a more accessible digital environment for entrepreneurs.

Public procurement accounts for a significant share of GDP. The aftermath of the 2008 financial crisis has shown that it is an effective stimulus for the domestic economy. National and regional/local authorities should use the possibilities provided by the European rules for public procurement (division in lots, allowing SMEs consortia, tendering projects below the threshold for European tenders) to make such contracts better **accessible** for local SMEs.

The full functioning of the **Single Market** can only be granted, if it ensures a **level playing field** for all companies. Therefore, SMEUnited asks for decisive measures to guarantee an **effective implementation and strict enforcement** of single market rules. Fiscal or **social dumping** has to be avoided without hindering the free movement of persons, goods and services.

SMEUnited asks the European institutions to ensure a **flexible regulatory environment** for SMEs to create employment and to avoid introducing new burdensome legislation. Applying the **Better Regulation principles** is more important than ever.

In this context, we also recommend the European Commission to **postpone or extend** certain policy initiatives, in particular those that are currently at consultation stage. SMEs are currently struggling with the economic consequences of the Covid-19 crisis and SME organisations are fully engaged in assisting their members in managing the crisis. Therefore, they are currently **not in a position to provide input on longer-term policy initiatives**.

Brussels, 21 April 2020