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PAPER

MEASURES OF STATE SUPPORT FOR SMALL AND MEDIUM-SIZED BUSINESSES IN THE EUROPEAN UNION

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Abstract

This article considers the field of small and medium-sized entrepreneurship as an important part of the economic system. It fulfills not only business functions but also social functions. The article highlights the transformational stages of development of small and medium-sized businesses in the European Union, the motivation behind the emergence of SMEs, the conditions for the formation of a multi-sectoral economy, as well as an effective institutional environment for its development and favourable alternative ways to start a business.

Key words: small entrepreneurship (SE); SE criteria; state support directions; state regulation methods; bank crediting; foreign investments; credit programs; high-quality SE; franchising; branding.

Introduction

The small and medium-sized business sector forms the foundation of the European Union's economy, accounting for 99% of total business activity and employing two-thirds of the population. Therefore, EU member states pay special attention to the development of small and medium-sized enterprises (SMEs) and are implementing a range of support measures.

Through financial programs provided by the European Union, funds are allocated to SMEs for the implementation of digital and green technologies. For example, in 2024, the EU launched the updated SME Fund program aimed at protecting the intellectual property rights of small and medium-sized enterprises. Under this program, businesses can receive financial assistance to protect intellectual property such as patents, trademarks, and industrial designs.[1]

EU countries are also making efforts to expand investment and credit opportunities for entrepreneurs. For instance, the German government has planned to allocate special funds in its 2025 budget to provide financial assistance to SMEs.

The main reason for creating these programs was the need to plan actions that focus on developing key areas of government policy. Many of these state programs started in 2011, and since then, their number has grown. Some programs were extended, while others gradually turned into separate projects. These programs replaced or added to the older Federal targeted programs, which eventually became part of the new programs.

It's also important to mention that, besides these state programs, a system of project-based financing was used. Now, some government policies are being carried out not only through programs, but also through special priority projects, federal-level projects, and pilot (trial) projects.

The challenges in carrying out these programs, how they are funded, and how effective they are, show how important it is to provide strong financial support for the country's economic growth. One key area for innovation and progress is supporting and developing small and medium-sized businesses.

In addition, the European Investment Bank (EIB) and the European Commission launched a new €40 million financial program in 2023 to support SMEs in Ukraine and

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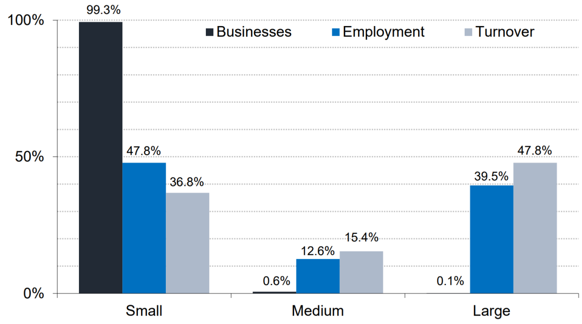
the Eastern Partnership countries. Furthermore, EU countries are paying particular attention to the digitalization and innovation development of small and medium-sized businesses. For example, in 2025, the European Bank for Reconstruction and Development (EBRD) launched a €417 million program to support digital and technological development for entrepreneurs in the Western Balkans.[2]

The system of state support for small enterprises (SE) in Western Europe was developed and refined over a long period (from the 1950s to the 1990s). A system was created that aimed to achieve financial efficiency (to ensure high and stable results), maintain fairness in competition (by ensuring that import and export prices remain unchanged when taxed), apply the lowest possible tax rates, and minimize charging costs. In the European Union, the overall support for small enterprises is based on two main laws: the Small Business Act for Europe (SBA) (2008) and the Competitiveness and Innovation Framework Program (CIP) (2007). Starting from February 2011, the Small Business Act for Europe (SBA) became the key legal framework for the European Commission, which ensures coordinated political support for the development of small and medium-sized enterprises (SMEs) across EU member countries. The activities of the European Commission are aligned with the SBA and focus on the Europe 2020 strategy.

The main principles of the SBA include:

• Encouraging entrepreneurship.
• Giving people a chance to start their own businesses.
• Improving the efficiency of small enterprises.
• Ensuring administrative responsibility.
• Simplifying access to public procurement.
• Making financing more accessible.
• Creating a single market.
• Promoting the generalization of skills and innovations and addressing environmental issues.
• Supporting the internationalization of businesses. With the introduction of the SBA, SMEs benefit from specific advantages in their operations, such as:
• The ability to independently choose accounting systems that suit them best, especially if they cannot afford large accounting departments. This change helps 5.4 million small businesses save up to 6.4 billion euros annually.
• Reducing paperwork and bureaucracy (the amount has decreased by 25% since 2012), which leads to savings of 7.6 billion euros. Additionally, if the European Commission approves several proposed initiatives, experts estimate that savings could increase to 30.7 billion euros.
• Simplifying VAT payment procedures. For businesses with turnover under 2 million euros, a special VAT deferral scheme (cash method) is available. Electronic reporting is also encouraged, saving up to 18 billion euros.
• Providing microcredit assistance, where the European Investment Bank loans up to 25,000 euros to small businesses (previously, from 2008 to 2011, the loan amount was 30,000 euros).
• Introducing legal provisions that ensure payments to creditors are made within 30 days, helping protect creditors. Additionally, under the SBA, various privileges are offered to SMEs to help reduce their tax and administrative burdens.

The contribution of different sized businesses to the total population, employment, and turnover at the start of 2019.[4]



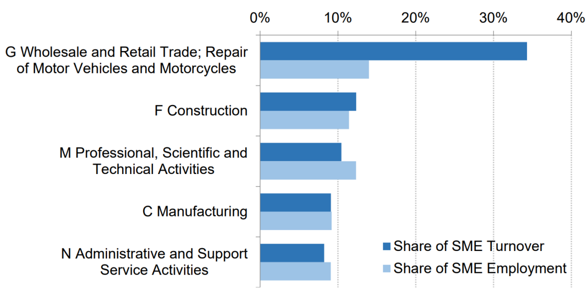
If we analyse the table above, we can see that almost 99.3% of all businesses are small enterprises. This means that small businesses are very numerous and widespread within the economic system. Small businesses provide 47.8% of total employment. This is highly significant. Nearly half of the workforce is employed by small enterprises. This shows that small businesses play an important role in the European Union market as a source of social stability and income. Small businesses account for 36.8% of total economic turnover. Despite their large number, this indicates that their production volume or level of participation in large-scale transactions is relatively lower.

In the European Union, small and medium-sized enterprises (SMEs) are one of the key pillars of the economy. They:

• Play a leading role in job creation.
• Drive innovation and create new markets.
• Ensure regional economic balance by encouraging economic activity even in areas outside major cities.

The table above confirms this trend: in terms of numbers, almost all businesses are small enterprises, and they employ a large share of the workforce. At the same time, large businesses account for a greater share of economic turnover, indicating that they have higher financial and resource capabilities.

As of the beginning of 2019, the industrial sectors with the highest turnover and employment among small and medium-sized enterprises (SMEs), expressed as a percentage of total SME employment and turnover.[5]



The chart above shows that G – Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles

• SME Turnover: ~35%
• SME Employment: ~30%

This sector is one of the largest and most important for small and medium-sized enterprises (SMEs). It generates a significant amount of both turnover and employment. This especially indicates that retail trade and vehicle-related services are widely covered by small businesses.

F – Construction

• SME Turnover: ~10%

• SME Employment: ~12%

The construction sector is an important source of employment for SMEs, particularly due to the large number of small construction companies and renovation service providers. Although its turnover is relatively lower, it provides many jobs.

M – Professional, Scientific and Technical Activities

• SME Turnover: ~10%

• SME Employment: ~10%

This sector specializes more in services such as consulting, engineering, IT, and scientific research. In many cases, small firms in this field provide high-skilled services.

C – Manufacturing

• SME Turnover: ~10%

• SME Employment: ~8%

The manufacturing sector includes small-scale production by medium-sized manufacturers. Here, technology- and product-based manufacturing is carried out on a smaller scale.

N – Administrative and Support Service Activities

• SME Turnover: ~7%

• SME Employment: ~10%

This sector is related to auxiliary services (e.g., cleaning, security, workforce supply) and plays an important role in job creation for small businesses, although it holds a relatively smaller share in turnover.

The chart above shows that:

• Trade and vehicle services are the largest sector, with a significant share in SME activity.

• Construction and manufacturing are traditional sectors where SMEs contribute to employment growth.

• Service sectors (such as professional or support services) offer flexibility and innovative opportunities for SMEs.

This chart clearly illustrates the economic structure of the European Union and the strategic role of SMEs within it. They cover a wide range of sectors and contribute not only to job creation but also to economic activity.

Additionally, the chart highlights the important role of small and medium-sized enterprises (SMEs) not only in the economy but also in ensuring social stability within the European Union. SMEs contribute to regional development, drive innovation, and enhance economic dynamics by responding quickly to market demands.

The primary aim of financial tools is to solve the previously mentioned market inefficiencies and less-than-ideal investment conditions related to funding small and medium-sized enterprises (SMEs), which private investors may not always be capable of or interested in addressing. These tools can aid different types of SMEs in unlocking their full potential in terms of competitiveness and making a valuable contribution to the European Union's economic development and innovation. Well-planned financial tools bring positive outcomes for the broader economy, where the benefits outweigh any potential losses or defaults.

Among the variety of public and/or private funding options, support from the European Structural and Investment Funds (ESIF) is a crucial source for many financial instruments focused on SMEs within the EU. As shown in the table below, 24 Member States (MS) have established ESIF-backed financial tools for SME support, accounting for 23.7% of the total program resources allocated for SME assistance. Based on other EU-wide analyses, SME funding is the most supported sector through ESIF financial tools. Therefore, financing SMEs is often viewed as a "gateway" to ESIF-backed financial instruments.[6]

During the 2014–2020 programming period (as of December 31, 2018), 13 Member States used more than 25% of their available program funds for SMEs through financial instruments. However, four countries Cyprus, Denmark, Ireland, and Luxembourg did not implement such tools. The actual amounts allocated to financial instruments, and their share of the total program budget, vary significantly between countries. For example, Poland and Italy, each contributing over €2 billion to the SME sector, together account for 32.3% (nearly one-third) of all ESIF-backed financial resources for SME financing in the EU. Similarly, six Member States Poland, Italy, the United Kingdom, Hungary, Germany, and Spain allocated over €1 billion each, making up 70.2% of the total. Among these, the UK and Spain stand out, having applied both large absolute amounts and high proportions of ESIF program funds for SME financial tools during the 2014–2020 period. However, not all Member States use ESIF resources for financial instruments in the same way. While some allocate large amounts (either in total or as a percentage), others still have opportunities to expand use whether in general SME financing or in more specific areas like Research, Development, and Innovation (RDI) or other specialized SME sectors.[7]

Overview of support from ESIF Programmes to the SME sector by Member State (including national co-financing)

Member State	SME Support (EUR)	Out of which used under financial instruments (EUR)	Percentage of financial instruments (as of 31 Dec. 2018)
United Kingdom	4,498,369,438	1,867,127,066	*41.5%*
Spain	3,371,563,809	1,337,499,214	*39.7%*
Greece	2,080,986,311	723,300,000	*34.8%*
Slovenia	729,677,021	242,704,556	*33.3%*
Croatia	1,191,437,626	393,010,373	*33.0%*

Conclusion

In conclusion, considering all the above-mentioned research, it can be stated that the development of small and medium-sized businesses (SMEs) in any economy is a complex process that cannot be achieved without the support and involvement of the state. The positive experience of developed countries shows that the state must support and expand the opportunities of SMEs at the regulatory level. At the same time, in our country, the support of SME structures is carried out through regional development programs. Each region should study the experience of foreign countries and assess the applicability of certain developments based on its own capabilities and priority development directions. Regarding the improvement of financial planning opportunities for small and medium-sized enterprises, in countries with market economies and more stable legislation, where there is much greater experience, it is much easier for business entities to plan their activities. Therefore, the development of financial plans in enterprises is carried out in a detailed manner in accordance with a clearly defined system.

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