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CONTENTS

INTRODUCTION.....	3
CHAPTER 1. THEORETICAL PRINCIPLES OF THE DEVELOPMENT OF SMALL AND MEDIUM BUSINESSES AND ITS STATE SUPPORT.....	6
1.1 Theoretical aspects of support and development of small and medium-sized enterprises in the world economy.....	6
1.2 Evolution of state support systems for small and medium-sized businesses in developed countries.....	14
1.3 Features and mechanisms of state support for small and medium-sized enterprises in the EU.....	21
CHAPTER 2. WAYS TO IMPROVE THE SYSTEM OF STATE SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EU.....	29
2.1 Characteristics of the development of small and medium-sized businesses in the European Union.....	29
2.2 Analysis of state support systems for small and medium-sized enterprises in the European Union.....	37
2.3 Strategic directions for improving the system of state support for small and medium- sized enterprises in the EU.....	50
2.4. European integration prospects for the application in Ukraine of the EU experience in supporting small and medium-sized enterprises.....	55
CONCLUSIONS.....	66
LIST OF REFERENCE.....	70

INTRODUCTION

Small and medium-sized enterprises (SMEs) play a critical role in fostering sustainable economic growth, employment, innovation, and regional development across the globe. Within the European Union (EU), SMEs represent over 99% of all businesses and contribute significantly to employment and value added. Their strategic importance is particularly evident in times of economic crisis, during recovery efforts, and amid digital and green transitions.

In the context of Ukraine, the development of SMEs has become even more urgent due to the devastating impact of the war on the economy, the need for reconstruction, and the country's aspirations to integrate with the EU. Despite various policy efforts at both national and international levels, Ukrainian SMEs continue to face persistent challenges related to access to finance, innovation capacity, regulatory burdens, and institutional support. Therefore, exploring the EU's system of state support for SMEs and identifying opportunities for its adaptation in Ukraine is both timely and highly relevant for enhancing national economic resilience and advancing European integration.

The topic of SME development and support has been extensively studied in the academic and policy literature. Notable contributions include the OECD's analyses of SME policies, the European Commission's "Small Business Act" and "SME Strategy for a Sustainable and Digital Europe," as well as research by scholars such as Beck, and Levine on SME financing, and Lundvall and Porter on innovation ecosystems. In the Ukrainian context, studies from institutions like the National Institute for Strategic Studies and reports by international development agencies have provided valuable insights on SME recovery, the impacts of the war, and the role of digitalization. However, much of the existing literature treats EU and Ukrainian SMEs separately, with limited comparative analysis on how EU support mechanisms could be effectively adapted to Ukraine's specific institutional context. This thesis aims to fill this gap by identifying best practices from the EU and proposing recommendations tailored to Ukraine's needs.

The object of the research is the processes governing the functioning and development of state support systems for small and medium-sized enterprises within the context of economic integration and transformation in the European Union.

The subject of the research is the conditions, factors, and mechanisms of state support for SMEs in the European Union, and their potential adaptation to Ukraine's economic realities.

The purpose of this study is to conduct a comprehensive analysis and critical assessment of the existing system of state support for SMEs in the European Union and to develop proposals for adapting the best European practices to the Ukrainian context, considering the strategic objectives of European integration and post-war reconstruction of the national economy.

To achieve this goal, the following objectives were set:

- To define the theoretical foundations and historical evolution of SME development and public support mechanisms;
- To analyze the institutional framework and instruments of SME support in the EU, with particular emphasis on financial and non-financial tools;
- To identify strategic challenges and opportunities for SMEs in the EU in the context of digital transformation, sustainability, and post-crisis recovery;
- To examine the current state and key issues facing the SME sector in Ukraine;
- To develop recommendations for enhancing Ukraine's SME support system, based on EU experience and integration goals.

Research methods employed in this thesis include a combination of general scientific and special methods such as system analysis, comparative analysis, statistical analysis, document review, and synthesis. These methods are applied to examine the evolution of EU SME policy, evaluate programme effectiveness (such as COSME and InvestEU), and assess Ukraine's SME landscape and policy gaps.

Information base of the research consists of a wide range of sources, including academic articles by EU and Ukrainian scholars, official EU documents

(communications, regulations, and programme reports), statistical data from Eurostat and Ukraine's State Statistics Service, policy briefs from international institutions like the OECD and World Bank, and analytical reports from the European Investment Bank and EIF.

Structure of the thesis: The thesis includes an introduction, two main chapters, conclusions, and a list of references. Chapter 1 focuses on the theoretical and institutional foundations of SME development and support in the EU. Chapter 2 explores the ways to improve the system of state support for small and medium-sized enterprises in the EU, including an analysis of development trends, support systems, and strategic recommendations for enhancing effectiveness and alignment with EU goals.

This thesis aspires to contribute to both academic knowledge and practical policy guidance by illuminating how the EU's experiences can inform Ukraine's path toward sustainable SME development, economic resilience, and European integration.

CHAPTER 1. THEORETICAL PRINCIPLES OF THE DEVELOPMENT OF SMALL AND MEDIUM BUSINESSES AND ITS STATE SUPPORT

1.1 Theoretical aspects of support and development of small and medium-sized enterprises in the world economy

Small and medium-sized enterprises (SMEs) are an important part of every economy. They are not just business operators but also play a vital role in creating jobs, supporting innovation, and strengthening local communities. As highlighted by Rahman (2001), Anuar and Yusuff (2011), and Eggers et al. (2013), SMEs are recognized for their contribution to providing employment opportunities, acting as suppliers of goods and services to larger enterprises, and driving economic progress at both national and regional levels.

Because of this strategic role, SMEs have become a major focus of research and policy discussions aimed at improving their competitiveness and supporting their development. Strengthening SMEs is considered essential for achieving long-term and sustainable economic growth, as noted by Forsman (2008).

Over time, researchers have created different theories to explain how small and medium-sized enterprises (SMEs) behave, grow, and interact with their environments. These theories help us understand the internal strengths of SMEs, the external conditions they face, and how policies can support them effectively. Because SMEs are so diverse and operate in many different contexts, these theories come from various academic fields, including economics, management, and innovation studies.

Below the table 1.1 shows a summary of some of the main theoretical perspectives that influence the study and support of SMEs today:

Table 1.1 Key theoretical approaches to SME development

Theory	Core ideas	Key scholars	How it applies to SMEs
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Neoclassical Economic Theory	Focuses on shared local advantages like industrial clusters and specialization	Alfred Marshall, Giacomo Becattini	Explains how SMEs benefit from being close to each other and sharing knowledge and resources
Resource-Based View (RBV)	Emphasizes unique resources inside the firm (skills, knowledge, etc.)	Jay Barney, Edith Penrose	Shows how SMEs can compete by using internal strengths rather than external size or power
Institutional Theory	Examines the role of rules, norms, and institutional quality	Douglas North, Oliver Williamson	Highlights how institutions and governance influence SME success or failure
Innovation & Network Theories	Looks at the power of collaboration, regional clusters, and knowledge sharing	B.-Å. Lundvall, M. Porter, A. Saxenian	Demonstrates how SMEs thrive in networks and innovation ecosystems

Source: compiled by the author based on [1-7]

One of the earliest and most influential theories is the neoclassical economic perspective. Alfred Marshall’s concept of “industrial districts” showed that small firms located close to one another can benefit from shared infrastructure, skilled workers, and mutual learning. This theory was further developed by Becattini, who studied how clusters of SMEs in Italy became internationally competitive. These ideas explain why some regions with many small firms — despite their size — are highly innovative and productive. [1]

Another widely used framework is the resource-based view (RBV). This theory focuses on a firm’s internal assets and capabilities. It argues that SMEs can become competitive by using their unique knowledge, entrepreneurial skills, and organizational flexibility — qualities that are often difficult for larger companies to replicate. RBV helps explain why some small firms perform exceptionally well, especially in dynamic and high-tech sectors. [2-3]

Institutional theory, developed by scholars like Douglas North and Oliver Williamson, emphasizes how formal rules (like regulations) and informal norms (such as trust or customs) affect SME behavior. When institutions function well — for example, through secure property rights or access to courts — SMEs are more likely to grow. But in countries where institutions are weak, SMEs often struggle with uncertainty, limited access to credit, and informal operations. [4]

A more modern approach includes innovation systems and network theories, promoted by researchers such as Lundvall, Saxenian, and Porter. These perspectives stress that SMEs thrive when they are part of networks — such as business clusters or innovation hubs — where they can exchange knowledge, collaborate, and adapt quickly. Examples like Silicon Valley show how small firms play an important role in local innovation systems. [5]

Public policy is also shaped by theory. Keynesian economics, for instance, supports active government intervention to stimulate demand and protect jobs. In the SME context, this means offering financial support, tax incentives, or public contracts. Meanwhile, development economics (e.g., the work of Amartya Sen) emphasizes the role of SMEs in fighting poverty and building local capabilities in lower-income countries. More recent models such as entrepreneurial ecosystems theory stress that SMEs succeed when all parts of the system — from education to infrastructure — work together. [6]

In the era of globalization and digitalization, “born global” theory explains how some SMEs expand internationally from the start by using digital tools and niche markets. At the same time, theories from Industry 4.0 suggest that small firms can now overcome traditional barriers through e-commerce, cloud services, and online marketing — though many still face a “digital divide.” **[Error! Reference source not found.]**

Despite the richness of these approaches, some gaps remain. Many theories are still based on the experience of developed countries and don’t always fit the realities of developing economies with weaker institutions. Also, new insights from behavioral economics show that entrepreneurs often make decisions based on emotions or limited information — an area that is still under-researched. Finally, gender and inclusivity are

increasingly recognized as critical lenses, since women-led SMEs face unique challenges that many theories have overlooked.

In sum, the development and support of SMEs is a complex issue that requires input from multiple disciplines. Theoretical perspectives provide important tools for designing more effective and inclusive policies that take into account both global trends and local realities.

Despite the wide recognition of the role of SMEs, there is no single universally accepted definition. One of the first efforts to define small businesses came from the Bolton Committee in the UK in 1971. They described these firms as having limited market influence, being personally run by their owners without a formalized management structure, and functioning separately from large corporations (Tonge, 2001). However, later research by Storey (1994) and Atkinson and Meagher (1994) pointed out several limitations of this definition. In particular, they questioned whether it is realistic to expect one person to manage a business with more than 100 employees without formal management systems. They also argued that small enterprises, even with a limited market share, may still be able to influence market pricing or generate significant profits in certain sectors. [7]

These differences in how SMEs are defined have led to the development of various classification criteria in different countries and institutions. Typically, these criteria are based on factors such as the number of employees, annual turnover, asset value, organizational structure, and ownership.

At both international and national levels, efforts have been made to define SMEs in ways that reflect their economic and social roles. According to the OECD and the European Commission, general criteria have been developed to help countries align their SME policies across different regions and sectors. However, these frameworks are often adapted at the national level to fit the specific legal, economic, and institutional conditions of each country. [9]

In low-income countries, the definition of SMEs is typically based on significantly lower thresholds, reflecting lower income levels and smaller business scales. For example, in Zimbabwe, the Zimbabwe Revenue Authority classifies SMEs

as firms employing 5 to 40 workers, with annual turnover and assets ranging from ZWD \$150–\$5,600. In Uganda, SMEs are defined based on both employment and total assets. Small enterprises are those with 5–49 employees or assets between UGX 10 million and ≈\$3,000–\$30,000, while medium enterprises employ 50–100 people and have assets ranging from \$30,000–\$100,000. In Malawi, SMEs are defined purely by workforce size, with small firms employing 5–20 people and medium firms employing 21–100. Similarly, in Ethiopia, the Aspen Network of Development Entrepreneurs identifies SMEs as commercially viable businesses with 5 to 250 employees. [10]

In Japan, for instance, as in other high-income Asian countries, a small or medium-sized enterprise is defined as a firm with capital of less than \$3 million or no more than 300 employees in the manufacturing sector. In the retail and service sectors, the thresholds are lower – fewer than 100 employees and capital not exceeding \$1 million. In South Korea, SME definitions follow criteria established under the Framework Act on Small and Medium Business, focusing on company size and independence. For manufacturing enterprises, SMEs are those that have fewer than 300 full-time employees or annual capital not exceeding \$6.7 million. In sectors such as mining, construction, and transportation, the limits remain at under 300 employees, but with a reduced capital ceiling of \$2.5 million. In wholesale, retail, and service industries, classification is based on employment ranging between 50 to 300 staff, along with total sales falling between \$4.2 million and \$25 million. [11]

In North America, both the United States and Canada define small and medium-sized businesses as enterprises with fewer than 500 employees across all sectors of the economy. However, in the United States, the revenue criterion is used only in certain sectors, such as export-oriented services and agriculture. For example, export companies with annual revenues of less than \$7 million (or \$25 million for high-value companies) and farms with revenues of up to \$250,000 are still considered SMEs. [10] In Canada, SMEs are defined strictly by the number of employees: small enterprises have 1 to 99 employees, and medium enterprises have 100 to 499 employees, regardless of revenue. [12]

Within the European Union, small and medium-sized enterprises are defined based on two main criteria: the number of employees and annual turnover. SMEs represent almost 99% of all businesses in the EU and provide employment to approximately 100 million workers, and are thus crucial to the European economy. [13] According to the European Commission Recommendation 2003/361/EC, SMEs are categorized as follows:

Table 1.2 Classification of enterprises by size according to EU criteria

Enterprise category	Headcount: Annual Work Unit	Annual turnover
Medium-sized	< 250	≤ €50 million
Small	< 50	≤ €10 million
Micro	< 10	≤ €2 million

Source: [14]

Apart from the differences in how countries define SMEs, researchers agree that these businesses often share similar features. Cocca and Alberti (2010) explain that these features can generally be divided into two groups: those that come from the external environment (the market and outside conditions) and those that relate to the internal environment (the way the business operates inside).

Looking at the external environment, Garengo et al. note that SMEs usually work in markets where competition is very strong and conditions change quickly. This makes it difficult for them to survive and stay competitive, which Levy et al. describe as their main challenge. Since SMEs have little power to influence market conditions, Hudson points out that they often have no choice but to adjust quickly to new situations in order to survive. On the positive side, their small size allows them to focus on special market areas or work closely with certain groups of customers. According to Taticchi et al., Hong and Jeong, and Maldifassi and Caorsi, this helps SMEs offer more personal services or products that meet specific customer needs.

When it comes to the internal environment, Levy et al. and Watts and Baard agree that not having enough money or staff is one of the biggest problems for SMEs. It

is often difficult for them to get loans or other financial support, which limits their chances to grow. On top of that, Singh et al. and Pansiri and Temtime explain that many small business owners do not have formal management training. Because of this, they may struggle with planning for the future, managing their team, or growing their business effectively. [7]

Beyond these internal and external characteristics, it is equally important to understand the practical contribution of SMEs to economic and social development. Their influence extends far beyond their size, as they play a key role in creating jobs, promoting innovation, and supporting long-term sustainability in national economies.

SMEs are also strongly associated with innovation. They introduce new or improved products, services, and processes that help businesses stay competitive and meet customer needs. Their smaller size often allows them to adapt more quickly to market changes and offer specialized solutions. However, many SMEs face challenges in financing their own research and development activities. As a result, they often rely on cooperation with other businesses, research centers, or technology providers to bring innovations to the market. While large firms dominate sectors that require high research investments, SMEs tend to succeed in niche markets where flexibility and customer focus are essential.

Beyond economic and technological contributions, SMEs also support broader social and environmental objectives. With the global adoption of the 2030 Agenda for Sustainable Development, SMEs have been recognized as important partners in achieving the United Nations' Sustainable Development Goals (SDGs). They help reduce poverty, promote gender equality, support health and well-being, and contribute to climate action. Their flexibility makes it easier for them to adopt sustainable business practices compared to larger organizations. [9]

Despite their significant contributions to economic, social, and environmental development, SMEs often face structural challenges that limit their ability to grow and innovate independently. Limited access to finance, weak managerial capacity, and gaps in technical knowledge remain persistent obstacles—particularly for smaller and newly established enterprises. In response, both international organizations and national

governments have introduced a wide range of support mechanisms aimed at strengthening the capabilities of SMEs. These instruments go beyond traditional financial aid to include support for innovation, digital and green transformation, and the creation of learning environments that enable long-term development.

Recent research emphasizes that one-time consulting sessions or generic training programs are often insufficient to produce lasting behavioral change within SMEs. More effective approaches are grounded in experiential learning, where small businesses actively engage in hands-on, context-specific learning processes that help them apply knowledge directly to their operations.

One such approach is described by Malins and Gulari, who highlight the value of knowledge exchange, design-led interventions, and the formation of Communities of Practice in enhancing the innovation capacity of SMEs. According to their findings, universities play a key role not only as sources of expertise but also as facilitators of collaborative environments—such as innovation labs—that bring together entrepreneurs, researchers, and design professionals. These spaces provide a low-risk setting for creative problem-solving and learning through experience. This situation-based learning model helps SMEs move beyond abstract concepts and develop the practical skills and confidence needed to implement innovation strategies in their own contexts. [15]

Such frameworks provide a long-term pathway for SME development by building internal capacities, reducing dependence on short-term consultancy, and encouraging sustainable growth. This perspective underscores the importance of integrating experiential and knowledge-based models into national and regional SME support policies—particularly in times of economic uncertainty, when risk-aversion tends to increase among small businesses.

In recent years, several new directions have appeared in the support and development of SMEs. These are closely linked to digitalization, changing work patterns, and new approaches to customer relations and business resilience. The most important trends include:

- Digital technologies and automation

Many small businesses are now using advanced software, automation, and even artificial intelligence to improve their work. This helps reduce costs, save time, and increase productivity.

- Hybrid and remote work

After the COVID-19 pandemic, many companies discovered that they can work effectively without traditional offices. Small businesses are using remote or hybrid work models to reduce expenses and hire talent from other regions or even countries.

- Cybersecurity and data protection

As more business activities move online, the risk of cyberattacks grows. That's why SMEs are now investing in cybersecurity tools and training. Governments also support this through special programs and funding. [16]

These trends show that modern SME development is closely tied to technology, adaptability, and a strong customer focus. Governments and international organizations are also updating their support strategies by offering digital training, innovation funding, and programs related to cybersecurity and sustainability.

1.2 Evolution of state support systems for small and medium-sized businesses in developed countries

State support for small and medium-sized enterprises (SMEs) has changed a lot over the years. In developed countries, governments used to focus mainly on protecting small businesses and giving them basic financial help. However, this approach has become more complex over time. Today, state policies aim not just to support survival but also to help SMEs grow, innovate, and stay competitive. These changes happened due to bigger shifts in the global economy, financial crises, and a better understanding of how important SMEs are for creating jobs, developing new ideas, and supporting regional economies.

To better understand the evolution of SME policy in developed economies, the table 1.3 below summarizes the main characteristics, instruments, country examples, and results by period:

Table 1.3 Historical evolution of SME support systems

Period	Key features of support systems	Main instruments	Example of countries/ programs	Results/ Impacts
Post-WWII (1945–1960s)	Reconstruction and promotion of entrepreneurship as a tool for economic recovery	Credit guarantees, infrastructure support, tax incentives	USA (Small Business Act, 1953), Japan (SME Agency, 1948)	Stimulated job creation and local industrial development
1970s–1980s	Shift towards structural adjustment and innovation-led support	Subsidies for R&D, technical training, export support	Germany (Mittelstand policies), France (ANVAR – innovation agency)	Encouraged innovation in traditional industries, mitigated unemployment
1990s	Globalization and market liberalization; growing role of competitiveness	SME development funds, business incubators, deregulation	UK (Business Link centers), Canada (BDC modernization)	Enhanced SME competitiveness in international markets
2000s	Digitalization, knowledge economy, and financial crisis response	E-government services, ICT adoption grants, crisis lending programs	South Korea (Tech Incubation Program), Finland (TEKES)	Fostered digital inclusion and resilience of SMEs during shocks
2010s	Emphasis on sustainability, green economy, inclusive growth	Green financing, support for women/youth entrepreneurs, start-up ecosystems	EU (COSME program), USA (SBA support post-crisis), Germany (KfW green loans)	Promoted inclusive and sustainable entrepreneurship models
2020s (COVID-19 and beyond)	Emergency support, digital acceleration, resilience building	Grants, furlough schemes, rent subsidies, digital transformation incentives	OECD-wide support packages, NextGen EU, US CARES Act	Prevented mass bankruptcies, accelerated tech adoption among SMEs

Source: Compiled by the author based on [17-20]

After World War II, many developed countries realized the important role that small and medium-sized enterprises (SMEs) could play in rebuilding their economies.

Governments saw SMEs as a way to restore local production, create jobs, and support the recovery of national industries. Because of this, they began setting up institutions and tools to help small businesses grow and survive.

In Germany, the government created the KfW Bank (Kreditanstalt für Wiederaufbau) in 1948. It was originally funded by the Marshall Plan to help with post-war reconstruction. Over time, KfW became a major institution that offered affordable, long-term loans to SMEs, especially in sectors like manufacturing and energy, where private banks were often unwilling to lend. [17]

In Japan, the SME Agency (established 1948) and later the Japan Finance Corporation for Small and Medium Enterprise (JASME, 1953) supported SMEs with loans and credit insurance. JASME played a significant role in Japan's post-war industrial growth. In 2008, JASME merged into the Japan Finance Corporation (JFC), with its functions continuing under JFC's SME Unit.

In the United States, the federal government created the Small Business Administration (SBA) in 1953, when President Dwight Eisenhower signed the Small Business Act into law. The SBA's mission was to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns," and to ensure that small businesses received a fair share of federal contracts and surplus property (SBA, n.d.). In its early years, the SBA began issuing and guaranteeing loans, helping businesses access government procurement opportunities, and providing training in management and entrepreneurship. By the late 1950s, further action was taken to address the financial challenges of high-risk small firms. The Investment Company Act of 1958 led to the creation of the Small Business Investment Company (SBIC) Program, under which the SBA licensed and supported private venture capital firms to invest in innovative but risky small businesses. In 1964, the SBA expanded its efforts with the Equal Opportunity Loan (EOL) Program, which made credit more accessible to low-income entrepreneurs by reducing collateral requirements. This initiative was aimed at fighting poverty through inclusive entrepreneurship, encouraging the launch of new businesses by individuals who were previously excluded from formal finance. [18]

During the 1970s and 1980s, there was a shift towards structural adjustment and innovation-led support for SMEs. Governments recognized the need to foster competitiveness and technological adaptation. Germany implemented policies targeting the Mittelstand, supporting technical training and export assistance. In France, the government established ANVAR (now Bpifrance) to encourage innovation and R&D in small firms. These instruments promoted innovation in traditional industries and helped mitigate unemployment during periods of economic adjustment.

The 1990s marked a period of globalization and market liberalization, with a growing focus on competitiveness. Countries emphasized the creation of SME development funds, business incubators, and regulatory reforms to support SMEs in international markets. For example, the UK established the Business Link centers, providing advice and services to small businesses navigating the challenges of globalization. In Canada, the Business Development Bank of Canada (BDC) underwent modernization to expand its support for innovative SMEs. These actions helped SMEs become more competitive globally.

Within the European Union, the growing importance of SMEs was recognized as part of the broader strategy to build a competitive, knowledge-based economy. As part of the Lisbon Strategy for Growth and Jobs (launched in 2000), SMEs were identified as central to creating employment, promoting social inclusion, and supporting regional development. The EU acknowledged that diverse types of SMEs — including micro-enterprises, family-owned firms, and social economy actors — faced different challenges, and therefore, support policies had to be flexible and adapted to local contexts.

In the 2000s, digitalization and the knowledge economy began to shape SME support policies. Countries focused on building e-government services, offering ICT adoption grants, and simplifying administrative procedures to improve the business environment for SMEs. Within the European Union, the Lisbon Strategy for Growth and Jobs (2000) emphasized the role of SMEs in employment, social inclusion, and regional development.

The 2010s brought a focus on sustainability, green economy, and inclusive growth. Governments introduced green financing, targeted support for women and youth entrepreneurs, and programs to develop start-up ecosystems. In the European Union, the COSME program helped SMEs access finance, enter new markets, and embrace sustainability. The USA expanded the SBA's role after the financial crisis to support green business models and inclusive entrepreneurship. Germany's KfW provided green loans, encouraging SMEs to adopt energy-efficient practices. These measures promoted sustainable and inclusive entrepreneurship models across economies.

The Small Business Act (SBA, 2008) is based on the core principle of “Think Small First,” which encourages policymakers to prioritize the needs of small firms during the initial stages of drafting legislation. The aim was to ensure that legal frameworks were appropriately adapted to the capacities and realities of SMEs. This principle promoted the simplification of regulatory procedures and encouraged the inclusion of SME-specific considerations in a wide range of policy areas, including taxation, innovation, digitalization, and environmental policy.

To operationalize this approach, the SBA outlined ten guiding principles intended to build a more supportive environment for small businesses and entrepreneurs. These principles emphasized:

- Fostering a culture of entrepreneurship and encouraging risk-taking;
- Supporting second chances for entrepreneurs after business failure;
- Crafting regulations that are tailored to SME capacities;
- Modernizing public administration to be more efficient and digitally accessible;
- Enhancing access to finance and public procurement for SMEs;
- Promoting innovation, skills development, and environmental responsibility;
- Enabling SMEs to participate in the Single Market and explore global markets.

These goals were supported by concrete policy actions. The EU adopted reforms such as simplifying VAT compliance, introducing faster and less punitive bankruptcy procedures, and easing reporting burdens for micro-enterprises. Additionally, it expanded financial instruments that promote innovation through programs like the Competitiveness and Innovation Framework Programme (CIP) and its successor, Horizon 2020, which directed substantial investment toward SME research and international expansion.

The SBA also placed strong emphasis on entrepreneurial learning, especially for youth and women. One of its key initiatives, Erasmus for Young Entrepreneurs, created opportunities for new entrepreneurs to gain practical experience by collaborating with established business owners in other EU countries.

Overall, the introduction of the SBA represented a major shift in the EU's approach to SME policy. It redefined SMEs not merely as recipients of state assistance but as active contributors to economic innovation, employment, and regional development. By embedding SME-oriented thinking into all levels of EU policymaking, the SBA laid the foundation for a more coordinated and dynamic support system across member states.

Over time, the SBA became a reference point for both European and national policies, influencing future strategies and responses to economic crises. Its core principles—such as regulatory flexibility, improved access to finance, and support for innovation—proved especially valuable during the 2008–2009 financial crisis and the COVID-19 pandemic, when fast and adaptable support mechanisms were urgently needed. [19]

In addition to long-standing strategies like the EU's Small Business Act (SBA), recent global crises—particularly the COVID-19 pandemic—have tested the resilience of SME support systems. The pandemic, which emerged in 2020, exposed the vulnerabilities of small and medium-sized enterprises (SMEs), especially in hard-hit sectors such as tourism, retail, and hospitality. These businesses often had limited cash reserves, less digital capacity, and difficulties accessing finance, making them less able to withstand prolonged economic shocks.

Governments in developed economies responded with unprecedented policy measures to protect SMEs and ensure business continuity. Emergency support included grants, wage subsidies, rent relief, loan guarantees, and direct payments to sustain cash flow and prevent closures. For example, Australia and Canada implemented wage support schemes, while Germany and France provided state-backed loans and grants to alleviate financial strain. The United States expanded the Paycheck Protection Program (PPP), and Switzerland streamlined digital portals to quickly distribute aid to businesses.

As the crisis progressed, many governments shifted their focus from immediate liquidity support to long-term recovery strategies. These strategies emphasized digitalization, sustainability, and innovation to help SMEs adapt to new market realities. For instance, Japan and South Korea introduced programs that incentivized technological upgrades and export development, while the European Union integrated digital and green priorities into national recovery plans.

A notable policy development during this period was the increased focus on SME resilience. Governments recognized that sustaining SMEs through future crises would require more than temporary aid; it would also involve strengthening their adaptability and competitiveness. This included promoting digital skills, supporting e-commerce adoption, and streamlining access to government services. Many countries also prioritized inclusive policies to ensure that vulnerable groups—such as women, youth, and minority entrepreneurs—had equitable access to support measures.

In summary, the COVID-19 pandemic highlighted the need for agile, inclusive, and forward-looking SME policies. Governments are now exploring how to integrate digital transformation, sustainable finance, and innovation into broader SME support frameworks. This shift signals a new phase in the evolution of SME policy, one that emphasizes resilience, adaptability, and long-term growth. [20]

1.3 Features and mechanisms of state support for small and medium-sized enterprises in the EU

Small and medium-sized enterprises (SMEs) are a cornerstone of the European Union's economy. According to the European Commission, approximately 99% of all enterprises in the EU fall under the SME category, making them the dominant form of business structure across all sectors and member states. [21] These enterprises are not only numerous but also play a vital role in driving economic performance. SMEs contribute significantly to the creation of new jobs.

However, before the formation of a unified EU support system, approaches to assisting SMEs varied widely among member states. Each country developed its own instruments and institutions, reflecting different economic structures, legal frameworks, and policy traditions. In some countries, SME support was primarily focused on credit guarantees and tax incentives, while others prioritized innovation promotion or export support. This diversity created significant fragmentation in the overall landscape of SME policy across Europe.

The system of support for small and medium-sized enterprises (SMEs) in the European Union operates within a multi-level governance framework. At the national level, individual member states are responsible for implementing their own SME strategies, including specific tax policies, labor regulations, and financial instruments tailored to domestic economic contexts. At the supranational level, the European Union complements these efforts by establishing overarching frameworks, strategic principles, and funding programmes that promote policy alignment and facilitate cross-border coordination. Over the past decades, this dual approach has become increasingly integrated, with EU institutions assuming a more active role in setting common priorities, supporting innovation, and harmonizing regulatory standards. These processes take place within the context of broader EU-wide agendas, including the Cohesion Policy, the Digital Agenda for Europe, and the European Green Deal, all of

which place SMEs at the core of Europe's sustainable and inclusive economic development.

With the process of European integration, the previously fragmented landscape of SME support gradually evolved. As economic cooperation intensified and the Single Market was established, it became increasingly important to adopt a more coordinated and harmonized approach to SME development across member states. In response, the European Union began to build a comprehensive institutional and policy framework designed to address common challenges faced by small and medium-sized enterprises, foster entrepreneurship, and enhance competitiveness throughout the EU.[19]

The EU SME support system is structured around several key components:

- Institutional framework: coordination by EU bodies like DG GROW, EIB, and EIF;
- Strategic initiatives and principles: including the Small Business Act for Europe (SBA);
- Financial instruments: such as COSME (2014–2020), InvestEU, and Horizon Europe;
- Non-financial support: including advisory services, training, and digital tools (e.g., Enterprise Europe Network, Your Europe portal);
- Recent policy updates and challenges: including the SME Relief Package 2023 and focus on digital and green transitions.

One of the key foundations of the EU's institutional structure for SME support is the Small Business Act for Europe (SBA), adopted in 2008. While its broader policy goals have been covered previously, it is important to underline here that the SBA also serves as a formal reference point for how institutions coordinate SME-related efforts. It helped embed the "Think Small First" principle across the EU's policy architecture and remains a guiding framework for both legislative and financial support mechanisms. [22]

The European Commission plays a central role in shaping and implementing policies that support small and medium-sized enterprises (SMEs) within the European Union. This responsibility is mainly carried out by the Directorate-General for Internal

Market, Industry, Entrepreneurship and SMEs (DG GROW), which oversees many of the EU's efforts to ensure that SMEs can fully benefit from the opportunities offered by the Single Market. DG GROW is actively involved in making the EU economy more competitive and resilient by supporting entrepreneurship, improving access to finance, and helping SMEs overcome structural and regulatory challenges. Its goal is to create a business environment where SMEs are able to grow, innovate, and compete more effectively on both European and global levels. To achieve this, DG GROW manages several important programs, including the Single Market Programme (2021–2027), which focuses on improving market conditions and SME competitiveness, as well as parts of Horizon Europe and the InvestEU initiative. These programs provide financial and strategic support in key areas such as innovation, sustainability, and digital transformation. DG GROW also works together with executive agencies like the European Innovation Council and SMEs Executive Agency (EISMEA) and the European Health and Digital Executive Agency (HaDEA), which help carry out EU programs aimed at SME development. In addition, it oversees regulatory bodies such as the European Union Intellectual Property Office (EUIPO) and the European Chemicals Agency (ECHA), making sure that SMEs can operate in a fair and transparent legal environment. [23]

Overall, DG GROW plays an essential role in building an institutional framework that supports SME success, helping the EU achieve its wider goals of sustainable growth, competitiveness, and economic inclusion.

In addition to policy coordination, the EU also provides targeted financial support for SMEs through specialized institutions like the European Investment Bank (EIB) and the European Investment Fund (EIF).

The European Investment Bank (EIB), created in 1958 and owned by EU member countries, serves as a major financial institution supporting projects aligned with EU priorities, including the development of small and medium-sized enterprises (SMEs). Operating separately from the EU budget, the EIB secures capital from financial markets and offers loans on favorable terms. Approximately 90% of its lending activities take place within the European Union. For SMEs, the EIB typically

provides funding through credit lines made available to intermediary banks, which then extend financing to smaller businesses. In addition to loans, the EIB uses blended finance—combining its resources with other investment sources—and provides advisory services to improve project outcomes. These instruments help SMEs gain access to long-term funding, encourage innovation, and promote business growth. Closely associated with the EIB is the European Investment Fund (EIF), established in 1994, which specializes in supporting SMEs through tools such as venture capital, loan guarantees, and microfinance. The EIF works through financial intermediaries to reach smaller firms, especially startups and innovation-led enterprises, and also plays an important role in developing capital markets in both EU and candidate countries. [24]

Together, the EIB and EIF form the financial backbone of the EU's SME support architecture. They are major implementers of programs like InvestEU and Horizon Europe, helping to channel EU resources into innovation, sustainability, and inclusive entrepreneurship.

To better understand how financial support for small and medium-sized enterprises (SMEs) is provided in the EU, let us take a closer look at the main financing mechanisms. These include credit guarantees, direct funding for innovative projects, and the use of EU structural and recovery funds.

One of the main programmes that helped build these support tools was COSME (2014–2020). It was the EU's flagship initiative to enhance the competitiveness of small and medium-sized enterprises (SMEs). With a budget of €2.3 billion, it aimed to improve access to finance, open markets, foster entrepreneurship, and create a more SME-friendly business environment.

Through financial instruments managed by the European Investment Fund, COSME provided loan guarantees and equity support to help SMEs secure funding at different stages of their lifecycle — from start-up to expansion or transfer. Many of these financial tools remain active under the extended implementation timeline, with some intermediaries operating until 2034.

COSME also funded initiatives like the Enterprise Europe Network and Your Europe Business portal, which helped SMEs explore cross-border business

opportunities and navigate EU regulations. In addition, the programme supported entrepreneurship education, mentoring, and specific groups such as women, youth, and senior entrepreneurs. Beyond finance and training, COSME contributed to reducing regulatory burdens and encouraged the adoption of new, innovative business models, especially in high-potential sectors like tourism. Although the programme officially ended in 2020, its legacy continues through ongoing projects and successor initiatives under InvestEU and Horizon Europe.[25]

One of the most significant of these follow-up initiatives is the InvestEU programme, launched for the 2021–2027 period. Building on the success of the Investment Plan for Europe, InvestEU aims to stimulate more than €372 billion in investments across the EU by leveraging public and private funding.

With a budget guarantee of €26.2 billion provided by the EU, InvestEU supports strategic projects in four key areas: sustainable infrastructure, research and innovation, support for SMEs, and social investment and skills. For small and medium-sized enterprises, this means greater access to finance for growth, innovation, and international expansion. Financing is delivered through the European Investment Bank (EIB), national promotional banks, and other financial intermediaries, making InvestEU a vital part of the EU's current financial support architecture for SMEs. [26]

Alongside credit guarantees and blended finance instruments, the European Union also directly supports innovation and technological advancement among SMEs through the Horizon Europe programme. This is the EU's main research and innovation initiative for the 2021–2027 period, with a total planned budget of €93.5 billion. Its main objectives include addressing major global issues such as climate change and contributing to the achievement of the UN Sustainable Development Goals, while also strengthening the EU's competitiveness and long-term economic development. Horizon Europe encourages cross-border and interdisciplinary cooperation, aiming to align scientific progress with broader EU policy goals.

One of the key components of this programme is the EIC Accelerator, which is tailored to support start-ups and small enterprises that are developing high-impact innovations and preparing to expand. The Accelerator offers a combination of grants

(up to €2.5 million) and equity investments (up to €10 million), along with mentoring and business development services. This is particularly important for SMEs working on high-risk projects that might struggle to attract private investment.

By offering this type of direct funding, the EU helps innovative ideas become practical, market-ready solutions, while also fostering entrepreneurship and boosting SME competitiveness across the Member States. The EIC Accelerator is especially valuable in ensuring that small companies have access not only to financial resources but also to expert support and international growth opportunities. [27]

Beyond targeted programmes, the European Union also channels significant support for SMEs through its main structural and recovery funds. These instruments help strengthen regional economies, enhance social cohesion, and drive sustainable growth across all EU territories.

For instance, the NextGenerationEU initiative plays a major role in financing the European Union's recovery efforts, with a strong focus on supporting SMEs, innovation, and sustainable growth. It represents the EU's largest stimulus package, aimed at fostering a stronger, greener, and more digital economy in the aftermath of the COVID-19 crisis. Through the Recovery and Resilience Facility (RRF), it provides grants and loans to Member States to finance investments in key areas such as the green transition, digital transformation, social cohesion, and economic resilience. Among its priorities, NextGenerationEU emphasizes supporting small and medium-sized enterprises (SMEs) by boosting innovation, creating jobs, and strengthening opportunities for young entrepreneurs. By investing in healthcare, education, and business development, the initiative contributes to making the EU's economy more sustainable, inclusive, and future-oriented. In total, NextGenerationEU allocates up to €648 billion (at 2022 prices) through the RRF, combining €291 billion in loans and €357 billion in grants. [28]

The EU also helps small businesses through non-financial support. This includes business advice, help with digital tools, and training for entrepreneurs to improve their skills and grow their companies.

An important non-financial support tool is the Your Europe portal. It provides businesses and citizens with easy-to-understand information about their rights and

obligations in the EU's Single Market. If needed, it also connects users with assistance services for additional help. Since 2020, Your Europe has been strengthened as the official "Single Digital Gateway," offering better access to both EU-wide and national information. The portal is divided into two sections — for citizens and for businesses — and content is created by both EU institutions and national governments. By making rules and procedures clearer, Your Europe helps businesses operate more easily across borders and reduces misunderstandings with public administrations. In 2020, despite the pandemic, the portal recorded around 32.8 million visits, with high user satisfaction rates (93%).[29]

In addition, the Enterprise Europe Network (EEN) supports SMEs in growing internationally. It is the largest business support network in the world, combining the expertise of chambers of commerce, development agencies, universities, and innovation centers. The EEN helps SMEs find partners, expand into new markets, and develop innovative projects with international potential.[30]

The COVID-19 pandemic and subsequent crises have shown the need for more resilient and adaptable support systems for small and medium-sized enterprises (SMEs) across the European Union. In response, the European Commission has introduced a range of new priorities aimed at strengthening SMEs' ability to face challenges and contribute to Europe's sustainable growth.

A major shift has been the increased focus on digital and green transformation. SMEs are encouraged to adopt new technologies and sustainable business practices through initiatives such as InvestEU, the SME Fund, and updated financial instruments. Specific measures are in place to improve SMEs' access to finance for innovation, sustainability, and internationalization. [31]

Another priority is enhancing the resilience of SMEs. The Commission has proposed several actions, including the SME Relief Package (2023), which offers targeted short-term relief and long-term competitiveness support. Key initiatives within this package include:

- A new Late Payment Regulation setting a 30-day maximum payment term to improve liquidity for SMEs;

- A Head Office Tax System for SMEs to simplify cross-border operations;
- Efforts to simplify administrative procedures, including the introduction of the Once-Only Technical System;
- Expanded financing opportunities through programmes such as InvestEU and the proposed Strategic Technologies for Europe Platform (STEP).

[32]

Additionally, the EU promotes skills development and training to support SME innovation and growth, while continuing to work on simplifying sustainability reporting requirements to make green financing more accessible for smaller companies.

Despite their crucial role in the European economy, small and medium-sized enterprises (SMEs) continue to face significant challenges. One key issue is the ongoing productivity gap between SMEs and large companies. SMEs often have limited access to advanced technologies, skilled workers, and investment capital, which restricts their ability to grow and compete, especially in high-value sectors.

Access to finance is another major difficulty. Many SMEs, especially innovative and newly established ones, find it hard to secure enough funding because lenders see them as higher-risk. Even though EU programs like InvestEU and Horizon Europe have helped, financing gaps — particularly for green and digital projects — still remain.

Administrative and regulatory burdens also create barriers for SMEs. Complicated reporting rules, high compliance costs, and differences between national regulations make it harder for SMEs to expand and innovate across the EU.

In addition, global competition and growing pressures on supply chains present new risks. In light of recent geopolitical tensions and the EU's goal of strengthening its strategic autonomy in key industries, SMEs must adapt quickly to stay competitive and resilient.

CHAPTER 2. WAYS TO IMPROVE THE SYSTEM OF STATE SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EU

2.1 Characteristics of the development of small and medium-sized businesses in the European Union

Small and medium-sized enterprises (SMEs) continue to be a key element of the economic foundation of the European Union. In 2023, around 25.8 million small and medium-sized enterprises operated in the EU-27, covering 99.8% of the total number of enterprises in the non-financial business sector. These enterprises created the conditions for employment of around 88.7 million people, corresponding to almost two-thirds of all jobs in the private sector, and provided just over half of the total value added in this sector.[33]

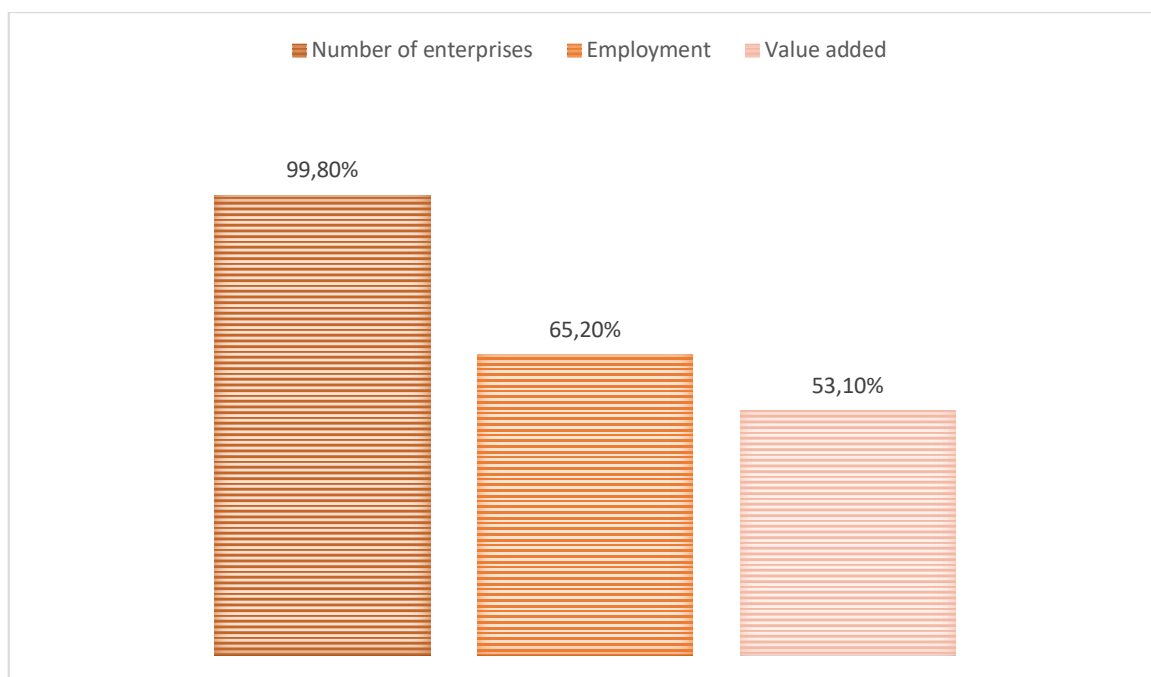


Figure 2.1 Share of EU-27 SMEs by number of enterprises, employment, and value added within the NFBS in 2023

Source: [33]

When analyzing the internal structure of the SME sector, it becomes clear that micro-enterprises dominate, both in terms of number and impact on employment. In 2023, micro-SMEs accounted for 46% of total SME employment and 37% of SME value added in non-financial businesses in the EU-27. Small enterprises provide 30% of jobs and generate 32% of value added, while medium-sized enterprises create 24% of jobs and 31% of value added.[33]

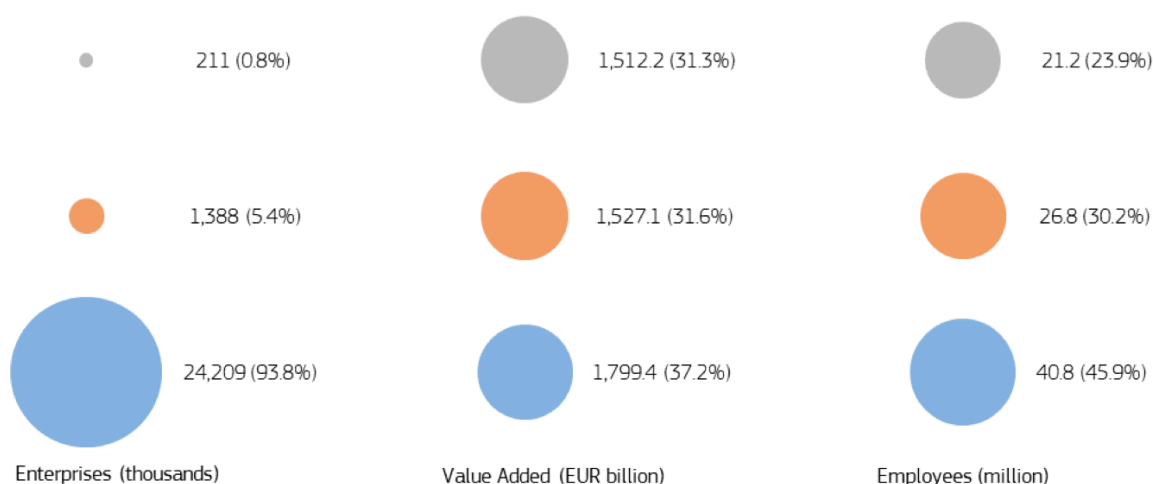


Figure 2.2: Share of different EU-27 SME size classes in the number of enterprises in the NFBS and of NFBS employment and value added in 2023

Source: [33]

Over the past decade, the number of small and medium-sized enterprises (SMEs) in the European Union has followed a generally positive trajectory. While short-term data (such as for 2023–2024) reflect the current structure of the SME sector, it is essential to assess longer-term dynamics to understand structural changes and the impact of external shocks such as the COVID-19 pandemic. To that end, the period from 2018 to 2025 offers valuable insight into SME development trends across different size classes.

According to Joint Research Centre (JRC) estimates based on Eurostat data, the overall number of enterprises in the EU has increased steadily, with significant variation depending on firm size. As illustrated in Figure 2.3, micro-enterprises show the most rapid and stable growth. Between 2018 and 2025, their number is expected to rise by

17.3%, making them the fastest-growing business category. This sharp increase is particularly visible in the post-pandemic period, when the number of micro firms jumped by nearly 4 percentage points from 2020 to 2021. Several factors may explain this trend, including the natural flexibility of micro-firms and supportive policy measures. However, it is also possible that the so-called “size-band effect” has played a role—some downsized businesses may have been reclassified into the micro segment, thus influencing the statistics. [34]

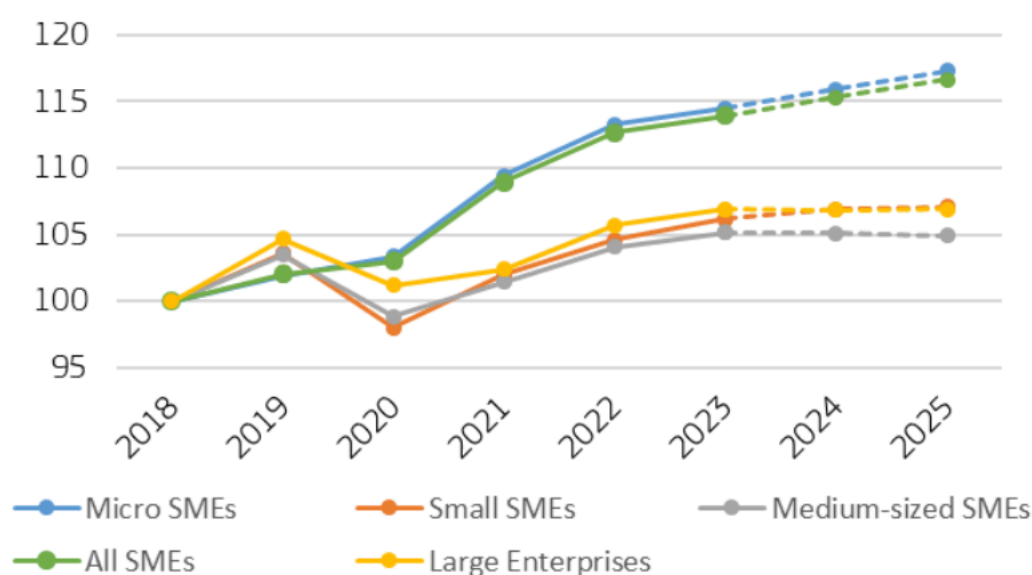


Figure 2.3. Growth in number of enterprises by size class (2018-2025)

Source:[34]

By contrast, the growth of small and medium-sized enterprises has been more moderate. Small firms experienced a temporary drop during the pandemic and are projected to reach around 107.1% of their 2018 levels by 2025. Medium-sized enterprises faced a similar decline in 2020 and are expected to reach 104.9% by the end of the same period. Although both categories have shown resilience, their recovery has been slower than that of micro-enterprises, potentially due to higher fixed costs and less operational flexibility.

An important indicator of SME development is employment dynamics. Between 2018 and 2025, the number of people employed in SMEs grew at different rates depending on the size of the enterprise. As shown in Figure 2.4, employment in micro-

SMEs increased the most — by around 12.1% compared to the 2018 baseline. This confirms the growing importance of micro-enterprises in job creation within the EU.[34]

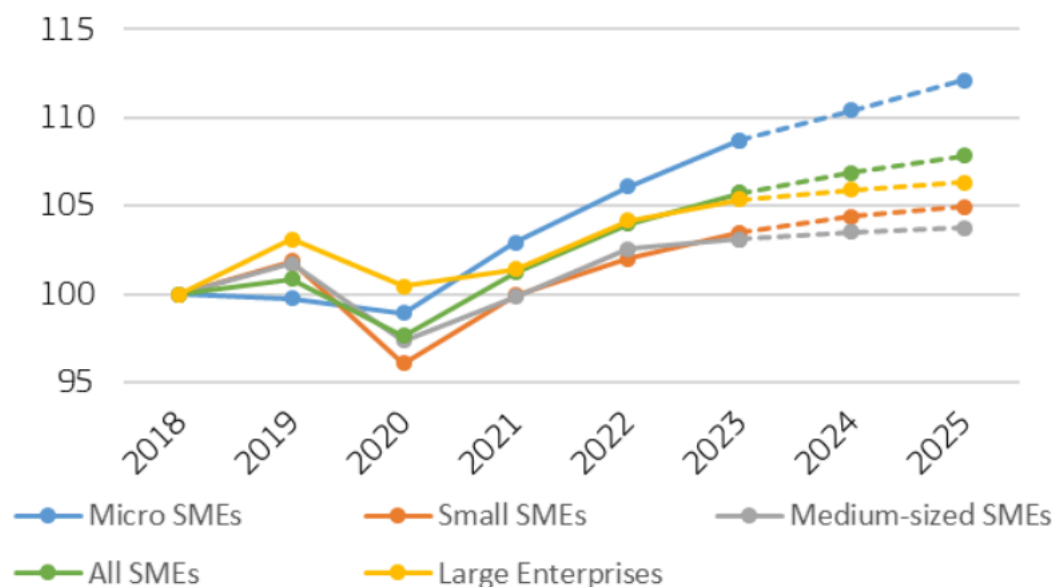


Figure 2.4. Growth in employment by size class (2018-2025)

Source:[34]

Small SMEs demonstrated moderate growth, with employment rising by 4.9% by 2025. Medium-sized SMEs had the weakest performance, with only 3.7% growth over the same period. In contrast, large enterprises showed a stable increase of 6.4%, which highlights that micro-enterprises are outpacing even large firms in terms of employment expansion.

This difference reflects not only the resilience and flexibility of micro-firms, especially after the COVID-19 pandemic, but also points to policy shifts that may have supported smaller businesses more actively. The data also align with EU-level discussions (e.g., the Draghi report) emphasizing the potential of dynamic micro-enterprises to scale and lead growth in the future.

This divergence in growth dynamics not only illustrates the comparative agility of micro-enterprises in adapting to post-crisis realities, but also coincides with a broader reorientation of EU policy toward innovation, scalability, and digital readiness. In this

context, the digitalization of SMEs has become a key pillar of long-term competitiveness and structural transformation across the European Union.

The digital transformation of small and medium-sized enterprises (SMEs) in the European Union has progressed within a gradually expanding policy framework developed over more than a decade. This shift began with the Digital Agenda for Europe in 2010, which laid the foundation for EU-wide digital priorities, followed by the launch of eIDAS and the Digital Economy and Society Index (DESI) in 2014, which allowed for cross-country benchmarking of digital readiness.

In 2015, the Digital Single Market Strategy was introduced to enhance access to digital goods and services across borders and improve the regulatory environment for businesses operating online. By 2019, the EU had moved toward a more integrated vision through the strategy "A Europe fit for the Digital Age", followed by "Shaping Europe's Digital Future" in 2020, which explicitly recognized SMEs as central to digital growth and competitiveness.

A key turning point came in February 2021 with the adoption of the Recovery and Resilience Facility (RRF). Although RRF included digital transition as a key funding priority, most national recovery plans were submitted by mid-2021—before the EU's most detailed digital roadmap, the 2030 Digital Compass, was published in March 2021. This meant that many recovery measures were based on general objectives rather than a unified EU vision.

Later developments such as the Digital Services Act and Digital Markets Act (both adopted in 2022), as well as the Digital Decade Policy Programme 2030 (December 2022) and the European Chips Act (2023), further strengthened the regulatory and strategic framework for digital transformation, with direct implications for SMEs, especially in terms of competition, data access, and infrastructure resilience.[35]

Despite this growing policy support, significant disparities in digital maturity remain. As of 2023, only 59% of SMEs in the EU had reached a basic level of digital intensity, compared to 89% of large enterprises. The EU has set a goal for 90% of

SMEs to achieve at least basic digital capabilities by 2030, a target backed by the Digital Europe Programme and national recovery funds. [36]

This timeline reflects how digitalization has shifted from a broad strategic ambition into a measurable, target-driven policy goal—one that plays an increasingly defining role in the development of SMEs across the European Union.

According to recent studies (Rosyidah et al., 2023), digital transformation helps SMEs gather market intelligence, adapt to cultural differences, and lower the costs and risks associated with expanding abroad. New technologies such as AI, big data analytics, and cloud computing further support SMEs in anticipating market demands and scaling their operations globally. However, significant challenges remain. Many SMEs, especially traditional ones, were not initially designed for digital internationalization and face difficulties in managing online business models. [37] Additionally, digital transformation often requires substantial financial investments and strategic management, which smaller companies may find challenging without external support.

A notable example of successful SME digitalization within the EU is Finland. As of 2023, 85.6% of Finnish SMEs had reached at least a basic level of digital intensity, well above the EU average of 57.7%. Furthermore, nearly 80% of enterprises in Finland were using technologies such as cloud computing, artificial intelligence, or data analytics, indicating a strong digital foundation among smaller firms. This success is supported by a highly digitally skilled population—82% of citizens have at least basic digital skills—and national policies that promote the adoption of advanced digital tools in business. Finland's emphasis on emerging areas like the data economy, AI, and 6G further reinforces its position as a digital frontrunner.[38]

Germany offers a different perspective on SME digitalization within the EU. Despite being Europe's largest economy, many German SMEs—especially traditional *Mittelstand* firms—have been slower to adopt advanced digital technologies. In 2023, only 52.2% of the population had at least basic digital skills, below the EU average, and Germany lags significantly in fibre-optic broadband coverage (29.8% vs. the EU average of 64%). While the country has made notable strides in 5G deployment,

challenges persist in the digitalization of public services and in bridging the digital skills gap. Nevertheless, Germany's Digital Decade roadmap allocates over EUR 44 billion (1.1% of GDP) to support digital transformation, which includes targeted initiatives to strengthen digital infrastructure and accelerate SME adoption of digital tools. This case illustrates that even advanced economies must address structural barriers to unlock the full potential of SME digitalization.[39]

In contrast, Bulgaria presents a mixed picture in terms of SME digitalization within the EU. While the country has made notable progress in delivering online services to businesses—scoring 91.9 out of 100, well above the EU average—its performance in adopting advanced digital technologies remains among the weakest. In 2023, only 29.3% of enterprises in Bulgaria used at least one advanced technology such as cloud computing, AI, or data analytics, significantly below the EU average of 54.6%. The country also struggles with basic digital skills, with just 35.5% of the population possessing at least a basic level, compared to the EU average of 55.6%. These gaps are particularly visible among vulnerable groups and between urban and rural areas. Despite these challenges, Bulgaria shows strategic ambition, investing EUR 2.2 billion (2.3% of GDP) under its Digital Decade roadmap. It also plays a leading role in Europe's semiconductor and quantum sectors, housing one of the EU's major supercomputers. However, improving digital skills and technology uptake among SMEs remains a key priority.[40]

Over the past decade, environmental sustainability and climate resilience have also emerged as critical priorities across the EU's economic agenda. In this context, the role of SMEs in supporting the green transition has become increasingly important.

Since the mid-2010s, the green transition has become a strategic priority for the European Union, with small and medium-sized enterprises (SMEs) recognized as key actors in achieving climate neutrality and environmental sustainability. Environmental goals became more central in EU policymaking following key milestones such as the 2015 Paris Agreement and the 2019 European Green Deal. SMEs play an important role in advancing sustainability, largely because of their flexibility, regional presence, and ability to operate within multiple stages of production and distribution networks. The

2020 SME Strategy highlights the strong potential of SMEs to drive circular economy approaches and lead sustainability efforts, particularly in sectors like manufacturing, construction, and agriculture. [41]

To support this transition, the European Green Deal includes specific provisions to help SMEs become more sustainable. Financial mechanisms such as InvestEU and Horizon Europe include windows and sub-programmes for green innovation and eco-friendly technologies. These are complemented by the Single Market Programme and the LIFE Programme, which support sustainability-oriented business models at the SME level. [42]

Despite the potential, many SMEs face obstacles in accessing green finance. According to the EU Platform on Sustainable Finance (2024), although more than 90% of SMEs reportedly take steps to enhance resource efficiency, these initiatives are typically funded without external financial support. Barriers include complex reporting standards, small investment scales, and lack of harmonized criteria for what constitutes "green" lending. To address these gaps, the Platform proposed an SME Sustainable Finance Standard, a simplified framework enabling SMEs to qualify for green loans by demonstrating environmental value at a lower compliance burden. [43]

Non-financial support is also essential. Instruments such as the Enterprise Europe Network (EEN) provide advisory services, while Digital Innovation Hubs and Sustainability Advisors (under the SME Strategy) offer sector-specific guidance on green transition pathways. These support mechanisms help SMEs comply with environmental regulations, improve ESG reporting, and identify funding opportunities aligned with the EU Taxonomy for Sustainable Activities.

Nevertheless, challenges persist. Many SMEs lack the internal capacity, long-term planning horizon, or technical knowledge to implement sustainability strategies effectively. The Draghi report (2024) and OECD recommendations (2023) both emphasize the importance of supporting scale-up ecosystems and simplifying policy frameworks to enable broader SME participation in the green economy.

As the EU moves toward its 2030 climate and energy targets, the integration of SMEs into green value chains and innovation ecosystems will remain a central policy

objective. Their involvement is vital not only for achieving environmental goals but also for ensuring inclusive, resilient, and regionally balanced economic growth.

2.2 Analysis of state support systems for small and medium-sized enterprises in the European Union

Support for small and medium-sized enterprises (SMEs) in the European Union is based on a multi-level governance model in which both EU institutions and national governments play complementary roles. Although most SMEs are active primarily in national markets, they are nonetheless significantly affected by EU legislation in key areas such as taxation, competition, and company law (Articles 49–54, 101–113 TFEU). The main objective of the European Commission’s SME policy is to create a favorable environment for entrepreneurship, innovation, and sustainable growth.[44] A significant step in the development of SME policy at the EU level was the introduction of the Small Business Act (SBA) in 2008, which embedded the “Think Small First” approach into policymaking. This principle became the cornerstone for streamlining regulations, improving access to finance, and initiating targeted support measures that eventually expanded into broader programmes like COSME, Horizon Europe, InvestEU, and the 2023 SME Relief Package.

A key example of this evolution was the COSME programme (2014–2020), which served as the EU’s main SME support instrument during that period. Launched under Regulation (EU) No 1287/2013, it continued the work of the previous Entrepreneurship and Innovation Programme (CIP 2007–2013). COSME focused on addressing cross-border obstacles and market failures, while complementing other EU initiatives like Horizon 2020 and cohesion policy funds. Its total planned budget was €2.3 billion, with allocations divided as follows: at least 60% (€1.6 billion) for financial instruments; 21.5% for improving market access; 11% for improving the business environment; and 2.5% for promoting entrepreneurship.

COSME's financial support was primarily implemented through two key tools operated by the European Investment Fund (EIF). One of the central instruments, the Loan Guarantee Facility (LGF), aimed to ease access to finance for SMEs by offering guarantees to banks and other lenders. By the close of 2019, this mechanism had helped more than 553,000 small businesses in 32 countries secure nearly €32 billion in funding. Notably, the majority of supported firms had fewer than ten employees, and almost half were newly established ventures. The programme's scope was further extended by an additional €1.3 billion provided through the European Fund for Strategic Investments (EFSI), which strengthened LGF's capacity to support emerging initiatives like digital transformation pilots.

The Equity Facility for Growth (EFG) focused on equity investments in venture capital funds targeting growth-stage SMEs. By 2019, 17 fund agreements had been signed, amounting to €242 million in commitments. Through participation in the VentureEU initiative, EFG facilitated €660 million in investments for over 100 SMEs in 13 EU countries. The programme aimed to mobilize up to €3.8 billion in total investments over its lifetime.

Non-financial support under COSME was also significant. The Enterprise Europe Network (EEN) provided SMEs with advisory services in innovation, internationalization, and digital adaptation. In 2020, the network supported more than 230,000 enterprises, facilitated over 2,700 international partnerships, and reached 14 million SMEs through its digital tools. The Erasmus for Young Entrepreneurs (EYE) programme enabled 1,336 cross-border exchanges in 2019, strengthening entrepreneurial skills and international collaboration.[45]

COSME also supported SME internationalization through tools such as the EU SME Centre in China, which offered legal, financial, and operational assistance to companies entering Asian markets. The programme actively promoted digital and green transitions by funding the Single Digital Gateway and projects in circular fashion, sustainable tourism, and resource efficiency. A notable example was the “Accelerate and Scale-up Innovation for Circular Fashion” initiative, which supported 120 sustainable business ideas.

In addition, COSME contributed to evidence-based policy through regular SME Performance Reviews, Eurobarometer surveys, and OECD studies that helped assess sector performance and informed policy recommendations. The programme's flexibility proved essential during the COVID-19 pandemic, allowing many projects to shift online and extend implementation timelines. In 2019, 96% of the operational budget was committed, with an average payment execution rate of 90%.[45]

Overall, COSME achieved tangible results: it significantly improved access to finance (66% of the executed budget), enhanced SMEs' internationalization, and supported digital and green transitions aligned with the Europe 2020 Strategy and the European Green Deal.

The conclusion of COSME in 2020 did not mark the end of EU support for SMEs but rather a strategic shift toward integrated and larger-scale frameworks. Starting in 2021, the core instruments of COSME were embedded into two successor programmes: the Single Market Programme (SMP) and InvestEU. This transition was designed to ensure continuity, increase funding efficiency, and align SME support with broader EU goals such as the green and digital transition, resilience, and open strategic autonomy.

The Single Market Programme (SMP), adopted in April 2021 with a total budget of €4.2 billion for the 2021–2027 period, serves as a comprehensive umbrella initiative supporting the smooth functioning of the EU's internal market. It brings together several previously fragmented instruments into a single, more efficient structure. In terms of SME support, the SMP focuses on improving competitiveness, especially by facilitating better access to markets, supporting standardization, and enhancing consumer and product safety. Through specific sub-programmes and agencies like EISMEA, the SMP continues to fund key COSME initiatives such as the Enterprise Europe Network and Erasmus for Young Entrepreneurs. It also plays a regulatory role by contributing to better market surveillance and implementation of competition policies suited to the digital age.[46]

In parallel, the InvestEU programme emerged as the EU's flagship financial instrument for crowding in public and private investment. It builds directly on the

experience of the European Fund for Strategic Investments (EFSI), merging several older tools — including COSME’s financial instruments — under a unified investment framework. InvestEU operates with a €26.2 billion budgetary guarantee from the European Union and targets four key investment areas: sustainable infrastructure, innovation and research, social inclusion and skills development, and support for small and medium-sized enterprises (SMEs). A central component of the programme is the SME window, which carries forward financial instruments like the Loan Guarantee Facility and the Equity Facility for Growth. These are now implemented by the European Investment Fund (EIF) and national promotional institutions. As of mid-2024, InvestEU had already mobilized approximately €280 billion in investments throughout the EU, with notable benefits for regions and sectors that traditionally face funding shortages.[47]

Together, SMP and InvestEU form a complementary support ecosystem: SMP ensures the regulatory, institutional, and capacity-building environment for SMEs, while InvestEU provides scalable financial instruments to foster investment and innovation. This dual-track approach preserves the legacy of COSME while expanding its reach in line with EU strategic priorities.

This combined structure offers SMEs a clearer and more supportive environment — from simplified rules and advisory help to easier access to finance. It reflects the EU’s growing focus on making support tools not only more powerful but also more practical and accessible.

The InvestEU Programme is the European Union’s flagship investment initiative under the 2021–2027 Multiannual Financial Framework. Its main objective is to mobilize large-scale investments in key policy areas such as sustainable infrastructure, innovation, social inclusion, and the development of small and medium-sized enterprises (SMEs). The programme builds on lessons from earlier instruments like the European Fund for Strategic Investments (EFSI) and COSME, merging them into a unified, more accessible framework.

At the heart of InvestEU lies a €26.2 billion EU budget guarantee, which is used to reduce the investment risk for private and public investors. This guarantee does not

fund projects directly, but acts as a risk-sharing mechanism, encouraging financial institutions to support projects they might otherwise avoid.

The guarantee is provisioned in the EU budget at a 40% rate (€10.5 billion), with the rest covering potential losses (Figure 2.5). The distribution of the guarantee is also significant: 75% is allocated to the European Investment Bank (EIB) Group, while the remaining 25% goes to national promotional banks and other implementing partners.[48]

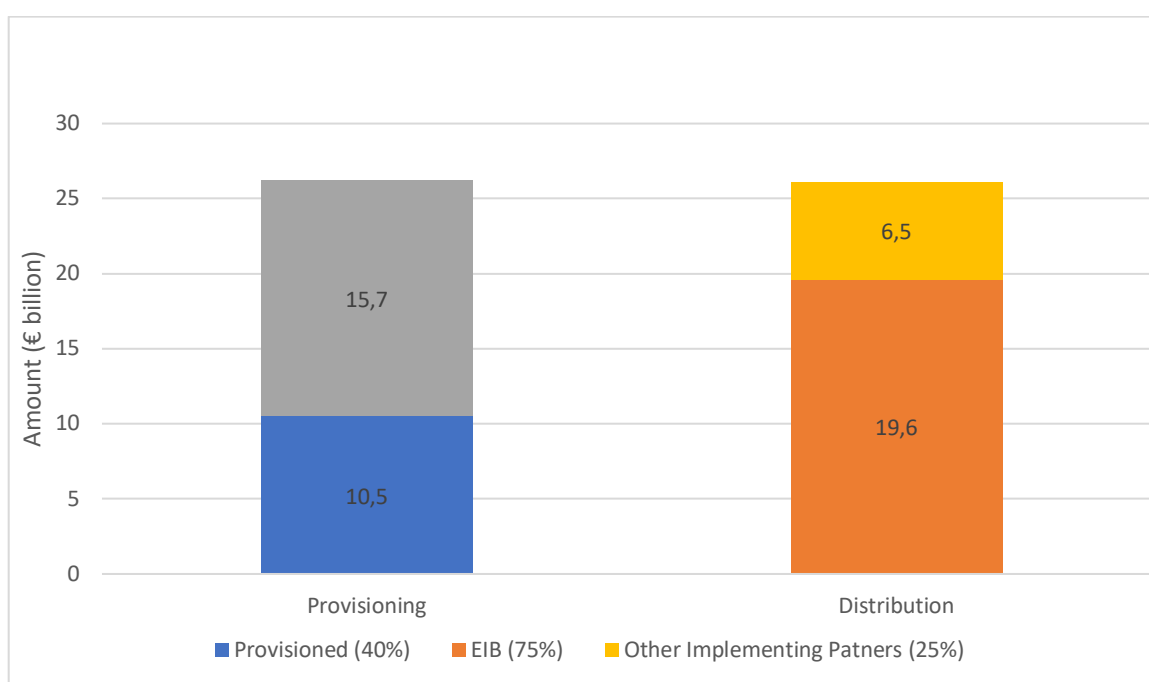


Figure 2.5 InvestEU Guarantee Breakdown

Source:[48]

One of the four main “policy windows” of InvestEU is dedicated to SMEs, accounting for 26.3% of the total guarantee. This SME Window ensures easier access to finance for small businesses through two key instruments managed by the European Investment Fund (EIF):

- Loan Guarantee Facility (LGF) – supports banks and intermediaries in offering more accessible credit to SMEs.
- Equity Facility for Growth (EFG) – provides venture capital and equity finance, especially for start-ups and high-growth enterprises.

As of mid-2024, InvestEU had already mobilized approximately €280 billion in investments across the EU, with the SME Window making a notable contribution, especially in underserved regions and high-risk sectors.[48]

Despite its success, the programme has faced challenges such as the rapid depletion of guarantee funds, administrative complexity for smaller financial institutions, and limited performance of the InvestEU Portal, which aims to match projects with investors. Still, the SME Window remains a vital pillar of EU economic strategy, supporting innovation, job creation, and business resilience.

To further enhance the innovation landscape for European SMEs, the EU also launched the Horizon Europe programme — its most ambitious research and innovation initiative to date, with a total budget exceeding €95 billion for the 2021–2027 period. One of its key components, the European Innovation Council (EIC), supports high-risk, high-reward projects with strong potential for market creation and scale-up.

At midterm (January 2025), Horizon Europe had already funded over 15,000 projects, with a combined investment of more than €43 billion, showcasing tangible benefits for both science and society. Initiatives range from fuel cell electric buses and next-generation antibiotics to inclusive AI tools for researchers. According to the interim evaluation published on 30 April 2025, the programme has delivered:

- Strong scientific impact — with 80% of ERC-backed projects achieving breakthroughs.
- Robust economic return — every €1 invested through the EIC Fund attracted more than €3 from private investors.
- Positive progress in closing the innovation gap — with 58% of collaborative projects now involving "Widening" countries.
- Effective simplification — through lump-sum grants that reduce administrative burdens by up to 30%.[49]

These results confirm that Horizon Europe not only drives scientific excellence, but also strengthens the European innovation ecosystem — especially for SMEs operating in deep-tech sectors or emerging markets. This evidence-based performance reinforces the strategic importance of the EIC Accelerator, which plays a central role in

translating research results into commercial successes — particularly for SMEs and startups that operate at the intersection of science, technology, and market innovation.

The Digital Europe Programme (DIGITAL), launched in 2021 with a budget of €7.588 billion, is one of the EU's key tools to strengthen digital capacities and support the digital transformation of businesses, especially small and medium-sized enterprises (SMEs). The programme focuses on five priority areas: high-performance computing, artificial intelligence, cybersecurity, advanced digital skills, and wider deployment of digital technologies across sectors like health, energy, and agriculture.

Through a network of European Digital Innovation Hubs (EDIHs), DIGITAL provides SMEs with access to training, technology testing, and support services. This helps overcome barriers to adopting new technologies and contributes to reducing the digital divide across EU regions.

DIGITAL also aligns with EU goals on climate, resilience, and technological sovereignty, offering non-financial support that complements investment-based programmes like InvestEU. By improving digital infrastructure and skills, it plays a vital role in preparing SMEs for long-term competitiveness in the digital era.[50]

In response to the persistent challenges facing small and medium-sized enterprises (SMEs) in Europe, the European Commission adopted the SME Relief Package in September 2023. This comprehensive initiative aims to provide immediate relief to SMEs, while simultaneously enhancing their long-term competitiveness, resilience, and regulatory environment.

SMEs continue to face multiple structural obstacles. The most frequently reported challenges include regulatory or administrative burden (55%), late payments (35%), and limited access to finance (21%). Skills shortages also pose a growing concern, affecting 17% of SMEs. These issues not only constrain growth but also reduce resilience to economic shocks and hinder investment capacity.

The SME Relief Package combines legislative action with substantial financial support. One of its key components is the proposed Late Payment Regulation, which introduces a binding 30-day payment term for all commercial transactions within the EU. By enforcing automatic interest and compensation in cases of delayed payments,

the regulation is expected to significantly ease liquidity constraints for SMEs and reduce the cost of debt recovery, with estimated savings of up to €8.7 billion annually.

To address the complexity of cross-border taxation, a directive has been proposed to allow SMEs to apply their home country's tax rules to permanent establishments in other Member States. This Head Office Tax system is designed to lower compliance burdens and administrative costs, particularly for SMEs expanding internationally. The expected reduction in tax-related expenditures may reach up to €3.4 billion per year.

Financial support under the package is reinforced through the coordinated use of multiple EU funding instruments. Over €200 billion is expected to be mobilized for SMEs between 2021 and 2027, notably through programmes such as InvestEU, Horizon Europe, and the Single Market Programme. A dedicated pilot facility is also foreseen to support export credit coverage for businesses trading with Ukraine, reflecting the EU's commitment to geopolitical resilience and market integration.

In line with the 'Think Small First' principle, the package also introduces structural measures aimed at reducing regulatory burdens. These include a stronger application of the SME Test and SME Filter, along with the introduction of SME-friendly legislative provisions such as extended transition periods and simplified reporting requirements. Such reforms seek to create a more predictable and efficient regulatory environment for small businesses.

Further emphasis is placed on the digital and skills transformation of SMEs. Initiatives such as the Single Digital Gateway and the Once-Only Technical System aim to streamline access to cross-border administrative services, while the European Digital Innovation Hubs are expected to assist 100,000 SMEs by 2025. At the same time, targeted measures for skills development, particularly in digital and green technologies, are introduced to support SMEs in adapting to the twin transitions and ensuring long-term workforce sustainability.[51]

Another important tool that supports SME financing in the EU is the Strategic Technologies for Europe Platform (STEP). This initiative was created to boost Europe's industrial competitiveness and reduce its dependence on non-EU countries in key areas.

STEP mainly focuses on three sectors that are essential for the green and digital transitions: advanced digital and deep-tech innovations, clean technologies, and biotechnologies.

What makes STEP stand out is that it brings together funding from different EU programmes like Horizon Europe, the Digital Europe Programme, the Innovation Fund, and others. These programmes can be combined to support the same project, and projects that meet STEP's criteria can receive a special quality label called the STEP Seal. This label increases a project's visibility and helps it attract additional funding, including from private investors through platforms like the InvestEU Portal.

To make access to funding easier, STEP also allows Member States to reallocate parts of their EU funds—such as from the Cohesion Policy or the Recovery and Resilience Facility—toward STEP priorities. For example, countries can use up to 6% of their national RRF budgets to support SMEs through InvestEU's financial products. STEP also offers generous co-financing conditions, which are especially beneficial for less developed and transition regions.[52]

The initiative is supported by national and EU-level financial institutions, including the European Investment Bank and local promotional banks. They provide various financial tools—like loans, guarantees, and equity investments—that are tailored to different stages of a company's growth. This setup gives SMEs more opportunities to develop and scale up their innovative technologies, while also helping Europe strengthen its position in strategic industries.

The EU provides a diverse range of financial and non-financial instruments tailored to support SMEs across various sectors, stages of growth, and regions. These tools are designed not only to improve access to capital but also to create a supportive business environment through advice, training, and innovation partnerships.

Financial support comes in multiple forms, including grants, guarantees, equity investments, and microfinance. Instruments like the InvestEU SME Window offer debt and equity financing via national and European intermediaries, while the Single Market Programme and Horizon Europe back innovation and competitiveness. For early-stage or high-risk ventures, EU-supported venture capital funds provide tailored equity

options. The European Social Fund Plus (ESF+), the LIFE programme, and the Common Agricultural Policy (CAP) also allocate funding to SMEs working in areas such as social innovation, green technologies, and rural development. These instruments are particularly impactful when targeted by enterprise size and sector: for instance, microfinance under EaSI supports entrepreneurs unable to secure traditional bank loans, while cleantech SMEs can benefit from the Innovation Fund or the European Maritime, Fisheries and Aquaculture Fund (EMFAF).[53]

Non-financial support tools play an equally important role in building SME capacity. These include consulting and mentoring services, incubator and accelerator programmes, training initiatives, and access to digital platforms and partner networks. The Enterprise Europe Network (EEN), for example, offers free advisory services, matchmaking, and innovation guidance across Europe. The European Digital Innovation Hubs (EDIHs) assist SMEs in their digital transformation through “test-before-invest” services, training, and innovation ecosystem access. Platforms like Access2Markets and SOLVIT simplify cross-border trade and legal problem-solving, while the Erasmus for Young Entrepreneurs programme fosters cross-border knowledge exchange. Intellectual property support is also provided through the European IP Helpdesk and regional IP SME Helpdesks.[54]

An integrated support model—combining financial resources with advisory, educational, and regulatory support—is essential for creating sustainable SME growth. Financial aid alone is insufficient if enterprises lack the skills or networks to use it effectively. Training supported under the Pact for Skills, digitalization aid from the Single Digital Gateway, and localized mentoring under EEN demonstrate how linking tools ensures stronger business performance and resilience. EU policy increasingly favors such blended models, acknowledging that technical assistance amplifies the impact of financial interventions.

Together, these instruments reflect the EU's strategic approach to SME support: fostering innovation, competitiveness, and resilience through a well-rounded system of funding and services.

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Over the years, several EU-backed initiatives have demonstrated the power of integrated support — combining funding, mentoring, and technical assistance — in accelerating SME growth and innovation. A notable example is InoCure, a Czech biotech start-up supported under Horizon 2020 and the EIC Accelerator. Specializing in nanomaterials for life sciences, InoCure benefited from a combination of grant funding, coaching, and IP advisory services. This allowed the company to scale up its μ Sphere and InoMATRIX technologies, attract private investors, and expand into international markets. As shown in Figure 2.6, InoCure’s Heat Score and Growth Score have both risen steadily since 2024, reflecting increased market traction and investment readiness.

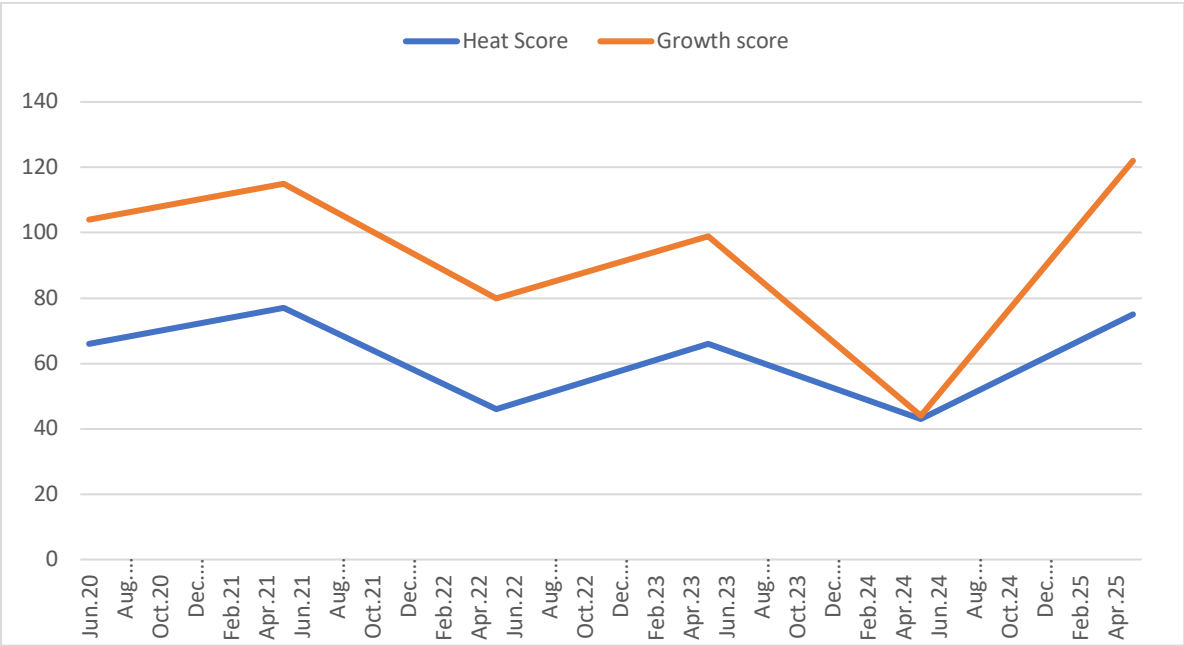


Figure 2.6 Company Performance Metrics

Source:[55]

Another example is ENBIO, an Irish SME developing advanced aerospace coatings and surface treatments. With support from InvestEU and technical guidance from the European Innovation Council, ENBIO was able to commercialize REACH-compliant solutions and secure contracts with major clients, including the European Space Agency. The company’s performance metrics, illustrated in Figure 2.7, indicate a significant recovery in growth indicators following the receipt of EU support in mid-2024.

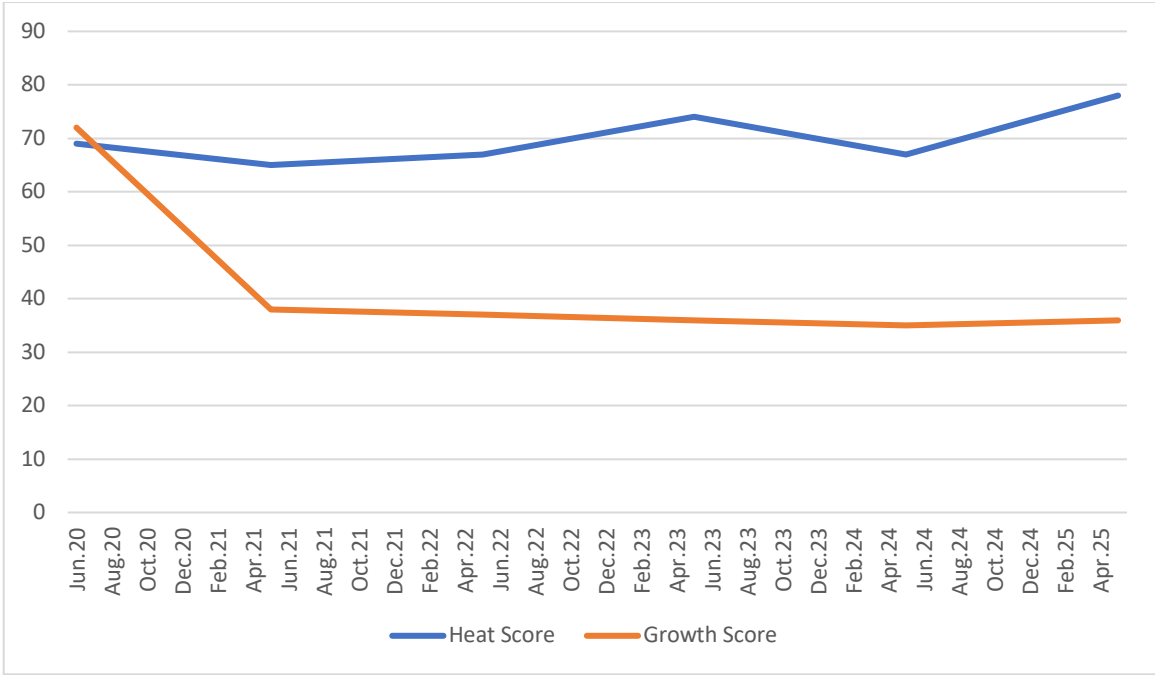


Figure 2.7 Company Performance Metrics
Source:[56]

Despite the wide range of support instruments available at the EU level, small and medium-sized enterprises (SMEs) continue to encounter several persistent challenges that constrain their development and competitiveness.

Access to finance remains a key concern. Many SMEs, particularly start-ups and micro-enterprises, face difficulties in obtaining external funding due to limited credit histories, lack of sufficient collateral, and the relatively high transaction costs of small-scale lending. Furthermore, in several EU Member States, underdeveloped equity

markets restrict the availability of alternative financing instruments such as venture capital or angel investment.

Administrative complexity also imposes a considerable burden on SMEs. Navigating diverse national tax systems, regulatory requirements, and bureaucratic procedures requires significant time and resources. This is particularly problematic for businesses operating across multiple Member States, where the lack of regulatory harmonisation further complicates compliance and increases costs.

In addition, digital inequalities between EU regions continue to hinder SME participation in the digital economy. Enterprises located in less developed areas often face limited access to high-speed internet and digital infrastructure, which reduces their ability to adopt new technologies, engage in e-commerce, or participate in digital value chains. Addressing this divide is essential to ensure equal opportunities for all European SMEs in the context of ongoing digital transformation. [57]

2.3 Strategic directions for improving the system of state support for small and medium-sized enterprises in the EU

Despite numerous policy efforts and funding programmes, small and medium-sized enterprises (SMEs) in the EU continue to face serious challenges. Data from previous sections shows that the digital divide, limited access to green finance, and generally low productivity still hold back the full potential of the SME sector. These challenges are especially pressing in less developed regions, where businesses often lack the digital infrastructure, skills, and financial tools needed to modernise and grow.

At the same time, the European Union has clearly defined its strategic goals through the Digital Decade, the European Green Deal, and its broader resilience agenda. These initiatives aim to make Europe more competitive, climate-neutral, and digitally advanced — but SMEs must be fully included if these goals are to be achieved. That's

why improving SME support systems isn’t just about helping businesses — it’s also about ensuring the EU reaches its long-term economic and environmental targets.

SMEs play an essential role in advancing Europe’s environmental goals. Yet, even with rising awareness of climate issues, many small firms face significant difficulties. While 73% of financial institutions provide green finance products tailored for SMEs, only 2.8% of SMEs have applied for them in the past three years — revealing a clear gap between availability and uptake.

A major factor behind this gap is the burden of sustainability reporting, which many SMEs find overwhelming. According to recent data, 68% of SMEs say the process is too time-consuming, and 62% find it too expensive. These barriers limit their ability to meet eligibility criteria for green loans or sustainability-linked finance (see Figure 2.8). [58]

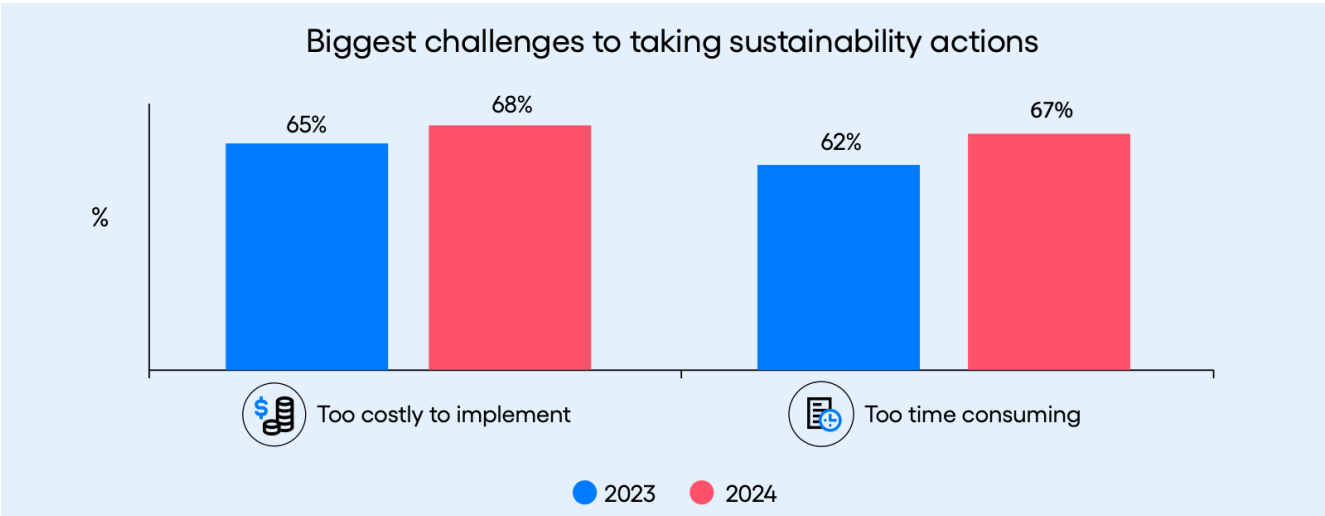


Figure 2.8 Biggest challenges to taking sustainability actions
Source:[58]

These persistent challenges not only discourage SMEs from seeking green funding but also reduce their ability to implement meaningful climate initiatives. Yet, the potential impact is significant: SMEs that engage in sustainability reporting are 1.5 times more likely to obtain funding, and those with green finance access are 2.5 times more likely to take impactful action.[58]

To address this, the EU should take the following steps: introduce a clear and harmonised EU-wide definition of green loans for SMEs; simplify and standardise sustainability reporting requirements; support the development of digital tools to automate reporting and track environmental impact; launch training and awareness programmes to strengthen SME engagement in green finance.

These measures would help build a “virtuous circle” where better reporting unlocks funding, which in turn enables more effective climate action. Currently, just 1.2% of SMEs are fully part of this cycle — underlining how much more can be achieved with strategic improvements.

Digital transformation is a key pillar of the EU’s long-term economic and sustainability goals. However, many SMEs still face obstacles when it comes to adopting digital tools, particularly in less developed regions or sectors. This divide — both in terms of access and effective usage — continues to limit the competitiveness and resilience of smaller firms.

According to academic research, the digital divide among SMEs is not only about access to technology, but also about the ability to use it effectively. Dewan & Riggins (2005) argue that smaller businesses are often at a disadvantage when it comes to digital skills, internal capacity, and resources. This leads to slower adoption of tools like cloud computing, customer relationship management (CRM), or e-commerce platforms, all of which are becoming essential in the modern economy.

To address this, the EU should focus on targeted, practical support for digital inclusion among SMEs. Suggested measures include:

- Introducing targeted digital vouchers for SMEs in Member States with lower digital performance scores. These vouchers could help cover costs related to AI solutions, cloud services, cybersecurity tools, or basic digital infrastructure.
- Expanding EU-funded training programmes that focus on digital skills for entrepreneurs and employees. Special attention should be given to microenterprises and businesses in rural or economically weaker areas.

- Creating incentives for digital uptake, for example, tax credits or public-private partnerships that reduce the cost of implementing digital solutions for SMEs.
- Supporting access to e-commerce platforms and online marketplaces, particularly for SMEs in traditional industries that need help entering the digital economy.

Reducing the digital divide will not only help SMEs grow, but also enable them to better implement sustainability practices, increase productivity, and adapt to future challenges. In this way, digital inclusion becomes a core component of a broader strategy for resilience and innovation.

Closing the digital divide is a vital step in making sure all SMEs—regardless of their size or location—can fully take part in today’s digital economy. But digital inclusion alone isn’t enough. For SMEs to grow sustainably, they must also operate within a supportive business environment—one that encourages innovation, removes barriers to entry, and makes resources easy to access.

This is particularly important for groups that often face more obstacles when starting a business, especially women and young people. These entrepreneurs frequently encounter limited access to funding, smaller professional networks, or a lack of mentorship tailored to their needs. Supporting them is not just a matter of equality—it also opens the door to fresh ideas, stronger innovation, and broader economic development.

At the same time, many small firms still struggle to navigate the EU’s wide range of support schemes. With so many different programmes, institutions, and rules, it’s easy to get lost—especially for small businesses without extra administrative support.

To respond to these challenges, the EU could focus on a few practical actions. First, it should expand targeted support for women and youth-led enterprises—offering dedicated funding, mentorship, and skills training. Second, local one-stop-shops should be created across all regions, where SMEs can get clear, personalised help with EU programmes and financial tools. These centres should be available both online and in

person, and operate in local languages. Finally, building stronger networks and local hubs where entrepreneurs can meet peers, get advice from experts, and connect with investors would help create a more connected, resilient entrepreneurial landscape.

By making these ecosystems more inclusive and easier to access, the EU can better unlock the potential of SMEs that are still held back—and in doing so, boost innovation and growth across the entire Union.

Creating a more inclusive and navigable entrepreneurial environment is only one part of the solution. To ensure that SMEs across the EU can fully benefit from such support, it is equally important to strengthen the practical instruments and policy tools that underpin these ecosystems. While funding remains a key element, the effectiveness of SME support also depends on how well existing structures are adapted to real-world needs—especially in the context of the green and digital transitions.

A first step could be to expand the functions of the Enterprise Europe Network (EEN). As the EU’s largest support network for SMEs, EEN already plays a key role in helping businesses innovate and enter new markets. However, with additional funding and training, its role could be broadened to include targeted advice on sustainable finance, ESG compliance, digitalisation strategies, and the use of EU-level tools like the Access2Finance or Access2Markets portals. This would turn EEN into a more versatile “first responder” network for SMEs seeking support across multiple domains.

Second, the introduction of a Digital Guarantee Scheme could offer significant added value. Many SMEs, especially in lagging regions, remain hesitant to invest in costly digital upgrades due to the financial risks involved. A guarantee instrument, similar to the ones used for bank loans, but specifically designed for digital investments (such as AI tools, cloud software, or digital logistics platforms), would help de-risk private lending and encourage more SMEs to adopt advanced technologies.

Third, the Strategic Technologies for Europe Platform (STEP) could be leveraged more effectively to support innovative SMEs. Although STEP is primarily focused on large-scale industrial competitiveness, its funding streams and strategic projects often align with the types of activities SMEs engage in—particularly in cleantech, biotech, and digital technologies. Simplifying access to STEP for high-

potential SMEs and allowing for smaller project consortia would help diversify its impact and align it more closely with SME needs. This could be achieved through simplified calls for proposals, advisory services tailored to smaller firms, or national co-financing schemes.

In summary, adapting and enhancing these instruments would not only expand the toolbox available to SMEs but also ensure that support is more accessible, practical, and responsive to the unique challenges faced by smaller firms. Strengthening these tools would help bridge the gap between policy ambition and actual implementation, making EU-level support more impactful across all Member States.

2.4. European integration prospects for the application in Ukraine of the EU experience in supporting small and medium-sized enterprises

In the context of post-war recovery and EU integration, small and medium-sized enterprises (SMEs) are expected to play a pivotal role in rebuilding Ukraine's economy. According to recent assessments, Ukraine's business environment, while significantly challenged by the ongoing war, demonstrates resilience and innovation potential. Key sectors such as agriculture, IT, metallurgy, and mechanical engineering continue to serve as the backbone of the national economy.

The IT sector, in particular, has shown dynamic growth and international competitiveness. Ukrainian tech companies are increasingly recognized as global outsourcing partners, contributing to employment and digital exports. At the same time, Ukraine's agricultural industry—one of the world's largest grain exporters—remains crucial for global food security and national economic stability.

SMEs are central to these developments. Although exact figures vary, SMEs account for a large share of employment and private sector activity in Ukraine. Government initiatives—such as digitalization through the Diya app—have reduced

bureaucratic barriers and simplified business operations, fostering entrepreneurship and innovation.

However, major challenges persist. The war has damaged infrastructure, disrupted supply chains, and increased investor risk, making access to finance even more difficult for SMEs. Additionally, fragmented policy coordination and inconsistent support at the national and regional levels create further obstacles. Despite these setbacks, Ukraine's SMEs are seen as key players in future reconstruction efforts, especially through their flexibility, local engagement, and potential to integrate into EU supply chains. [59]

Small and medium-sized enterprises (SMEs) are a critical part of Ukraine's economy. They ensure financial stability, create jobs, fill the market with goods and services, and contribute to forming a competitive business environment. SMEs are flexible, quick to adapt to change, and often at the forefront of adopting new technologies. Their development is closely linked to building a strong middle class and reducing social inequality, which makes them essential not just economically, but socially as well.

Before the full-scale Russian invasion, the structure of entrepreneurship in Ukraine remained stable for years: around 95% of all businesses were classified as small, and nearly 5% as medium-sized.

Table 2.1 Dynamics of the number of large, medium, and small enterprises in Ukraine, 2014–2022

Year	Enterprises						
	Total	Large		Medium-sized		Small	
		unit	%	unit	%	unit	%
2014	341 001	497	0,15	15 906	4,66	324 598	95,19
2015	343 440	423	0,12	15 203	4,43	327 814	95,45
2016	306 369	383	0,13	14 832	4,84	291 154	95,03
2017	338 256	399	0,12	14 937	4,42	322 920	95,47
2018	355 877	446	0,13	16 057	4,51	339 374	95,36
2019	380 597	518	0,14	17 751	4,66	362 328	95,2

2020	373 822	512	0,14	17 602	4,71	355 708	95,15
2021	370 834	610	0,16	17 502	4,72	352 722	95,12
2022	261 924	494	0,19	14 783	5,64	246 647	94,17

Source:[59]

As shown in Table 2.1, in 2020 there were 355,708 small enterprises and 17,602 medium-sized ones. However, the war has significantly impacted the SME sector. In 2022 alone, the total number of small enterprises dropped by 31%, and medium-sized ones by 17% compared to 2020. Many businesses were forced to shut down, relocate, or reduce production, which led to rising unemployment and lower business activity. According to a UNDP study from late 2023, only 36.5% of SMEs continued operating during the war, while 6% had to suspend work for over a year. The hardest-hit areas were in eastern and southern Ukraine, where up to 18% of SMEs stopped operating for extended periods. The most affected sectors included construction, transport, hospitality, and tourism. In contrast, agriculture and IT remained relatively more stable.

In addition to a reduced number of firms, output and sales volumes have also declined. Nevertheless, SMEs—particularly medium-sized ones—have shown remarkable resilience. In 2022, they accounted for 44.4% of total production volume, with small enterprises contributing 19.4%, even slightly exceeding 2021 levels.

SMEs also remain the largest source of employment. Around 50% of the workforce is employed by medium-sized businesses, and over 25% by small ones. They played a key role in Ukraine's economic rebound in 2023, partly due to a pivot toward producing dual-use goods and supplying the defense sector.

Agriculture, industry, and construction are the sectors where SMEs provide the most jobs. For instance, in 2022, 53.3% of agricultural workers were employed by medium enterprises and 38.8% by small ones.

However, the human cost of war is also evident. In 2023, nearly one in five SMEs had to cut their workforce by half or more. At the same time, only a third of firms managed to keep their staff levels stable

Many workers were on forced leave or reduced wages, further affecting household incomes.

Looking ahead, there is cautious optimism. Around 44.5% of SMEs expect to increase staff in 2024, especially in the western and central regions. Key growth sectors include agriculture, construction, energy, and consulting. Many businesses also plan to raise salaries — 87% of surveyed firms said they would do so. Most planned modest increases (up to 20%), but some were ready for larger raises.

Even in wartime, Ukrainian SMEs have shown resilience. Some adapted by shifting to high-demand goods like logistics or construction services in liberated regions. Others succeeded by focusing on exports: in 2023, 40% of SMEs engaged in foreign trade, with another 8% planning to start in 2024.[59]

Still, challenges remain. The top issues for SMEs are lack of skilled workers (42.1%), corruption, blocked tax invoices, logistical disruptions, and limited access to finance.

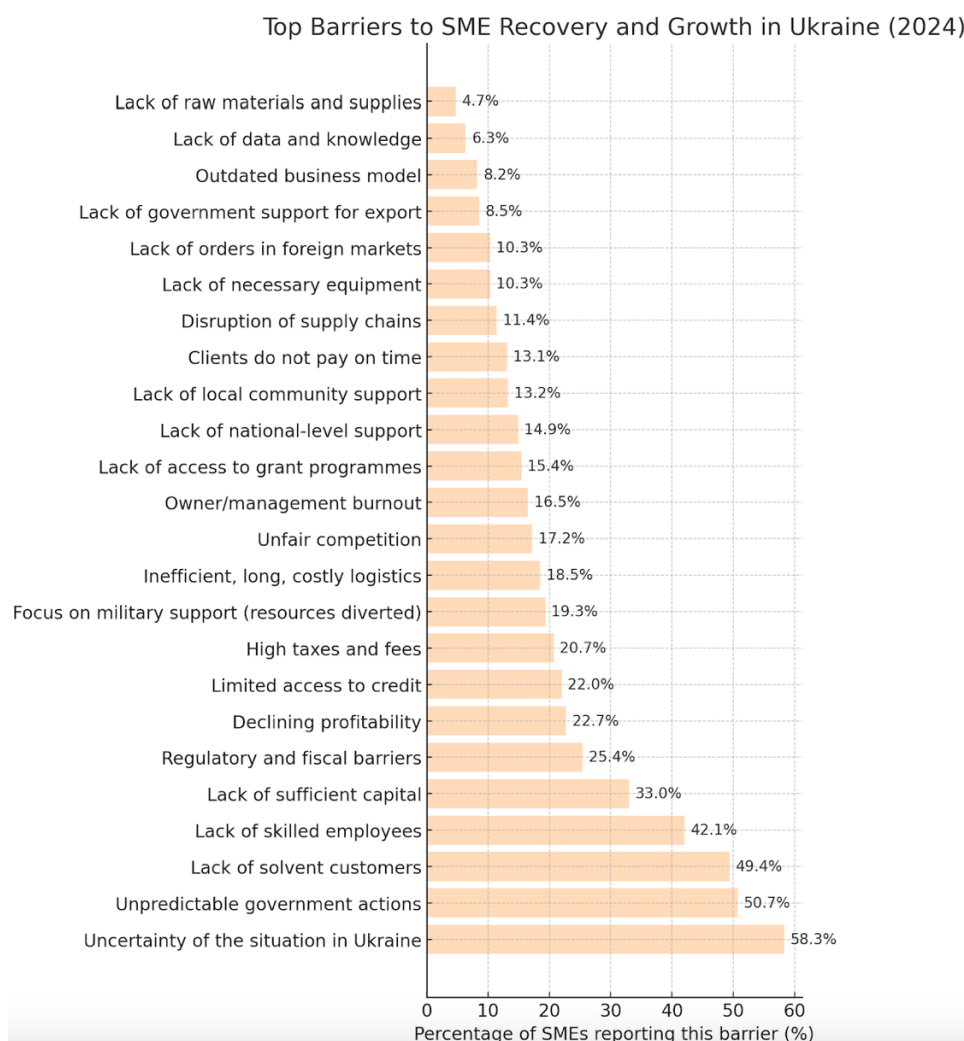


Figure 2.9 Top barriers to SME recovery and growth in Ukraine (2024)

Source:[59]

One of the most tangible ways Ukraine can benefit from European integration is through participation in EU-level programmes that support small and medium-sized enterprises (SMEs). These programmes are specifically designed to address the structural needs of SMEs, including access to finance, innovation capacity, internationalization, and digital transformation. As Ukraine deepens its alignment with EU policies and regulations, closer cooperation with these initiatives could significantly enhance the country's business environment and SME competitiveness.

By joining the SMP, Ukraine could benefit from various targeted tools that improve SME competitiveness, reduce regulatory burdens, and open access to the EU's single market. The programme also provides funding for projects that support business networks, quality standards, and sustainability in entrepreneurship. Importantly, SMP maintains several COSME-originated instruments, including support for SME clusters, digitalization, and green business models — all highly relevant for Ukraine's current post-war recovery strategy.

For Ukrainian SMEs, participation in the SMP would not only offer financial and advisory support, but also open the door to policy harmonization and institutional cooperation with EU partners. This could significantly reduce entry barriers for Ukrainian firms into the EU market, increase trust among international investors, and create a platform for long-term integration.

The Enterprise Europe Network (EEN) is the EU's largest support network for small and medium-sized enterprises with international ambitions. It operates in over 60 countries, offering services such as cross-border matchmaking, legal advice on EU legislation, innovation audits, and technology transfer opportunities.

For Ukraine, participation in the EEN would create a direct link between local businesses and the EU's innovation and trade ecosystems. Ukrainian SMEs would gain access to trusted partners across Europe, receive guidance on entering new markets, and participate in innovation partnerships and research collaborations. This would be

especially beneficial for export-oriented enterprises and tech start-ups looking to scale internationally.

Moreover, EEN involvement would improve Ukraine's regional business infrastructure by integrating local support centers (e.g., chambers of commerce, incubators) into a transnational system of SME assistance. This decentralized, yet coordinated model of support would greatly enhance Ukraine's capacity to deliver EU-compliant advisory and partnership services at the local level.

The European Investment Bank (EIB) and its subsidiary, the European Investment Fund (EIF), play a critical role in the EU's financial architecture for SMEs. The EIB provides long-term loans and blended finance solutions, while the EIF manages venture capital, guarantee schemes, and microfinance instruments — especially targeting innovative and high-risk SMEs.

For Ukraine, closer cooperation with these institutions would be a strategic opportunity to address the chronic financing gap that hinders SME growth. By participating in EIF guarantee programmes and EIB-supported credit lines, Ukrainian banks and non-bank financial institutions could significantly expand lending to small businesses, especially in sectors like green technology, digital transformation, and export development.

A national guarantee fund, co-financed with EIF/EIB support, could help reduce risks for lenders and improve financing conditions for SMEs — an approach widely used in EU member states. Additionally, alignment with EIF/EIB standards would prepare Ukrainian financial intermediaries for eventual integration into the broader EU capital market.

Horizon Europe is the EU's main research and innovation programme, with a budget of over €95 billion for 2021–2027. It provides funding for collaborative projects, start-ups, and SMEs working on frontier technologies and societal challenges, including climate change, digitalization, and health.

Ukraine already participates in Horizon Europe as an associated country, which gives Ukrainian SMEs the opportunity to access grants, equity investments (via the EIC Accelerator), and innovation support services. Horizon Europe is particularly beneficial

for science-based and high-tech SMEs, which can use it to collaborate with European partners, access new markets, and receive support for scaling innovations.

The Strategic Technologies for Europe Platform (STEP), launched in 2023, complements Horizon Europe by focusing on the development and deployment of critical technologies in sectors such as semiconductors, clean energy, and biotech. While primarily targeted at boosting EU industrial leadership, STEP is also open to associated countries and could serve as a new channel for Ukrainian SMEs to participate in high-impact projects. Through STEP, Ukrainian innovators could benefit from EU-level coordination, funding pools, and visibility mechanisms such as the “STEP Seal,” which helps attract public and private investment.

Successful integration into the European Union’s economic space requires not only access to financial and technical instruments, but also significant institutional and policy reforms. Aligning Ukraine’s national SME support system with EU structures involves building a coherent governance model that mirrors the best practices of the European Union while responding to local needs. Two key areas for improvement are the establishment of a dedicated national SME agency and the enhancement of policy coordination across government levels.

One of the most important institutional steps Ukraine could take is the creation of a specialized national agency for SME development, modelled after the European Commission’s Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW). This agency would serve as the central body responsible for developing and coordinating SME policy, monitoring programme implementation, and liaising with international partners, including EU institutions.

Such an agency would improve the consistency and visibility of SME support measures, reduce administrative fragmentation, and act as a single point of contact for both domestic entrepreneurs and EU-level stakeholders. Its core functions could include:

- Drafting and implementing SME development strategies aligned with EU frameworks (such as the Small Business Act and SME Strategy for a Sustainable and Digital Europe);

- Overseeing the allocation and monitoring of financial instruments (including EIF-backed guarantees and EU co-financed grants);
- Coordinating with regional and municipal support structures to ensure nationwide consistency;
- Promoting SME participation in EU programmes such as Horizon Europe, EEN, and the Single Market Programme.

In the context of Ukraine's EU integration, such an agency would not only streamline national efforts, but also demonstrate institutional readiness to adopt and implement European standards.

A second critical reform area is the strengthening of policy coordination between central and regional levels of government. EU practice places a strong emphasis on subsidiarity and coherence between national policies and regional development strategies. In Ukraine, however, fragmentation between ministries, agencies, and local authorities often results in inconsistent SME support and limited awareness of available tools — particularly outside major urban centers.

Improving horizontal coordination between ministries (e.g., economy, digitalization, finance) and vertical coordination with oblast-level administrations and city development agencies would help eliminate overlaps, reduce bureaucratic inefficiencies, and ensure that support measures reach SMEs in all regions, including war-affected and rural areas.

Key actions could include:

- Developing regional SME support roadmaps that reflect EU cohesion policy principles and are aligned with national priorities;
- Training local government officials on EU programmes and eligibility criteria;
- Creating inter-agency coordination platforms to share data, best practices, and monitor implementation;
- Involving local business associations, chambers of commerce, and civil society in the policymaking process to ensure bottom-up alignment.

In the long term, these reforms would create a more responsive, transparent, and EU-compatible institutional framework — essential for managing external assistance, attracting foreign investment, and ensuring SMEs can participate effectively in the European single market.

To support the growth and resilience of small and medium-sized enterprises (SMEs), Ukraine must modernize and expand the range of financial and digital instruments available to entrepreneurs. This is especially important in the context of post-war recovery and gradual European integration. The experience of the European Union shows that combining financial incentives with digital and green transformation support creates a strong foundation for inclusive and sustainable SME development.

One of the most pressing challenges for Ukrainian SMEs is access to affordable financing. Many small businesses lack sufficient collateral or credit history, which limits their ability to secure bank loans. To overcome this barrier, Ukraine could establish a national SME guarantee fund, co-financed by the European Investment Bank (EIB) and supported by the European Investment Fund (EIF).

Such a fund would help reduce lending risks for banks and other financial institutions by providing guarantees for SME loans, particularly for start-ups, high-risk sectors, and companies located in conflict-affected regions. By following EU best practices, the fund could adopt flexible guarantee models that encourage innovation, green investment, and digital transformation. Over time, this mechanism would improve financial inclusion, unlock private capital, and strengthen the credit ecosystem for small businesses.

In line with EU programmes such as the Digital Europe Programme and national digital voucher schemes implemented in countries like Estonia and Portugal, Ukraine could launch a dedicated digital voucher programme to support the digitalization of SMEs. These vouchers would provide partial or full reimbursement for investments in modern technologies, including:

- E-commerce platforms and website development;
- Cloud computing and cybersecurity tools;

- Artificial intelligence (AI) applications for marketing, production, and logistics;
- Enterprise Resource Planning (ERP) and customer relationship management (CRM) systems.

This instrument would be particularly beneficial for micro and small enterprises with limited IT budgets, enabling them to participate more actively in the digital economy and cross-border trade. In addition, vouchers could be tailored to sector-specific needs — such as agriculture, retail, or manufacturing — and linked to regional digital innovation hubs.

In line with the European Green Deal and SME Strategy for a Sustainable and Digital Europe, Ukraine should consider introducing green tax incentives and subsidies that encourage small businesses to invest in energy efficiency and sustainable production. These could include:

- Tax credits for the purchase of energy-saving equipment;
- Grants for retrofitting buildings or adopting renewable energy systems;
- Subsidized loans for clean technology projects;
- Bonus depreciation schemes for eco-friendly machinery and vehicles.

Such instruments would accelerate the green transformation of Ukrainian SMEs, reduce operating costs, and align domestic business practices with EU environmental standards. They would also help prepare Ukrainian producers to meet EU market entry requirements, particularly in light of the Carbon Border Adjustment Mechanism (CBAM) and growing global demand for sustainable supply chains.

In conclusion, the integration of Ukraine's SME support system with European practices represents a promising direction for strengthening the national economy and increasing business resilience in times of crisis and recovery. The experience of the European Union demonstrates that a combination of institutional coordination, accessible financial instruments, and targeted digital and green support can significantly improve the business environment for small and medium-sized enterprises. Ukraine's interest in EU programmes such as COSME, the Enterprise Europe Network, and the European Investment Fund shows a clear political and economic intention to move

closer to European standards. However, to fully unlock these benefits, Ukraine needs to take further steps to adapt its institutional framework and policy tools. This includes establishing a dedicated SME agency, improving access to finance through guarantee schemes, and introducing incentives for digitalization and sustainable business practices.

By learning from the EU's experience and adapting best practices to the Ukrainian context, the country can ensure that its SMEs become active drivers of economic recovery, job creation, and future integration with the European economic space.

CONCLUSIONS

Small and medium-sized enterprises (SMEs) represent a foundational pillar of economic development, innovation, and employment both within the European Union and in Ukraine. The present bachelor's thesis was dedicated to a comprehensive analysis of state support mechanisms for SMEs in the EU and explored how this experience could inform and improve SME policy in Ukraine, especially within the context of European integration and post-war recovery.

The primary objective of this study was to assess how various institutional, financial, and non-financial support systems contribute to the sustainable development of SMEs, and to provide recommendations for enhancing policy frameworks in Ukraine by drawing on the EU's experience. Through a structured investigation, the thesis has achieved the following core results:

The theoretical part of the study (Chapter 1) clarified the economic and social roles of SMEs and examined major academic approaches to understanding their development and challenges. It emphasized that SMEs are not only business entities but also engines of employment, regional development, innovation, and social inclusion. Various theories—such as the neoclassical cluster model, resource-based view (RBV), institutional theory, and innovation network theory—were discussed to highlight the complexity and diversity of SME development across regions and sectors.

Additionally, a historical review of SME support systems in developed countries revealed a gradual transformation from protectionist and welfare-oriented models toward innovation-driven, competitive, and sustainable strategies. Major milestones, such as the establishment of the U.S. SBA (1953), Germany's KfW Bank, and Japan's SME Agency, illustrated different national approaches, all of which informed broader regional practices like those adopted in the EU.

The empirical-analytical part of the thesis (Chapter 2) provided a data-based overview of the development of SMEs in the European Union between 2018 and 2025. The research showed that SMEs in the EU constitute 99.8% of all enterprises, employ almost 90 million people, and contribute significantly to added value. Within this

structure, micro-enterprises represent the largest share and the highest post-pandemic growth potential, especially in employment creation.

Two strategic transformation processes were examined in detail: digitalisation and the green transition. The analysis revealed strong disparities between countries in digital intensity and readiness. While countries like Finland have achieved high digital adoption rates among SMEs, others—such as Bulgaria—still lag behind, particularly in advanced technology uptake and digital skills. Similar disparities were noted in green finance access, where SMEs face major reporting burdens and funding obstacles despite their potential to drive sustainability.

In terms of state support instruments, the EU offers a wide ecosystem of programmes and tools to strengthen SMEs. Key initiatives include:

- The Small Business Act (2008), which institutionalized the "Think Small First" principle;
- COSME (2014–2020), which funded over half a million SMEs;
- Horizon Europe and the EIC Accelerator, supporting high-risk innovation;
- InvestEU and its SME Window, which has mobilized over €280 billion;
- The Digital Europe Programme and the SME Relief Package (2023), offering targeted support for digital and green transition.

The thesis revealed that while the EU has created a coherent multi-level support system—including financial, advisory, and regulatory mechanisms—challenges persist in accessibility, simplification, and regional cohesion. Productivity gaps, digital inequality, administrative burdens, and underdeveloped capital markets continue to affect the effectiveness of SME policies.

The third section of the thesis (subsections 2.3 and 2.4) focused on two key directions: how the EU can improve its SME support system further, and how Ukraine can adapt EU best practices to its own context.

Within the EU, the study proposes:

- Simplifying green finance frameworks and introducing a harmonised definition of green loans for SMEs;

- Reducing the digital divide through digital vouchers, skills training, and infrastructure development;
- Expanding support for inclusive entrepreneurship, especially for women and youth;
- Strengthening tools like the Enterprise Europe Network (EEN), Digital Guarantee Schemes, and STEP to offer more tailored and practical assistance.

These recommendations aim to better align financial instruments with SME realities, increase the visibility and accessibility of support programmes, and embed innovation and inclusiveness into the core of SME policy.

For Ukraine, the study identified the following priority areas for European integration:

- Participation in EU programmes such as the Single Market Programme (SMP), Horizon Europe, and EEN;
- Establishment of a national SME development agency, modelled on the EU's DG GROW, to centralize and coordinate policy;
- Creation of a national SME guarantee fund with EIF/EIB backing;
- Launch of digital voucher programmes and green tax incentives to modernise SMEs in line with EU standards;
- Strengthening regional and vertical policy coordination to reduce administrative fragmentation.

Ukraine's participation in EU-backed SME initiatives not only offers access to funding and expertise but also serves as a pathway to regulatory and institutional harmonisation. As the country advances in its integration process, adopting these frameworks could enhance competitiveness, attract foreign investment, and increase resilience across the SME sector.

The recommendations outlined in this study are designed to support policy innovation both at the EU and Ukrainian levels. To ensure successful implementation, the following steps are proposed:

- Establish monitoring systems to evaluate SME support effectiveness and adjust programmes in real-time;
- Prioritise user-friendly digital platforms that offer centralised access to EU and national support services;
- Encourage co-financing schemes between the EU and Ukraine to build trust and leverage international development funds;
- Promote stakeholder consultation and participatory policymaking to ensure SME voices are heard at all levels.

Further research is recommended in the following areas:

- Comparative impact assessments of EU SME programmes across Member States;
- Evaluation of resilience mechanisms developed during the COVID-19 crisis;
- Deep-dive studies on SME access to capital markets and private equity;
- Sector-specific studies on SME digitalisation in agriculture, manufacturing, and creative industries in Ukraine.

The findings of this thesis confirm that SMEs play a critical role in achieving economic resilience, inclusive growth, and strategic autonomy. The EU's evolving policy landscape demonstrates the potential of integrated support systems grounded in innovation, sustainability, and fairness. For Ukraine, drawing on this experience is not only practical—it is essential for rebuilding a dynamic economy capable of weathering future crises and succeeding within the European community.

With the right institutional frameworks, flexible financing tools, and policy commitment, SMEs can become the backbone of a more modern, innovative, and resilient European and Ukrainian economy.

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