



**European Committee
of the Regions**

ECON-VII/42

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OPINION

Supporting SMEs in regional value chains – fostering the proximity economy

THE EUROPEAN COMMITTEE OF THE REGIONS

- is concerned over the weak economic performance and decreasing competitiveness of the European economy and in particular its SMEs, who face unprecedented uncertainties related to volatility in the current global economic context, including supply chain constraints, labour and skills shortages, and unfair competition practices, combined with high energy prices and rising regulatory burden in Europe that make doing business more challenging for SMEs;
- strongly supports the advocacy of the Draghi report for a strong single market, as well as for the EU to refocus its work, prioritising policies and actions where the EU has the greatest added value;
- calls on the Commission to step up its efforts to lower the regulatory burden for SMEs and fully acknowledge the ‘think small first’ principle as a genuine paradigm valid throughout the entire EU legislative cycle;
- supports the objectives of Enrico Letta’s new freedom to stay concept and suggests to underpin it with strong measures supporting the economic reason to stay, by accompanying urgently needed Single Market reforms with instruments boosting regional convergence and territorial cohesion;
- agrees that the development of proximity economy at local and regional level aligns with the key EU objectives in terms of fostering competitive, resilient and sustainable economic growth.
- is convinced that digitalisation can reinvigorate the potential of proximity economy and enhance its further growth, though many small SMEs and micro-enterprises operating in local ecosystems need further support and guidance to turn the digital challenge into opportunities.

Rapporteur:

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Reference document:

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Opinion of the European Committee of the Regions
Supporting SMEs in regional value chains – fostering the proximity economy

I. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS (CoR)

Competitiveness and global value chains

1. takes note of the fact that, after decades of growth fuelled by increasing international trade and globalisation, the world is entering a new economic megacycle, which may be characterised by increased protectionism and rising global competition for markets and resources, underpinned by the rise of artificial intelligence and unequal ambitions as regards decarbonisation;
2. recognises that, in the aftermath of the COVID-19 pandemic, Russia’s war of aggression against Ukraine and other geopolitical tensions, and further exacerbated by technological development, governments and economic players are increasingly seeking security and resilience, weighing up the pros and cons of global value chains; this implies diversifying supply base, reshoring and nearshoring manufacturing capacities and optimisation of business models;
3. believes that the global trend towards bringing value chains closer to home markets, with value chains relying on local suppliers and customers, served by manufacturing ‘in the region, for the region’, can create new growth opportunities; shifting production and consumption (back) to local and regional markets can enable endogenous economic potential to thrive;
4. is concerned over the weak economic performance and decreasing competitiveness of the European economy and in particular its SMEs, who face unprecedented uncertainties related to volatility in the current global economic context, including supply chain constraints, labour and skills shortages, and unfair competition practices, combined with high energy prices and rising regulatory burden in Europe that make doing business more challenging for SMEs;
5. welcomes the Letta and Draghi Reports on the future of the EU Single Market and competitiveness, and hopes the severe diagnoses of the state of the EU’s economic performance and future outlook will create the necessary sense of urgency to enhance the EU’s competitiveness and Single Market; welcomes the Budapest Declaration on the New European Competitiveness Deal adopted by EU leaders¹, and its commitment to making the Union more competitive, productive, innovative and sustainable, building on economic, social and territorial cohesion, and ensuring convergence and a level playing field both within the Union and globally;
6. strongly supports the advocacy of the Draghi report for a strong single market, as well as for the EU to refocus its work, prioritising policies and actions where the EU has the greatest added value; believes that this will lead to greater autonomy for Member States, regions and cities,

¹ <https://www.consilium.europa.eu/en/press/press-releases/2024/11/08/the-budapest-declaration>.

allowing them to tailor European policies and goals to best fit their operational practices and the dynamics of their region;

7. regrets the negative effects of the growing number of EU legislation on SMEs and competitiveness; reiterates the call by the Draghi report that before adopting new legislation, the Commission should conduct a systematic assessment and stress-testing of all existing EU laws and regulations at the start of each mandate; this should be followed by the codification and consolidation of EU legislation by policy area, including simplifying and removing overlap and inconsistencies across the whole legislative chain, in order to facilitate a more competitive environment for SMEs to grow;
8. welcomes the call contained in the missions' letters sent by the President of the European Commission to Commissioners-designate to ensure that existing rules are fit-for-purpose and focus on reducing administrative burdens and simplifying legislation, hence contributing to reducing reporting obligations by at least 25% – and for SMEs at least 35%²; applauds the Commission's commitment to extend this 25% and 35% burden reduction to cover the costs of all administrative burdens and invites the Commission to publish the upcoming Simplification Omnibus packages without delay to provide especially SMEs with much-awaited regulatory relief;³
9. supports the objectives of Enrico Letta's new freedom to stay concept and suggests to underpin it with strong measures supporting the economic reason to stay, by accompanying urgently needed Single Market reforms with instruments boosting regional convergence and territorial cohesion; sees the EU cohesion policy and services of general interest as the right policy tools to achieve those objectives; advocates for putting in place incentives to encourage people not to move away from smaller towns and rural settlements, while ensuring a vibrant and competitive SME landscape in EU regions where businesses provide employment and easily accessible goods and services across the EU;

Supporting SMEs

10. supports a strong place-based dimension in economic development, where local, often family-run SMEs can grow into substantial economic players and often suppliers to large multinational companies at regional level, producing in line with the latest technological trends and leading the way in green compliance and vocational training. For them, it is essential that the region attracts foreign direct investments (FDI) and has as many supplier orders as possible. To this end, it is particularly important for regional and local authorities to launch specific initiatives to channel talent and international investment into SMEs in their respective areas, facilitating their participation in global value chains, the creation of high value-added jobs and the generation of local purchasing power to allow the proximity economy to thrive;

² https://commission.europa.eu/document/download/1bf50cbe-45a4-4dc5-9922-52c6c2d3959f_en?filename=Mission%20letter%20-%20FITTO.pdf.

³ https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en.

11. supports the development of European interregional value chains by supporting greater integration of and collaboration among place-based innovation ecosystems; sees a strong role of EU funding for this purpose, notably through Horizon Europe and the Digital Europe Programme, though is concerned about the fragmentation of the funding which needs to be further streamlined for local and regional beneficiaries to fully reap its benefits; the subsidiarity principle must be respected in all of these measures;
12. while re-affirming the need to respect the subsidiarity principle, calls for more coherence and convergence in policies at European, national and regional levels and more widespread cross-border practices, including through EU instruments such as the Enterprise Europe Network (EEN) and town-twinning;
13. emphasises, in line with the CoR opinion on Strengthening regional economic resilience⁴, the crucial role of SMEs in diversifying regional economies and supply chains, and thereby contributing to regional economic resilience, as the dependence of regions on a limited number of big employers increases their susceptibility to economic shocks in cases of divestment; notes at the same time that crises often hit SMEs the hardest;
14. would like to see stronger integration of SMEs in regional value chains; recommends the use of the collective intelligence of EU place-based clusters and industrial networks in implementing the key components of the Green Deal Industrial Plan and making value/supply chains more resilient, creating synergies and cooperation with SMEs; to this end, it would be particularly useful to implement policies to promote clusters at local and regional level;
15. is concerned however that smaller and more vulnerable micro-enterprises face unique challenges, including access to new regional, national and international markets, ensuring smooth business succession, sufficient access to finance, penetrating international/global competition, rising rents in cities, scaling up, embracing innovation and keeping up with digitalisation; reiterates its call for implementing the measures contained in the SME Relief Package within a close partnership with local and regional authorities and other territorial actors, which are at the forefront of creating specific strategies for economic development and support for SMEs, start-ups and the self-employed, helping them obtain the necessary resources and adapt to the changing economic landscape; believes that the upcoming proposal for a 28th legal regime⁵ to support companies to invest and operate in the single market without facing 27 distinct legal regimes would address many of these challenges, notably for start-ups and scale-ups;
16. calls on the Commission to step up its efforts to lower the regulatory burden for SMEs and fully acknowledge the ‘think small first’ principle as a genuine paradigm valid throughout the entire EU legislative cycle; expresses a strong hope that the Commission, as well as the co-legislators, will fully embrace and implement this principle in the new legislative mandate and commit to

⁴ CoR opinion Shock-proofing European regions: Strengthening local and regional economic resilience in the strategic evolution of the Single Market (Rapporteur: Ilpo Heltimoinen (FI/ECR)).

⁵ https://commission.europa.eu/document/download/f80922dd-932d-4c4a-a18c-d800837fbb23_en?filename=COM_2025_45_1_EN.pdf.

reducing the cumulative impact of European and national legislation on SMEs; welcomes the upcoming proposal for a new definition of small mid-caps⁶, which will benefit from regulatory simplification in the same spirit as SMEs, but emphasises that the creation of this new category of companies should not undermine the tailor-made simplification efforts for SMEs specifically;

Fostering the proximity economy in EU regions and cities

17. welcomes the European Commission's initiative to further investigate the socio-economic performance of the proximity economy, its overlaps and synergies with the social, collaborative and circular economy and efforts to develop a monitoring framework;
18. notes that proximity economy is an ecosystem based on short value chains within a close geographical area encompassing activities of local industry and small businesses working across different economic sectors; their long-term orientation as part of the local community – for instance family businesses thinking in a multigenerational perspective, microenterprises offering services specific to the locality or small and medium-sized enterprises acting as the main employers – promotes resilience and sustained, long-term economic growth and development;
19. stresses that urban development based on proximity promotes economic resilience and social and environmental sustainability; notes that the economic development of a city is profoundly interconnected with urban planning, and that the implementation of 15-minute cities has great potential to boost economic development based on proximity;
20. highlights that infrastructure is necessary for local businesses, whether in industrial parks, industrial incubators or laboratories. A key factor for local businesses to be founded and to thrive is to have access to affordable space to operate; highlights also the need for quality transport infrastructure and connectivity, especially to rural and peripheral regions;
21. regrets that the emergence of large e-commerce players has had an adverse effect on local commerce; sees the rise of the proximity economy as an opportunity to reignite economic life by encouraging small businesses to re-invent themselves and experiment with new, digital and low-carbon business models;
22. acknowledges that this will also require changing consumers' mindset and calls for promoting more locally-orientated, sustainable consumption habits; points out that certifications and trademarks can reinforce the local dimension and increase the attractiveness of local products; encourages local and regional authorities to further promote the visibility of local products internationally;
23. agrees that the development of proximity economy at local and regional level aligns with the key EU objectives in terms of fostering competitive, resilient and sustainable economic growth, while increasing the EU's strategic autonomy; fostering the proximity economy implies more policies focus on place-based development, community engagement, and promotion of sustainable business practices in a context of 'glocalisation' and a growing role for cities, not

⁶ https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en.

just as public service providers but also as drivers of the economy from a position of leadership in creating public private partnership networks;

24. calls on the European Commission to appropriately embed the concept of the proximity economy into suitable EU initiatives, such as the Smart Specialization (S3) and the New EU Innovation Agenda, thus encouraging regions, rural communities and urban areas to link the proximity economy to their regional strategies; calls also for increased funding for proximity economy actors and stakeholders;
25. asks the Commission to raise awareness on different business models of the proximity economy across different industrial ecosystems; while the sectoral approaches may differ (e.g. the manufacturing sector's focus on place-based innovation, agri-food focus on sales efficiency, construction focus on circularity, energy sector on community funding, etc.), they collectively illustrate a shared vision of community empowerment and local value creation;
26. stresses that the proximity economy requires a strong local administration to put in place enabling local and regional conditions based on a mix of regulatory, planning and economic measures; supports the development of new policies and exchange of best practices through interregional collaboration;
27. encourages local authorities in creating 'complete' neighbourhoods, for example by promoting suburban 'centres' which help to create a balance across cities, that offer a density and diversity of services and amenities ensuring greater quality of life for its residences; by investing in and supporting local businesses, cities can help to retain the purchasing power in the area, create jobs, attract residents and tourists, enhance the city's sense of community and identity, and maintain a dynamic urban environment;
28. highlights the strategic role of public procurement in incentivising the markets to develop new innovative and sustainable products and services and in facilitating market access for proximity businesses; in the view of the EU procurement directive review, suggests to explore measures boosting SMEs participation and aligning them with proximity aspects, while emphasising the importance of social conditionalities to ensure fair labour standards and inclusive growth. In its judgment of 27 October 2005, Case C-234/03, Contse SA and others, the Court of Justice of the European Union points out that proximity clauses are not prohibited under EU law. Buying proximity helps to significantly reduce the environmental footprint, avoids the serious supply problems linked to the recent closures of transport and distribution chains caused by the COVID 19 pandemic or the war in Ukraine, and, lastly, is a means of territorial cohesion that mitigates the phenomenon of the increasing emptying of rural environments;
29. invites LRAs to encourage entrepreneurship and the transfer of activities that help viable businesses that are at risk of disappearing to carry on by supporting local entrepreneurs to adjust their model to proximity economy, incentivising local production and consumption, and investing in networking and collaboration among local businesses and supporting their access to market;

30. points out that the enabling conditions for the development of the proximity economy are very different in regions with natural and demographic handicaps, such as outermost regions that are geographically distanced from European value chains, as well as peripheral and rural areas, whereas also sees opportunities created by the economy of short value chains; highlights that the agri-food sector has developed some remarkable best practices of proximity-based supply chains that can be replicated in many rural territories with an active involvement of local authorities;
31. stresses that attracting and retaining skills is crucial for the proximity economy to thrive; recalls that difficulties in finding employees with the right skills has been quoted as a key barrier in the last Eurobarometer survey⁷ by a majority micro, small and medium companies;
32. points out the need to develop management skills which are essential for companies to flourish and for young people to start businesses especially in areas that are characterised by lower-than-average entrepreneurial activity; calls for projects to be funded which include peer-to-peer learning opportunities, accessible mentoring services and local knowledge transfer, as well as educational programmes for young people that foster the knowledge, skills and attitudes that form the basis of entrepreneurship and entering the labour market;
33. underlines that integrating learning and employment policies is vital to align workforce skills with industry demands, and that the best way to make it happen is through a close collaboration between governments, educational institutions and industries, as part of placed-based entrepreneurial ecosystems;
34. encourages local and regional actors to help address the succession challenge faced by many businesses in the proximity economy; calls on the EU and national authorities to create coherent policy frameworks for business transfers and invites more regional awareness raising and cross-border exchange of best practices on facilitating business transfer ecosystems; to promote the transfer of businesses, specific programmes (targeting young people and young adults) should be rolled out within and outside mainstream education;

Driving the twin transition of the proximity economy

35. emphasises that the social economy complements proximity economy with similar objectives, aiming to create economic value that benefits local communities; is convinced of a need for tailored support for the green and digital transition of the proximity and social economy sector via the Single Market Programme (SMP); also suggests that a specific work strand of the ongoing Intelligent Cities Challenge (ICC) project is dedicated to providing tailored advice, learning and collaboration opportunities for European municipalities wishing to develop their proximity economies and that this project be complemented by initiatives promoting the social economy in local areas;

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[European Year of Skills - Skills shortages, recruitment and retention strategies in small and medium-sized enterprises - September 2023 - Eurobarometer survey \(europa.eu\)](#).

36. highlights strategic links between proximity and circular economy, which are critical for promoting circular activities based on re-use, repair and recycle; notes in particular a strong role of social economy organisations in further expanding circular economy practices at local level; welcomes in this respect the recently published SMP calls⁸ that address capacity building for SMEs in the social economy and developing partnerships for circular value chains;
37. stresses that, in addition to enhanced strategic material use, saving raw materials and producing less waste, a circular economy increases the EU's strategic autonomy by reducing dependence on the need for new imports of products and primary resources, making our territories and growth model more sustainable, competitive and resilient;
38. is convinced that digitalisation can reinvigorate the potential of proximity economy and enhance its further growth, though many small SMEs and micro-enterprises operating in local ecosystems need further support and guidance to turn the digital challenge into opportunities; highlights the importance of local partnerships between the public and private sectors and universities in advancing digitalisation and AI adoption, stressing the need to encourage programmes that incorporate digital transformation actors that advise businesses from within and explain how they should implement their digitalisation processes, adopting a practical and real approach;
39. calls on the European Commission to provide technical guidance and financial support for the deployment of digital solutions that serve local communities; investing in smart cities and communities and promoting and supporting the drawing up and implementation of specific local strategies in this field that help to develop local digital infrastructure and boost skills development; further unlocking the EU data economy, through fostering open data applications across industrial sectors, will lead to more innovation dynamics in the local ecosystems and more spill-over effects to local economies;
40. notes that the proximity and in particular the social economy sectors create sizeable added value by developing Tech4good initiatives and collaborative digital platforms, which unleash the power of social innovation for key societal needs, while resolving spatial mismatches between productivity, innovation and labour market trends;
41. highlights that LRAs can cultivate a more diverse and competitive technology ecosystem, especially by launching or supporting local digital platforms and clusters as key tools in the knowledge economy. This strategic investment ensures a vibrant and inclusive proximity tech sector where smaller platforms and firms can thrive and make valuable contributions to the communities they operate in;
42. calls on the European Commission to fully involve the European Committee of the Regions in the new 'SME and competitiveness check' to be designed in the upcoming months and in the

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https://eisma.ec.europa.eu/funding-opportunities/calls-proposals/social-economy-enterprises-capacity-building-and-business-opportunities-social-circular-enterprises_en.

future Implementation Dialogues⁹ with stakeholders that will take place twice per year to align implementation of EU regulations affecting businesses with realities on the ground.

43. calls on the European Commission to ensure that all of the above is carried out without further regulation, without additional costs for the European taxpayer and without increasing the bureaucracy already weighing on the European Union's beleaguered small and medium-sized enterprises.

Brussels, 20 February 2025.

The President
of the European Committee of the Regions

Kata Tüttő

The Secretary-General
of the European Committee of the Regions

Petr Bližkovský

⁹ https://commission.europa.eu/document/download/1bf50cbe-45a4-4dc5-9922-52c6c2d3959f_en?filename=Mission%20letter%20-%20FITTO.pdf.

II. PROCEDURE

Title	Supporting SMEs in regional value chains – fostering the proximity economy
Reference(s)	none
Legal basis	Article 307(4) TFEU
Procedural basis	Own-initiative opinion - Rule 41(b) (ii)
Date of Council/EP referral/ Date of Commission letter	-
Date of Bureau/President's decision	Bureau written procedure 2024/06
Commission responsible	Commission for Economic Policy (ECON)
Rapporteur	Oszkár SESZTÁK (HU/ECR)
Discussed in commission	4 July 2024
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Previous Committee opinions	-
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