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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Small and medium-sized enterprises - Key for delivering more growth and jobs. A mid-term review of Modern SME policy.

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1. INTRODUCTION

Small and Medium-Sized Enterprises (SMEs) are the backbone of the EU economy. Their prosperity is a crucial factor for achieving more growth and more and better jobs in the EU. That is why SME policy has become a key element of the renewed Lisbon Partnership for Growth and Jobs since its re-launch in 2005.

The principal objective of the Commission's Modern SME policy¹ has been to mainstream SMEs' concerns into Community and national policies by applying the "Think Small First" principle. In addition, the European Council of March 2006 agreed on a set of priority actions to be implemented by the end of 2007 to unlock the business potential of European SMEs.

This Communication presents what has been achieved in the two years since the launch of the Modern SME policy and sets out examples of how the "Think Small First" principle has been applied. While confirming that the orientation of the new European SME policy is right, the Communication indicates the need to substantially step up policies to support SMEs at EU and national level given their economic and social importance.

2. ACHIEVEMENTS OF THE MODERN EUROPEAN SME POLICY

The implementation of the Modern European SME policy has been carried out in a context of increasing economic growth: in 2006, EU GDP growth reached 3.0% – almost twice the rate of 2005 – and about 3.5 million new jobs were created². Indeed, SMEs are the main driver of employment growth, in particular in sectors like construction, transport, communication or tourism³.

Action of the European Commission has been guided by policy commitments in all **five key areas**:

- cutting red tape
- improving SMEs' access to markets
- promoting entrepreneurship and skills
- improving SMEs' growth potential
- strengthening dialogue and consultation with SME stakeholders.

As a result, SMEs are now fully integrated into Community policies, such as those promoting competition, research, cohesion and rural development. SMEs' interests

¹ http://ec.europa.eu/enterprise/entrepreneurship/sme_policy.htm

² The European Commission's Spring Economic Forecast 2007-2008.

³ Statistics in Focus, 24/2006, Eurostat.

have also been mainstreamed in the recent initiatives in the fields of innovation⁴ and industrial policies⁵.

The Commission has increased the SME focus within major **Community spending programmes** for the period 2007-2013. The Structural Funds remain the largest Community funding instruments benefiting SMEs⁶. Around 16-18% of the total allocation for Cohesion Policy of €347.4 billion is planned to be spent in relation to SMEs. Moreover, the European Agricultural Fund for Rural Development (EAFRD)⁷ will spend up to €10 billion to support the creation and development of non-agricultural enterprises in rural areas, skills acquisition and training, as well as SMEs in agriculture, food industry and forestry.

The Seventh Framework Programme for Research and Technological Development (FP 7) includes a number of incentives for SME participation, including an increased upper rate of reimbursement for research and technological development activities from 50% to 70%. The Competitiveness and Innovation Framework Programme (CIP)⁸, with a budget of approximately €3.6 billion, provides better access to finances for SMEs and support to entrepreneurship, innovation, ICT as well as to a wider uptake of new and renewable energies and improving energy efficiency. The Commission also strongly supports initiatives to make education and training available for all through the Life Long Learning programme.

In addition, **the conclusions of the 2006 Spring European Council** reinforced and complemented the approach of the Modern SME Policy by calling on the Member States to unlock the EU's business potential by taking the following five priority actions:

- (1) *Establish a one-stop-shop for setting up a company in a quick and simple way and to reduce the average time for setting up a business to one week.*
- (2) *Encourage entrepreneurship, including through entrepreneurship education and training.*
- (3) *The recruitment of a first employee should not involve more than one public administration point.*
- (4) *Make the 'Think Small First' principle a guiding principle in all relevant legislation and apply it systematically.*
- (5) *Facilitate SMEs' access to public procurement.*

The coordinated European reform agenda put in place under the renewed Lisbon Partnership for Growth and Jobs has encouraged **an increasing number of Member**

⁴ The Commission Communication 'Putting knowledge into practice: A broad-based innovation strategy for the EU' COM (2006) 502.

⁵ The Commission Communication: 'Mid-term review of industrial policy: A contribution to the EU's Growth and Jobs Strategy' COM (2007) 374.

⁶ http://ec.europa.eu/regional_policy/index_en.htm

⁷ Council Regulation (EC) No. 1698/2005 of 20 September 2005.

⁸ http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

States to integrate the interests of SMEs into their policy-making processes. They have achieved this in different ways such as the creation of a specific body to represent SMEs' interests, a more comprehensive evaluation of the impact of legislation on SMEs, systematic consultations with SMEs and a gradual improvement of the business environment.

The regular **dialogue with Member States on SME-policy has led to better complementarity** between national and EU measures. The Commission has supported this process by facilitating mutual learning and exchange of best practice. It has collected and published on-line, in the framework of the European Charter for Small Enterprises' process, more than 250 good practices from the Member States, e.g. in the areas of improving on-line access, taxation and better regulation⁹.

However, there is need for further improvement in **mainstreaming SME aspects in Member States' and EU policies.**

The following paragraphs set out in more detail the progress made in each of the five key areas of Modern SME policy, including the priority actions called for by the 2006 Spring European Council.

2.1. Cutting red tape

The Commission has taken important steps towards creating **a more SME-friendly regulatory environment.**

For instance, the revision of the **Community state aid rules** has increased the *de minimis* threshold under which aid need not be reported to €200,000¹⁰. The new rules also include proposals for increasing the intensity of aid to SMEs, in particular for small enterprises. In addition, a new **Community framework for State aid for research and innovation**¹¹ introduces more flexible rules for SMEs' costs related to Intellectual Property Rights (IPR), hiring highly qualified staff and accessing innovation support services. This also makes it easier for SMEs to obtain funding for research, development and innovation and to benefit from technology transfer.

The Commission has also published a proposal for a Council Directive to allow Member States to exempt from VAT businesses with an annual turnover of less than €100,000 and to introduce a **VAT one-stop-shop system** to simplify VAT obligations for businesses trading in a Member State where they are not established. Moreover, the proposal includes simplified rules for claiming VAT refunds in other Member States thereby reducing burdens on SMEs and encouraging them to increase their intra-EU trade. The Commission is pressing for speedy adoption of this Directive with some parts of the proposal likely to be adopted by 31 December 2007.

The Commission regularly assesses **the impact of a new piece of Community legislation** in view of reducing the administrative burden on business and the recently established Impact Assessment Board has tangibly started to improve the overall quality of the Commission's impact assessments.

⁹ http://ec.europa.eu/enterprise/enterprise_policy/charter/gp/

¹⁰ A different *de minimis* threshold is applied in some sectors, such as fisheries.

¹¹ http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/c_323/c_32320061230en00010026.pdf

Despite these considerable improvements, much remains to be done to free SMEs from unnecessary administrative burdens and to further simplify the regulatory requirements. Therefore, the Commission will maintain its efforts to follow-up the 2006 Spring European Council priority action making the “Think Small First” principle a guiding principle in all relevant legislation and to apply it systematically.

The EU’s **Better Regulation Agenda** already sets a target of reducing the administrative burden arising from Community legislation by 25% by 2012 in a number of priority areas. As a first move in this direction, the Commission has already proposed ten fast-track actions in areas where such actions are likely to have the greatest impact, such as company law and employment relations. These 10 fast track actions, which have been endorsed by the 2007 Spring Council will make life easier for SMEs and are likely to save up to €1.3 billion in administrative costs.

The Commission is fully aware that small and medium sized enterprises bear a disproportionate regulatory and administrative burden in comparison to larger businesses - it has been estimated that where a big company spends one Euro per employee because of a regulatory duty, a small business might have to spend on average up to ten Euros¹². In order to alleviate this disproportionate burden on SMEs, the Commission has started proposing specific rules for micro and small enterprises. The Commission and the Member States are further challenged to refrain from imposing detailed administrative requirements on SMEs at European level wherever appropriate enabling Member States to achieve commonly defined policy goals more efficiently by their own means reflecting better the particular needs of SMEs in the given local, regional or national circumstances.

The Commission finally welcomes the commitment of Member States at the 2007 Spring Council to participate in the reduction of administrative burdens in particular with a view to also reducing current reporting and documentation requirements for SMEs at national level, notably for micro enterprises.

2.2. Improving SMEs’ access to markets

At present, 18% of SMEs have international activities and even fewer export their products outside their home country¹³. SMEs also face obstacles when accessing public procurement markets, when selling to consumers cross-border or applying standards. Therefore, **facilitating SMEs’ access to markets** and in particular to the Single Market remains vital.

Despite the fundamental principle of free movement of goods, many companies still face **technical barriers** when exporting to another Member State as the authorities require goods coming from other Member States to be adapted to their national technical rules. The Commission has therefore tabled a proposal for a regulation which will require national authorities who deny market access to duly justify their

¹² ‘Models to reduce the disproportionate regulatory burden on SMEs. Report of the Expert Group’, European Commission, May 2007.

¹³ http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes_observatory_2003_report4_en.pdf

decision¹⁴. This will put the onus on national authorities rather than on companies facing such barriers.

An integrated business and innovation support network is being set up in 2007 and will become fully operational in 2008 to assist SMEs in benefiting more from the opportunities of the Single Market. It promotes match-making events between SMEs, technology brokerage and partner searches, organise feed-back from SMEs on EU legislation and standards as well as support the internationalisation of SMEs. This network reaches out to 2,000,000 SMEs via some 600 European business and innovation support organisations.

The new Services Directive¹⁵ will free up the provision of **services**, which account for 70% of EU value added and have a considerable potential to stimulate growth and employment. It will make it easier for businesses to provide services and to set up an establishment in other EU countries by cutting down bureaucracy and by providing assistance to foreign businesses wanting to do so. Likewise, a certain degree of harmonisation of consumer protection legislation could also help SMEs to sell their products outside their home country.

Standardisation plays a key role in fostering the competitiveness and growth of SMEs by increasing the quality of their products and consumers' confidence. The Commission is therefore increasing its co-funding to support the participation of experts representing the SMEs' interests in the process that establishes European standards. The Commission also fully supports the initiatives of European Standards Organisations targeted at SMEs. Finally, in the context of its work on standards and innovation, the Commission is examining ways to enhance the potential of standards to encourage innovation by SMEs.

The Public Procurement Directives provide a framework to foster competitive public procurement markets to the benefit of SMEs. In response to the 2006 Spring European Council, the Commission has taken action in analysing how **public procurement markets**, which account for about 16% of EU GDP, could be better used to promote the growth and competitiveness of SMEs. Recent findings show a slight improvement regarding the participation of SMEs in public procurement markets in recent years although the trend is not uniform throughout the EU.

The Commission has also published a **practical Guide on the promotion of innovation**¹⁶. Member States are introducing measures to raise enterprises' awareness of procurement opportunities and to improve access to information on public tenders. However, very few countries, such as the UK, Italy and France, have already put in place a specific strategy to help SMEs participate in public procurement.

Finally, the EU's renewed market access strategy highlights multilateral and bilateral efforts to assist European businesses, including SMEs, in overcoming barriers they face when **accessing third country markets**¹⁷. The actions include the development

¹⁴ http://ec.europa.eu/enterprise/regulation/goods/mutrec_en.htm

¹⁵ Directive 2006/123/EC of 12 December 2006.

¹⁶ http://ec.europa.eu/enterprise/innovation/documents_en.htm

¹⁷ 'The Global Europe: Competing in the World' COM (2006) 567.

of trade facilitation provisions in future free-trade agreements (FTAs) and in the WTO and regulatory and industrial policy dialogues with third countries to tackle regulatory obstacles to trade. In addition, specific measures such as information and awareness-raising campaigns and match-making events to facilitate SMEs' access to third-country markets, such as AL-INVEST, MEDINVEST and PROINVEST have proven successful and will be continued.

2.3. Promoting entrepreneurship

The **Member States** have also made considerable efforts to deliver by the end of 2007 **the entrepreneurship priority actions** as requested by the 2006 Spring European Council.

Most countries have established a **one-stop-shop** or equivalent arrangement for setting up a company, even though in some cases they do not cover all types of companies. In general, registration times have improved and in many Member States and regions it is now possible to register a company within one week. However, there is still scope and need for greater simplification. Last but not least, the services Directive obliges Member States to set up "points of single contact" through which service providers can complete all formalities relating to their activities.

As to developing **entrepreneurial skills** through school education, the majority of Member States have taken some measures in this field. However, progress is rather slow in explicitly embedding entrepreneurship as a key competence within national (or regional) framework curricula for general secondary education. This has been achieved in some Member States, while others are starting to implement or are planning reforms in the same direction.

For its part, in February 2006, the Commission adopted a **Communication on fostering entrepreneurial mindsets through education and learning**¹⁸, providing examples of good practices which were discussed at the Oslo conference on entrepreneurship education. Moreover, it is estimated that more than 200,000 secondary school students participate in a practically-oriented training scheme, launched by the Commission, whereby they run mini-companies to familiarise themselves with basic business concepts and skills. These students are four times more likely to create their own company than others.

To date, around one third of Member States appear to have established a **one-stop-shop system for recruiting employees** (e.g. in combination with one-stop-shops for start-ups) or have recruitment procedures that are so simple that they can be considered a "one-stop". Progress has been achieved in decreasing the number of procedures.

Last but not least, to safeguard the estimated 2.8 million jobs which are at stake through **the transfer of businesses** each year, the Commission is promoting good practices on how to design services which aim to establish contacts between potential sellers and buyers of transferable businesses. Further to a Commission

¹⁸

http://ec.europa.eu/enterprise/entrepreneurship/support_measures/training_education/commplan.htm

Communication¹⁹, a pilot action aims to promote mentoring schemes in EU Member States in order to enhance the knowledge and core competences that are essential for the successful transfer of business ownership.

The image of entrepreneurs and in particular to tackle the stigma attached to business failure remains an issue of concern. Only a small minority of failed entrepreneurs make another attempt to establish a business, despite often retaining a preference for entrepreneurial endeavour. Yet, those who do try again are likely to benefit from their previous experience and are more likely to be successful. Some areas of action for facilitating the fresh start of honestly failed entrepreneurs are therefore put forward in the Commission Communication "Overcoming the stigma of business failure – for a second chance policy"²⁰.

The wide potential of **women, elderly people and ethnic minority entrepreneurs** has not yet been fully exploited.

2.4. **Improving SMEs' growth potential in a sustainable way**

To improve **SMEs' access to finance**, more than €1 billion has been earmarked for financial instruments within the **Competitiveness and Innovation Framework Programme (CIP)** for the period 2007-2013. This amount will enable financial institutions to provide about €30 billion of new finance to SMEs, because each euro spent from the EU budget is complemented by private investor money thus creating a substantial leverage effect. These funds will therefore benefit an estimated 400,000 SMEs in the EU, most of these being micro or small enterprises.

A significant share of the Structural Funds (2007-2013) will be spent to support the creation and growth of SMEs, notably to improve their innovative capacity, their investment in RTD and skills. To improve the availability of sustainable financing for micro-enterprises and SMEs at regional level, the Commission with the European Investment Bank (EIB) and the European Investment Fund (EIF) launched the **JEREMIE initiative**²¹. It gives Member States the option of using money from the Structural Funds in financial products such as venture capital, guarantees and micro-finance. The Commission encourages Member States to actively use these funding opportunities.

The Commission has also promoted active **dialogue and cooperation between bankers and SMEs** which has led to improved mutual understanding and more transparency. The 5th Round Table of Bankers and SMEs²² discussed transparency issues as well as innovative financing tools like mezzanine finance and SME securitisation, which will make additional sources of SME finance easier to access. Finally, the Commission has identified, together with Member States and industry, the main obstacles to the development of cross border capital markets in order to encourage the development of a truly European **venture capital** market.

¹⁹ Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses - Continuity through a new beginning COM (2006)117.

²⁰ COM (2007) 584.

²¹ http://ec.europa.eu/regional_policy/funds/2007/jjj/jeremie_en.htm

²² See the final report at http://ec.europa.eu/enterprise/entrepreneurship/financing/round_table.htm

The Commission's innovation policy and specific support actions have contributed to increasing SMEs' participation in innovation by addressing market failures and promoting cooperation between stakeholders. The launch of a new, broad-based Innovation Strategy with a ten-point action plan addresses several key issues for SMEs, including skills, standardisation and IPR. The Commission is also actively promoting **cluster policies** in the Member States and ensures the co-ordination of clusters at EU level to help the emergence of world-class European clusters.

To further enhance **access to finance** for very small enterprises or craft businesses, the Commission is promoting the provision of **micro-credit** in Europe. More attention has also been paid to reinforcing SMEs' access to equity, in particular in their growth phase. Equity investments in SMEs should not be disadvantaged, for instance due to less favourable tax treatment as opposed to other sources of capital.

To help to avoid SMEs and in particular crafts businesses being negatively affected by shortages of **skilled labour** and the lack of managerial skills, the Commission launched a pilot action for an **ERASMUS-type exchange programme** for apprentices to encourage them to get professional experience in another Member State. This action is currently being evaluated.

Skills and competencies are key for SMEs and in particular for the craft sector. Better anticipating future skills requirements remains challenging, since emerging skills needs, drivers for jobs renewals, and necessary improvements to strategic planning in education and training systems will impact on a broad range of industrial activities. To facilitate the take-up of e-skills, not least by SMEs the Commission has proposed a new e-skills policy agenda²³.

Finally, the ambitious environmental goals of increasing energy efficiency and reducing greenhouse gas emissions by at least 20% by 2020 and promoting renewable energy sources require the emergence of a new business paradigm. The challenge is to help SMEs to adopt sustainable production and business models and thus make them active players in shifting the European economy towards more environmentally-friendly production and consumption, while in parallel allowing SMEs to reap the economic benefits that this presents. This will build on the experience of supporting socially responsible practices among SMEs. As a first step, the Commission is proposing a programme to help SMEs to integrate environmental concerns into production processes and products starting with a better compliance with environmental legislation²⁴. In addition, the forthcoming Action Plans on Sustainable Industrial Policy and Sustainable Consumption and Production will also contribute towards boosting the competitiveness and sustainability of SMEs.

2.5. Strengthening SME policy communication and consultation with stakeholders

Regular information and discussion meetings with European business organisations chaired by the SME Envoy²⁵ provide a forum for a regular exchange of information on the Commission's major legislative and policy initiatives and their impact on SMEs. This has contributed to strengthening the SME Envoy's

²³ E-skills for the 21st century: Fostering Competitiveness, Growth and Jobs (2007-2010).

²⁴ COM (2007) 379.

²⁵ http://ec.europa.eu/enterprise/sme/envoy_en.htm

“watchdog” function, feeding SME concerns into the European policy and law-making process at an early stage and enabling stakeholders to be an integral part of the European SME policy-making process.

Furthermore, several **high-level stakeholder conferences** have brought together a wide variety of representatives from the European Parliament, Member States and business community, furthering the commitment of all key players to implement Modern SME policy. The Commission is also fostering a new dialogue between higher education and business representatives, within which specific issues of concern to SMEs will be raised.

The ‘**European Enterprise Awards**’, organised for the first time in 2006, contributed to raising awareness about entrepreneurship and SME policy and the diverse and creative ways in which regions encourage, support and help small business succeed. A second edition of the Awards will be organised in December 2007 together with the Portuguese Presidency of the Council. Last but not least, the Commission’s new **SME web-portal** (<http://ec.europa.eu/enterprise/sme/>) has considerably facilitated access to on-line SME-related information.

3. THE WAY AHEAD

The Modern SME policy launched in 2005 **has started to bear fruit**. A coherent, inclusive and proactive SME policy has put SMEs high on the national and European reform agenda and increased the commitment of stakeholders to commonly agreed goals. Both Member States and the Commission have made considerable progress in implementing actions to create a better business environment, to **mainstream SME issues in major policy areas** and to encourage more people to become entrepreneurs.

As a result, it has become easier to start up a company, entrepreneurship education is increasingly part of school curricula, there is a growing awareness of entrepreneurship and SME issues within the EU, and the “Think Small First” principle is being integrated into Community and national policies. However, there is still room for improvement, both at Community level and within Member States.

The **better regulation "culture" has also begun to take root** across the EU: the institutions need to lead the way. The Commission has made major changes in the way it develops new proposals and monitors implementation of existing acquis. The European Parliament has also begun to use impact assessments but the Council has yet to begin to use it as a working tool.

But the **benefits of better regulation need to be felt at all levels**. All Member States have agreed to set targets to reduce administrative costs by 25% by 2012. To cut the burdens for SMEs who are disproportionately affected by such burdens, there should be a presumption that SMEs will not be covered by administrative requirements of EU legislation unless there is a clear need to do so and the issue can not be better tackled at national, regional or local level. Where SMEs are covered by EU legislation, special measures should be designed to help them. More generally, the EU needs to find ways to cut existing burdens wherever circumstances allow.

The next stage is to modernise public administrations so that they provide a transparent, predictable service and an effective means of redress.

The Commission has listened to important stakeholders in view of further developing and sharpening the modern SME policy. It has analysed the results of recent high-level conferences, in particular the 4th European Conference on Craft and Small Enterprises²⁶ and the High-Level Conference on SME policy²⁷, took inspiration from initiatives implemented or proposed by Member States and from recent reports by other EU institutions.

The task now is to fully unlock the growth and jobs potential of SMEs and make full use of their innovative capacities. The Commission is convinced of the need to put **even more emphasis on SMEs in the context of the next Lisbon cycle 2008-2010**. It will seek the views of small businesses and their representatives as it considers designing a "Small Business Act" for Europe with a view to making concrete proposals to further support SMEs.

In its new set of proposals for SMEs in the context of the next Lisbon cycle the Commission will **take into account the diversity** of the SME community: craft and small businesses, social economy enterprises and family-run SMEs all show potential for strengthening European growth and acting as a driving force for innovation, local development, training and employment, while sometimes displaying special problems and needs.

It is finally equally important that Member States also step up their efforts and put their SME policy higher on the agenda within the context of their National Reform Programmes.

²⁶ http://ec.europa.eu/enterprise/entrepreneurship/craft/4th_conference.htm

²⁷ Brussels, 14 September 2007