



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 6.2.2002
COM(2002) 68 final

**REPORT FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**REPORT ON THE IMPLEMENTATION OF THE EUROPEAN CHARTER FOR
SMALL ENTERPRISES**

**REPORT FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**REPORT ON THE IMPLEMENTATION OF THE EUROPEAN CHARTER FOR
SMALL ENTERPRISES**

Table of contents

Summary: Does the EU think small first?.....	4
Annual Implementation Report on the European Charter for Small Enterprises	7
1. Background.....	7
1.1 Objectives	7
1.2 Preparation of the Report.....	7
1.3 Structure of the Report	8
1.4 “Small enterprises” for the purpose of the Report	8
2. National enterprise policies.....	9
2.1 Education and training for entrepreneurship.....	9
2.2 Cheaper and faster start-up	10
2.3 Better legislation and regulation	10
2.4 Availability of skills	12
2.5 Improving online access	13
2.6 More out of the Single Market.....	13
2.7 Taxation and financial matters.....	14
2.8 Strengthen the technological capacity of small enterprises	16
2.9 Successful e-business models and top-class small business support	17
2.10 Develop stronger, more effective representation of small enterprises’ interests at Union and national level.....	18
3. European Commission.....	20
3.1 Education and training for entrepreneurship.....	20
3.2 Cheaper and faster start-up	20
3.3 Better legislation and regulation	20

3.4	Availability of skills	22
3.5	Improving online access	23
3.6	More out of the Single Market	24
3.7	Taxation and financial matters	25
3.8	Strengthen the technological capacity of small enterprises	27
3.9	Successful e-business models and top-class small business support	29
3.10	Develop stronger, more effective representation of small enterprises' interests at Union and national level.....	29
4.	Conclusions.....	31

Summary: Does the EU think small first?

Small businesses – those employing fifty or less people – play a central role in all the economic activity of the European Union. They are a key source of jobs, a breeding ground for business ideas and a main driver for innovation, employment, social and local integration.

There are no less than 20 million such businesses in the EU, providing employment to 65 million people. They account for 99 % of all businesses and provide 53 % of jobs¹. The proportion of jobs to be found in small business is significantly greater in the EU than in either the US or in Japan, both of which find a much higher share of jobs in large companies.

At Feira, the European Council endorsed a Charter for Small Enterprises, a statement both of the reasons why it gave central importance to small business and of its commitment to act in their support. The Charter has become a pillar of the European Commission's enterprise policy and a cornerstone of the policy of the Member States. *Think small first* sums up the essence of the EU's enterprise policy, and the Charter is in the mainstream of that approach.

But are the governing authorities of the EU really living up to their commitment? That is the object of the second report on the implementation of the Feira Charter.

One of the problems with thinking small is that it is not always easy to obtain information about the needs and problems of small businesses. There is much more data available on SME problems in general or the problems of large business. Small business entrepreneurs may have better things to do than to sit on advisory committees. Being obliged to answer questionnaires may give valuable information to government and researchers, but paperwork that is outside the mainstream of business is one aspect of the problem of the small business entrepreneur.

For that reason, it is sometimes necessary to have recourse to data collected on SME problems and to rely on common sense and advice from business organisations and consultative bodies to decide whether it is also applicable to small businesses.

Small businesses may be very small indeed. In Europe, 1.2 million of them provide jobs to between eleven and fifty people, with an average of twenty; no less than 19 million of them have ten or less jobs, with an average of two occupied people per business.

Think small first is, then, an approach that is both well-motivated and difficult to implement. Well-motivated, because it is economically necessary and because if governments do not do it, the voice of the majority of businesses may simply be lost. Difficult, because there is a dearth of hard information. But if governments do not *think small first*, they may never think small at all.

Much of the policy environment of small business is determined under the competence of the Member States. The Commission has an important, if secondary, role to play in helping Member States improve their performance, through making use of its Treaty powers and through the open method of co-ordination. Further, through the intervention of the structural funds, the EIB and other financial instruments managed by the European Investment Fund²,

¹ Source: Observatory of European SMEs (forthcoming report).

² These include, for example, the instruments supported under the multiannual programme for enterprise and entrepreneurship.

the Community dimension can bring direct support. Finally, in the exercise of Community competence, the Commission can usefully influence the environment of small business in fields such as the regulatory environment and access to the market.

Among the various Community policies recording synergies from work carried out within the framework of the Charter, the cohesion policy is of high importance. The underlying reason for this is that SMEs, and notably small enterprises, are particularly important in regions that are lagging behind in terms of development. Therefore, progress made according to the provisions of the Charter is of utmost importance for the added value that the Community is able to achieve based on synergies with cohesion policy.

The Charter did not come into a static situation. Action was already under way in the Member States and at Community level on many of the issues it addresses. What the Charter did was to focus attention on the specific issue of small business and to give it the profile that is its due. Progress made since the Charter was adopted is not necessarily due to the Charter. That does not matter. What matters is whether progress is being made.

Further, thinking small first is a continuous process. Thinking small first, once begun, needs to be established as a habit. Only thus can the EU win the greatest benefits from the rich potential of its small businesses.

Economic and Monetary Union also provides a boost to small enterprises by setting up a stable macro-economic environment and contributing to the full completion of the Internal Market, giving companies the opportunity to engage in cross-border trade on a much safer and transparent basis than before. This is particularly true for small businesses.

The Annual Implementation Report on the European Charter for Small Enterprises, which is based on a survey of work being carried out in the Member States and in the Commission in support of small business, shows that real progress has been made and that more is in the pipeline. It also shows that success in one or another Member State has often stimulated success in others.

The Report is not easily summarised. Much of the work being carried out in the Member States, when taken to the EU level, looks piecemeal. To understand the progress that is in hand in the different fields identified by the Charter, there is no substitute for reading the report itself.

However, a number of broad trends can be identified.

1. In a number of fields progress is being made, but it will be some time before results make themselves fully felt. Education is such an area. Preparation for business has traditionally not played a major role in education, but it now features in one way or another in secondary schools in approximately two thirds of Member States. A similar picture is evident in respect of tertiary education.
2. Progress in some fields is quite dramatic. One such is the process of setting up a new firm. For sole proprietorships a business can be established in two days or less in eight Member States and for minimal costs. For private limited companies, a business can be established in under two weeks in ten Member States (in several of

them, in less than one week), while the costs are below EUR 500 in six Member States³.

3. There are signs of increasing political commitment. An example is the simplification of regulation, business impact assessment and alternatives to regulation. More than half of the Member States either routinely apply business impact assessments or are in the process of setting up systems to do so. At the EU level, this issue, which was discussed at the Laeken European Council, will be the subject of an Action Plan to be presented by the Commission by June 2002.
4. While the majority of Member States have made real progress on issues like education for entrepreneurship, some Member States still apparently make no provision whatever to promote entrepreneurship through the education system. This pattern is repeated in every field where progress has been made. There is still room for more Member States to improve.
5. There remain perplexing problem areas that may never be entirely solved because of the very existence of business cycles. For example, with the low interest rates resulting from preparations for monetary union and steady growth rates, access to loans for small enterprises has become much easier. The supply of early stage risk capital has also increased over recent years through either public or private sources. Yet the problem of finance for start-ups and small enterprises has become more acute over the past six months, mainly due to the deteriorating economic situation but also because of the re-organisation of the banking sector. In addition, risk capital has become shyer. Even good proposals from small enterprises may not receive finance if they cannot offer guarantees or a higher share of equity.
6. There are plenty of good examples of successful methods in need of further exploitation. Businesses that start in an incubator have a much higher success rate than others. 90 % of start-ups in incubators were still active three years later⁴. Yet, if the number of business incubators is growing, their use across the EU is rather uneven.
7. Finally, the issue that is perhaps least satisfactorily addressed is that, cited at the start, of how to ensure more effective representation of small enterprises' interests at EU and national level. Small business interests, as set out in the Charter, need to be kept to the forefront of policy making. There needs to be constant pressure for their interests to be taken into account. Better representation of their interests, however difficult it may be, is an urgent necessity in all policy fields.

³ Source: Benchmarking Enterprise Policy: Results from the 2001 Scoreboard, SEC(2001) 1900, 21.11.2001.

⁴ Source: Benchmarking Enterprise Policy: Results from the 2001 Scoreboard, SEC(2001) 1900, 21.11.2001.

Annual Implementation Report on the European Charter for Small Enterprises

1. BACKGROUND

1.1 Objectives

The European Charter for Small Enterprises, endorsed at the Feira European Council in June 2000, is central to achieving the Lisbon objective of making Europe the world's most competitive and dynamic economy by 2010. It recognises the crucial role that small businesses play in the development of competitiveness, innovation and employment in Europe.

This is the second annual implementation report on the Charter. The first report⁵, presented only a few months after the Charter's endorsement, briefly summarised the main areas of action, since many of these had recently been covered in the Report on the Implementation of the Action Plan to Promote Entrepreneurship and Competitiveness⁶. The present report reviews progress made by both the Member States and the Commission in implementing the Charter's strategic recommendations in the period since its adoption.

The main objective of this report is to identify general strengths and weaknesses in the European Union and thereby to contribute to the strengthening of policy in support of small businesses and maintain the momentum generated by Lisbon. Member States have made real progress towards achieving the strategic recommendations of the Charter, but it is vital to build upon these achievements.

The implementation of the Charter is an essential pillar in the Commission's "think small first" policy. In each of the ten fields highlighted by the Charter, action has been taken through a variety of different measures. These include the Multiannual Programme for Enterprise and Entrepreneurship⁷ and a number of Best Procedure projects - for the identification and dissemination of best practice - being carried out jointly with the Member States⁸. In addition, the Joint Employment Report⁹ presents an annual overview, based on national reports, of Member States' measures in favour of entrepreneurship.

1.2 Preparation of the Report

The implementation report is based on detailed national reports submitted by the Member States, and Norway, and on bilateral meetings between the Commission and national authorities. Business organisations were also represented at most of these bilateral meetings, and their feedback on the effectiveness of national enterprise policies has played an important part in the reporting process. At Commission level, co-ordination has been achieved via an interservice group that brings together all the Directorates-General with an interest in enterprise policy.

⁵ Report from the Commission, European Charter for Small Enterprises: Annual Implementation Report, COM(2001) 122 final, 7.3.2001.

⁶ Report on the Implementation of the Action Plan to Promote Entrepreneurship and Competitiveness, SEC(2000) 1825, 27.10.2000.

⁷ Council Decision of 20.12.2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005) (2000/819/EC).

⁸ 2001 Best Procedure Report, SEC(2001) 1704, 29.10.2001.

⁹ COM(2001) 438 final, 12.9.2001.

The report aims to present a brief overview and summary of the main measures being carried out. In this context, and for reasons related to its purpose and length, the report does not seek to present an exhaustive list of the measures reported. It is also important to emphasise that some of the measures referred to in the report were either in progress or being planned before the Charter was adopted.

For a detailed description of the measures in question, the national reports may be consulted on the Commission's website¹⁰, and through a web-based Directory of relevant measures¹¹. These include contact details to help interested parties access further information, and to facilitate the exchange of knowledge and good practices. In addition, the implementation report draws upon the evidence gathered by other Commission reports analysing Member States' performance in a number of key areas of relevance to the Charter¹².

Norway accepted an invitation from the Commission to take part in the report. Neither of the remaining members of the European Economic Area, Iceland and Liechtenstein, expressed a desire to participate.

1.3 Structure of the Report

The report consists of a chapter analysing progress by the Member States under each of the ten areas in the Charter, followed by a chapter on progress by the European Commission. Taking into account the fact that the Charter itself is based on a series of recommendations, the report's final chapter draws a series of conclusions regarding the progress that has been made in each of the ten key areas, rather than attempting to make a fresh set of recommendations.

1.4 "Small enterprises" for the purpose of the Report

Most of the measures analysed in this report have been designed to support both small and medium-sized enterprises. The Commission considers that, even if these measures do not exclusively target enterprises with less than fifty employees, it does not diminish their value or impact on small businesses. Both the Commission and the Member States have therefore adopted the approach of including in the current report all initiatives with an impact on small and medium-sized enterprises, while highlighting those measures that are specifically designed for small enterprises.

¹⁰ For the complete text of each report, see:

http://europa.eu.int/comm/enterprise/enterprise_policy/charter/index.htm.

¹¹ See the "Directory of measures in favour of entrepreneurship and competitiveness", at:

http://europa.eu.int/comm/enterprise/enterprise_policy/best-directory2/index.htm.

¹² See, for example, Benchmarking Enterprise Policy: Results from the 2001 Scoreboard, SEC(2001) 1900, 21.11.2001; Communication from the Commission to the Council and the European Parliament "Sustaining the commitments, increasing the pace", COM(2001) 641 final, 8.11.2001; and the Observatory of European SMEs.

2. NATIONAL ENTERPRISE POLICIES

2.1 Education and training for entrepreneurship

Europe will nurture entrepreneurial spirit and new skills from an earlier age. General knowledge about business and entrepreneurship needs to be taught at all school levels. Specific business-related modules should be made an essential ingredient of education schemes at secondary level and at colleges and universities.

Most countries have stepped up efforts to improve entrepreneurship-related education at university level. University chairs on business start-ups and management of SMEs have been established in Germany, Spain and Austria, while universities offering courses on entrepreneurship and management can be found in Denmark, Ireland, Portugal, Finland and Sweden. The UK government has launched a programme to promote links between universities and business for the commercial exploitation of university research. Awareness raising measures include an annual business plan competition for university students in Ireland, “promotional days” in France, entrepreneurship conferences in Portugal and information centres to support students with business ideas in Spain.

In a number of countries, notably Finland and Sweden, entrepreneurship is now a part of the secondary school curriculum. Pilot projects to teach students how to set up and run a business have also been introduced, with some interesting examples in Germany, Ireland, Austria, Sweden and the UK. Projects to nurture general entrepreneurial skills, such as creativity and independence, have been developed in Italy, the Netherlands and Austria, among others, while prizes for entrepreneurship are available in Belgium, Denmark and Ireland. However, measures to develop entrepreneurial skills in primary education are less frequent, with few countries reporting progress in this area. A UK scheme trains primary school students in skills for the workplace, while two Swedish projects aim to stimulate creativity and initiative among six to eleven year-olds and train teachers in enterprise education.

We will encourage and promote youngsters’ entrepreneurial endeavours, and develop appropriate training schemes for managers in small enterprises.

Guidance and support systems to help potential entrepreneurs convert business ideas into practice have been created in Belgium, Denmark, Greece, Ireland, Finland and Sweden. Their objective is to provide counselling, training, mentoring and other facilities aimed at ensuring successful entrepreneurship. There are relatively few initiatives to develop training schemes for managers and workers in SMEs. Special training courses for women are available in Finland, while the UK has introduced scholarships for potential entrepreneurs from deprived areas and projects to integrate study with work-based learning.

General assessment

Efforts in this area are starting to pay off: Europe is becoming more entrepreneurial. While most countries have strengthened their efforts to promote entrepreneurship at university level, measures for secondary and, particularly, primary education must be further developed. More needs to be done to nurture entrepreneurial spirit and skills, such as initiative and risk-taking, from an early age and to establish entrepreneurship as an attitude rather than an academic subject. The continuity of efforts, and the translation of results into long-term practices, must be ensured.

2.2 Cheaper and faster start-up

The costs of companies' start-up should evolve towards the most competitive in the world. Countries with the longest delays and most burdensome procedures for approving new companies should be encouraged to catch up with the fastest. Online access for registration should be increased.

According to figures taken from the Commission's Enterprise Policy Scoreboard¹³, the minimum time for setting up a sole proprietorship (employing one to two persons) is between one and two business days in Belgium, Germany, Greece, Spain, Italy, the Netherlands, Austria and the UK. Minimum registration costs for this type of firm are less than EUR 100 in all but two Member States. Typical times and costs actually experienced by the average enterprise, however, may be somewhat higher.

Wider variations are apparent in relation to the procedures for the registration of a private limited company. The current minimum capital requirements for these companies ranges from EUR 1 in Ireland and the UK to as much as EUR 23 500. The registration of a private limited company tends to be relatively costly in Europe, although in Denmark the registration cost is zero. In France, Ireland, Portugal, Finland, Sweden and the UK, the cost is less than EUR 500¹⁴. In all but five Member States the minimum time does not exceed two weeks, while in eight Member States a private limited company can be registered in up to a week.

Single registration or declaration forms are being introduced as a way of simplifying procedures for business starters, as is online registration and better communication within administrations, particularly for tax and VAT purposes. Greater opportunities are also available for businesses to access information and advice online, on matters such as administrative procedures, permits for setting up a company and financing possibilities.

General assessment

While the time and costs involved in setting up a company have been reduced dramatically in recent years in a number of countries, these are still subject to wide variations across the European Union. There is scope for those countries with longer periods and higher costs for start-ups to learn from the example set by their peers, some of whose performances now rank among the best in the world. Attention needs to be paid to regulatory simplification, differences in the amount of paid-in share capital required for private limited companies and to the broader process of launching an enterprise, including provision of appropriate information and support services.

2.3 Better legislation and regulation

National bankruptcy laws should be assessed in the light of good practice. The learning from benchmarking exercises should lead us to the improvement of current practices in the EU.

There is an increasing awareness of the need to avoid excessive penalisation of bankrupt entrepreneurs and to solve financial problems of viable businesses in time. A number of countries, including Belgium, Germany, the Netherlands, Austria, Finland and the UK, have taken steps to modernise their insolvency laws. In general, these efforts aim to improve the

¹³ Benchmarking Enterprise Policy: Results from the 2001 Scoreboard, SEC(2001) 1900, 21.11.2001.

¹⁴ According to the Best Procedure project on "Benchmarking the administration of start-ups", the cost of registration of this type of company is also less than EUR 500 in Germany and Italy.

effectiveness of restructuring schemes and to reduce sanctions imposed on “honest” debtors, enabling a fresh start after bankruptcy. In a number of Member States, support measures to businesses in financial distress are available. In Germany, several initiatives provide advice to businesses facing financial difficulties. In the Netherlands, retired experts such as entrepreneurs or auditors provide financial and strategic advice to insolvent SMEs on a voluntary basis, while in France the “RE-CREER” association supports bankrupt entrepreneurs and seeks to change attitudes towards bankruptcy. In Austria, SMEs can rely on the assistance of specialised organisations if one of their debtors becomes insolvent¹⁵.

New regulations at national and Community level should be screened to assess their impact on small enterprises and entrepreneurs. Wherever possible, national and EC rules should be simplified. Governments should adopt user-friendly administrative documents.

Various forms of Regulatory Impact Assessment (RIA) systems have been established in most Member States, with a view to ensuring that all new and revised laws are preceded by an analysis of alternatives to regulation, evaluation of costs and burdens on business and citizens and consultation with stakeholders. In most cases, common guidelines, checklists and a dedicated unit or department have been created for this purpose. Alternatives to regulation, such as voluntary agreements, are systematically analysed prior to adopting legislation in Denmark, Italy, Austria, Finland, Sweden and the UK.

Longer consultation periods with businesses prior to the adoption of legislation, inter-ministerial networks for regulatory reform, test panels of representative businesses to assess the consequences of proposed legislation and special regulation units are increasingly a feature of governments’ efforts to ease the legislative burden on business. There is also a drive among some countries towards improving the quality of legislation in general and simplifying current laws. Denmark and Sweden have developed systems intended to measure the burden of existing laws on business, and increased use is being made of “retirement” or “sunset” clauses for redundant legislation. Italy has been particularly active in repealing outdated laws and regulations.

Small enterprises could be exempted from certain regulatory obligations. In this context, the Commission could simplify competition legislation to reduce the burden of compliance for small business.

Very few regulatory exemptions for small enterprises are reported, although the UK is currently examining how to lift company law burdens, particularly those relating to accounting and auditing, from small businesses.

General assessment

In general, more needs to be done to facilitate the return to business of entrepreneurs who have failed “honestly” and to introduce failure as a normal phase in business development. The interests of employees in circumstances of failure or restructuring should also be taken into account. Most countries now use some type of economic assessment of the impact of planned legislation; those who still have to introduce RIA systems could learn from the practices of others. There seems to be a broad consensus that alternative approaches to

¹⁵ More good practices in this field can be found in the brochure “Helping business overcome financial difficulties: a guide to good practices and principles on restructuring, bankruptcy and a fresh start” and in the proceedings of the Seminar on Business Failure, held in Noordwijk in May 2001.

regulation must be considered and that legislation and administrative procedures must be simplified. However, efforts must be considerably stepped up (and, in some cases, initiated).

2.4 Availability of skills

We shall endeavour to ensure that training institutions, complemented by in-house training schemes, deliver an adequate supply of skills adapted to the needs of small business, and provide lifetime training and consultancy.

On average, 10 % of 25-64 year-olds in the EU participate in some type of training¹⁶. Only in Denmark, the Netherlands, Finland, Sweden and the UK is the figure substantially higher. An increasing number of small and micro- enterprises consider the lack of skilled labour as their most important problem (for small enterprises this increased from 17 % in 1999 to 30 % in 2001, and for micro-enterprises from 13 % in 1999 to 20 % in 2001)¹⁷.

Europe currently faces a deficit of skills in the crucial ICT sector, as well as in other important sectors such as engineering. Although Germany, Spain, France, Ireland, Italy and the UK all perform well in terms of the numbers of graduates they produce in computer sciences and related subjects such as mathematics, most other Member States compare relatively poorly in this respect to competitors like the US. The computer to pupil ratio also varies significantly across the European Union, from around five or fewer computers per 100 pupils to over thirty per 100 pupils in Denmark, Luxembourg and Finland¹⁸.

A variety of measures have been developed to encourage training in SMEs. Spain, Italy, Austria and Sweden have introduced tax incentives for in-house training and/or the hiring of qualified personnel by SMEs, while Denmark, Ireland, Austria, Finland, Sweden and the UK offer tailor-made courses for managers of small businesses. Initiatives to promote ICT skills in particular have been developed in Denmark, Greece, Portugal, Sweden, the UK and Norway. Some of these concentrate specifically on enhancing ICT skills in SMEs, while others aim to train individuals or the unemployed. Measures to support lifelong learning include a Swedish initiative to provide secondary education to the unemployed, an Italian law that recognises workers' rights to lifelong learning and the use of leave for this purpose, the setting up of an expert group to analyse enterprises' skills and training requirements in Ireland, a German project to identify skills development structures and strategies in high-growth SMEs and to disseminate best practice solutions, and a Finnish project to develop a skills analysis tool for SMEs. Germany and Austria both have well-established dual vocational training systems.

General assessment

The proportion of employees benefiting from vocational training remains low in Europe. While various training courses are increasingly made available across the EU, tax incentives for employers to offer training opportunities, support for in-house training and other measures to encourage lifelong learning remain limited. Despite general awareness of the need for ICT-

¹⁶ Source: Benchmarking Enterprise Policy: Results from the 2001 Scoreboard, SEC(2001) 1900, 21.11.2001. In 2000, an average of 10 % of 25-64 year olds had participated in a training course in the four weeks prior to the survey (in most Member States these figures represent an increase from the results of previous years).

¹⁷ Sources: 2001 ENSR Survey on SMEs, Observatory of European SMEs (forthcoming report).

¹⁸ Source: Benchmarking Enterprise Policy: Results from the 2001 Scoreboard, SEC(2001) 1900, 21.11.2001.

related training and the various new measures launched by several Member States, there is a skills deficit in this field, although the level varies significantly across the EU. There is also a need to extend efforts to build links between educational institutions and business. The acquisition of appropriate language skills, particularly for entrepreneurs wanting to operate outside their home market, is a further factor for consideration.

2.5 Improving online access

Public authorities should be urged to increase their electronic communication with the small business sector. Thus, companies will be able to receive advice, make applications, file tax returns or obtain simple information online, therefore faster and more cheaply. The Commission must lead by example in this area.

Electronic communication between public authorities and business can bring benefits to both sides in terms of speed, cost, efficiency and transparency. E-government initiatives can also add an incentive for SMEs to go digital. The number of small business using the Internet is increasing steadily: Internet use by micro-enterprises has increased from approximately 40 % in 1999 to 70 % in 2001, and by small enterprises from 67 % to 81 % ¹⁹.

All governments have demonstrated an awareness of the need to make their services as accessible as possible, notably through online access, and to reduce the number of times businesses have to submit the same piece of information to different authorities. Many now have Internet sites that provide information and offer advice on administrative procedures, financing opportunities and other start-up and management issues. There has also been progress, notably in Greece, towards linking ministries with authorities in remote regions so that information can be shared more easily between them. Single access points that provide business with a direct link to all government information and services are becoming more widespread, and the Swedish government has recently developed an interactive website aimed at providing information to businesses and increasing their dialogue with the administration.

Electronic transactions can be carried out between businesses and tax and social security authorities in France, Ireland, Austria and Norway, while public procurement portals are either in place or under development in Denmark, Germany and Greece. E-Envoys have been introduced in the UK and Norway to lead the way in putting their country online.

General assessment

This is an area where all governments seem to be moving in the right direction, although these efforts will need to be sustained and further refined to meet the needs of business. Moreover, while registration forms can be obtained online in many countries, it is not yet possible to register and complete the registration procedures online.

2.6 More out of the Single Market

The Commission and Member States must pursue the reforms underway aiming at the completion in the Union of a true internal market, user-friendly for small business, in critical areas for development of small businesses including electronic commerce, telecommunications, utilities, public procurement and cross-border payment systems.

¹⁹ Sources: 2001 ENSR Survey on SMEs, Observatory of European SMEs (forthcoming report).

The economies of the Member States are highly dependent on trade, particularly with each other, and intra-EU trade liberalisation has been a key driver of economic growth. Good progress has been made in a number of Member States in liberalising the telecommunications, gas and electricity markets, although much remains to be done to achieve full liberalisation. Increasing attention is also being given to the reform of public procurement legislation and, in particular, to facilitating access for small business to public tenders, notably in Denmark, Germany, Ireland, Sweden and Finland.

European and national competition rules should be vigorously applied to make sure that small businesses have every chance to enter new markets and compete on fair terms.

Denmark, the Netherlands and the UK have all passed Competition Acts that help to align their competition legislation with that of the EU and aim to improve opportunities for small businesses in the Internal Market. Austria has also introduced a specific programme to help SMEs get more out of the Internal Market. While there are still some problems in completing the transposition of European Directives into national law - only Denmark, Spain, the Netherlands, Finland and Sweden have achieved the target (set for Spring 2002 by the Stockholm European Council) of a 1.5 % transposition deficit - in all but two Member States the transposition deficit is below 3 %²⁰.

General assessment

While there is no doubt that the Internal Market has transformed trade within the EU, Member States continue to introduce new technical regulations at a worrying pace. The number of notifications of draft technical regulations by the Member States²¹ has grown from 591 in 1999 to 751 in 2000. This trend risks further increasing the burden for small businesses, who have to comply with an increasing number of different pieces of legislation. However, it is difficult to establish a direct link between the number of regulations adopted by the Member States and compliance problems for small businesses. The decisive criterion is, in fact, the content of the national regulations.

2.7 Taxation and financial matters

Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises. Member States should apply best practice to taxation and to personal performance incentives.

Germany exempts small businesses from turnover tax and is planning a business tax reform with incentives for sole proprietors, France has reduced the rate of corporation tax for businesses with a turnover lower than EUR 7.6 million, Portugal has simplified its collective earnings tax scheme for enterprises with a turnover up to EUR 150 000, Finland has reduced taxation for low-income entrepreneurs and Sweden allows enterprises to postpone part of their income tax payments for re-investment purposes. France has also created tax incentives to

²⁰ Source: Internal Market Scoreboard No 9 (19 November 2001).

²¹ Directive 98/34/EC of 22 June 1998, as amended by Directive 98/48/EC of 20 July 1998, laying down a procedure for the provision of information in the field of technical standards and regulations, and of rules on Information Society Services, OJ L 204, 21.7.1998, p. 37, and OJ L 217, 5.8.1998, p. 18. It obliges Member States to notify technical regulations concerning products and Information Society services to the Commission in draft form. While the aim is to avoid creation of technical barriers, notifications also provide a barometer of the propensity to regulate.

motivate the development of business angels. Italy has created a tax credit incentive system to support investments by enterprises in disadvantaged areas. Greece, Austria and Finland, among others, have amended their inheritance and gift tax laws to facilitate the transfer of businesses. Spain, Portugal and the UK have all developed tax incentives for small enterprises' purchases of ICT equipment and/or projects, while Belgium's "Federal Plan +1+2+3" reduces social security contributions on the recruitment, for the first time, of a first, second and third worker.

Entrepreneurs need finance to translate ambitions into reality. In order to improve the access of small enterprises to financial services, we will:

Identify and remove barriers to the creation of a pan-European capital market and to the implementation of the Financial Services Action Plan and the Risk Capital Action Plan;

See the European Commission section.

Improve the relationship between the banking system and small enterprises by creating appropriate access conditions to credit and to venture capital;

In order to stimulate the emergence of potential new growth companies, most Member States are promoting venture capital for technology start-ups. Belgium's "Bourses de pré-activité" provide capital for analysis and business plans prior to the start-up of an enterprise, while the new "Coupole financière des PME" brings together under a common framework existing public finance tools providing long-term risk capital and guarantees. In Denmark, two special investment companies have been created to provide seed and start-up capital to innovative businesses that are too risky for established venture capital companies. The Greek government has created a venture capital fund for new technologies and a fund for high technology business ventures. The Austrian "Seed Financing Programme" provides financing for technologically innovative business ideas. In Finland, the National Fund for Research and Development supports seed financing for technology start-ups and a new seed financing instrument for technology villages and business incubators is being created. Sweden's Innovation Centre Foundation provides risk loans with low interest rates to entrepreneurs in the early stages of innovative processes and the UK's High Technology Fund (a fund of funds) invests in early-stage high-technology focused funds.

Mutual guarantee schemes to help SMEs gain access to credit have been further developed in Spain and Italy, while loan guarantee funds (providing a share of the guarantees required by financial institutions) to encourage the banking sector to increase its offer of loans to SMEs have been created or strengthened in Denmark, Greece and Sweden.

Information and support systems to help future entrepreneurs obtain information on access to finance have been set up in several countries. Italy's integrated incentive plan for 2000-2006 enables enterprises submitting a development plan to obtain finance for innovation, training and networking, while in the Netherlands the "SME Account" website and service assists entrepreneurs in matters related to accessing finance.

Improve the access to the structural funds and welcome initiatives by the European Investment Bank to increase funding available to start-ups and high-technology enterprises, including equity instruments.

See the European Commission section.

General assessment

Early stage financing as a share of GDP in the Member States doubled between 1999 and 2000²². The availability of venture capital is growing strongly, although this varies significantly across the European Union and is mainly targeted at high-tech and innovative enterprises. Loan and mutual guarantee schemes can help to bridge the financing gap for businesses in more traditional sectors. While these types of schemes exist in most Member States, the significance of their role varies widely from country to country. In addition, current corporate tax systems give a strong advantage to investments financed by debt. For enterprises, financing through new equity is disadvantageous, as no deduction from the taxable base for the corresponding payment is allowed²³. At a time when Member States are trying to develop their equity markets, including venture capital and business angels investments, this issue should be addressed. Furthermore, in the present context of reduced availability of risk capital investment in high-tech firms, a more effective use of loan and guarantee schemes to respond to the needs of such firms should be encouraged, based on the successful implementation of these types of schemes in a number of Member States.

2.8 Strengthen the technological capacity of small enterprises

We will strengthen existing programmes aimed at promoting technology dissemination towards small enterprises as well as the capacity of small business to identify, select and adapt technologies.

Increasing attention is being given to improving the technological capacity of small businesses and to promoting technology transfer from research institutes to SMEs. Belgium, Denmark, Spain and Norway have introduced measures to encourage the employment of technologically qualified personnel in SMEs. In Finland, an initiative has been developed to help SMEs make full use of the potential of ICT. In Germany, a number of programmes are available which aim to provide seed capital (and consultancy services) for new technology businesses where no such provision is made by the market, while Greece and France have been active in developing measures to support and create technological parks and incubators.

We will foster technology co-operation and sharing among different company sizes and particularly between European small enterprises, develop more effective research programmes focussed on the commercial application of knowledge and technology, and develop and adapt quality and certification systems to small enterprises. It is important to ensure that a Community patent is available and easily accessible to small enterprises.

We will foster the involvement of small enterprises in inter-firm co-operation, at local, national, European and international levels as well as the co-operation between small enterprises and higher education and research institutions.

Actions at national and regional levels aimed at developing inter-firm clusters and networks should therefore be supported, pan-European co-operation between small enterprises using information technologies enhanced, best practice in co-operative agreements spread, and small enterprises co-operation supported to improve their capabilities to enter pan-European markets and to extend their activities in third country markets.

²² Source: Benchmarking Enterprise Policy: Results from the 2001 Scoreboard, SEC(2001) 1900, 21.11.2001.

²³ Source: "Towards an Internal Market without tax obstacles - A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities", COM(2001) 582 final, 23.10.2001.

In the Netherlands, public-private co-operation projects aim to improve the climate for tech starters, encourage co-operation between large and small firms and promote innovative clusters. An Austrian programme aims to promote innovation and the use of technology in order to enhance the competitiveness of the SME structure, while another Austrian initiative aims to disseminate best practice examples of innovative companies to other firms. Finally, a Swedish programme aims to increase ICT knowledge among enterprises with between zero and ten employees.

General assessment

While all governments are committed to the promotion of technology transfer from research institutes to small enterprises, and to increasing their co-operation, little is reported in the areas of inter-firm co-operation, clusters and networks. Improvement requires a long-term commitment to these types of co-operation, as well as efforts to promote and facilitate technological change in SMEs.

2.9 Successful e-business models and top-class small business support

The Commission and Member States should encourage small enterprises to apply best practice and adopt successful business models that enable them to truly flourish in the new economy.

The number of small and micro- enterprises that are connected to the Internet has risen rapidly in recent years, from just over 40 % in 1999 to 70 % in 2001 for micro-enterprises, and from 67 % to 81 % for small enterprises²⁴. The number of SMEs making or receiving payments over the Internet is also rising, although there is a rather uneven picture for the European Union as a whole. These types of payments are now common in Denmark, Luxembourg, Austria, Finland and Sweden, and are becoming increasingly so elsewhere, notably in Belgium and Germany.

Ireland and Finland have introduced measures to disseminate examples of best practice and/or success stories of SMEs using e-commerce. Spain, Austria, Sweden and Norway have developed programmes to make SMEs more aware of the opportunities and benefits of e-commerce, and Norway has also launched an initiative to make shopping over the Internet safer and easier for consumers and business. In the UK, an action plan to encourage firms to do business electronically includes targets for the number of businesses trading online.

A continuous consultation mechanism between the state, business, academic communities and social partners on the competitiveness of SMEs in the digital economy and the e-business environment has been developed in Greece. Germany has created a network of centres of excellence for e-commerce, and an Internet network for e-commerce, while measures to raise small businesses' ICT skills have been developed in Belgium and Norway, among others.

We will co-ordinate Member States and EU activity to create information and business support systems, networks and services which are easy to access and understand, and relevant to the needs of business; ensure EU-wide access to guidance and support from mentors and business angels, including through websites, and exploit the European Observatory on SMEs.

²⁴ Sources: 2001 ENSR Survey on SMEs, Observatory of European SMEs (forthcoming report) and the European Observatory for SMEs - Sixth Report, Luxembourg, 2000. Growth is less visible in medium-sized enterprises: from 86 % in 1999 to 92 % in 2001.

Denmark has launched a web portal offering a single entrance point for information about starting and running a business, and also offers a hotline and Internet consultancy for businesses. In France, a quality charter for business services has been developed. Mentor programmes are available in Belgium, Spain, Ireland, Finland, Sweden and the UK, and in Sweden there is also a network of business advisers for women entrepreneurs. Business angel networks are now active in all but two Member States. Employee share ownership schemes have also been promoted in several countries, notably in Denmark and France.

General assessment

Besides efforts to identify and remove legal barriers to *e-commerce*, the majority of countries have developed action plans to encourage firms to do business electronically, some of which include specific targets for the number of businesses trading online. However, while some countries have made significant progress in terms of the number of businesses that are online, it is proving much more difficult to get them actually to trade electronically: according to the 2001 ENSR Survey, 40 % of European small enterprises (and 43 % of micro-enterprises) consider that Internet selling is not appropriate to their type of business²⁵. Strengthening of the legal framework for *e-commerce*, along with infrastructural improvements, needs to be combined with awareness raising measures and training in ICT skills to convince more businesses of the benefits of *e-commerce*.

Achieving “top-class business support” means improving the day to day practice of thousands of business advisers, operating mainly at a local level, across the EU. There are many existing examples of very good practice and a growing sense of professionalism among support staff. A recently published Commission Staff Working Paper²⁶ characterises this practice and provides guidelines for achieving top-class support services.

2.10 Develop stronger, more effective representation of small enterprises’ interests at Union and national level

We will complete a review of how the interests of small businesses are represented at EU and national level, including through the social dialogue.

The creation of small business consultation committees advising national authorities on policy making is becoming a feature of governments’ efforts to ensure a systematic consultation of SMEs. Some of these committees, such as the Irish Round Table for SMEs, the Swedish group of representatives from small enterprises and the Scottish Ministerial Small Business Consultative Group in the UK, bring together small business representatives with government officials, development agencies and academics. In Germany, a high-level federal government representative for SMEs has been nominated to ensure that SMEs’ interests are taken into account in federal decision-making. In addition, Spain has created an Observatory for Small Enterprises and Norway has developed a Small Businesses Barometer.

Small businesses’ interests are often represented in the wider context of “enterprise” committees or organisations where both large and small businesses participate. In terms of representing small enterprises’ interests at EU level, only the UK has taken direct action, opening up a representative office in Brussels (“smallbusiness|europe”).

²⁵ Sources: 2001 ENSR Survey on SMEs, Observatory of European SMEs (forthcoming report).

²⁶ “Creating Top-class Business Support Services”, SEC(2001) 1937, 28.11.2001.

General assessment

While most countries consult stakeholders in one way or another (for example, through ad hoc consultation of interested parties prior to the adoption of legislation and/or within the context of a Regulatory Impact Assessment), systematic consultation of small enterprises is still not the rule. More needs to be done to ensure effective representation of their interests.

3. EUROPEAN COMMISSION

3.1 Education and training for entrepreneurship

The Commission organised, jointly with the French authorities, a Forum on “Training for Entrepreneurship” in October 2000. As a follow-up, a project on education and training for entrepreneurship (from primary school to university) has been launched under the Best Procedure. The project aims to identify and assess measures and good practices developed at national or local level in order to promote entrepreneurial skills within the education system. The Commission has also launched a Best Procedure project aimed at gathering information on specific actions and support schemes targeted at women entrepreneurs and at disseminating good practices.

Within the annual European Employment Strategy (EES), the common guidelines on employment policy require Member States to promote education for entrepreneurship as well as training for entrepreneurs. The EES also comprises a peer review programme that brings together experts and policy-makers from several Member States to review the transferability of policies.

The European Social Fund (ESF) programmes have strengthened their focus on supporting human resource development in SMEs. In 2000-2006, the ESF will contribute just under EUR 8 000 million to promote entrepreneurship across the EU. Activities will include the development of entrepreneurial skills, business start-ups and the establishment of networks to support entrepreneurship. The ESF will also allocate EUR 11 000 million of Community support to promote greater adaptability through, for example, more effective transfer of technology to SMEs and employee training.

3.2 Cheaper and faster start-up

Experiencing difficulty in starting up an enterprise can clearly act as a direct break on entrepreneurship. Considerable emphasis has therefore been placed on improving start-up procedures. In response to a call from the Lisbon European Council, the Commission conducted a Best Procedure benchmarking exercise during 2001 with the active participation of Member State experts and officials. The exercise established a clear mapping of procedures in each Member State and assembled considerable data on actual practice, including illustrative cases of best practice. A series of benchmarks provide realistic targets for national authorities. The analysis showed that there has been steady progress in reducing delays in administrative procedures in recent years, although some of the basic elements of the 1997 Commission Recommendation²⁷ in this area still have yet to be implemented. There is also considerable scope to exploit information technology, especially for online registration.

3.3 Better legislation and regulation

The project “Business failure and bankruptcy”, launched in 2001, focused on identifying key issues, gathering relevant data and exchanging good practices on how to solve financial difficulties and facilitate a fresh start after bankruptcy. A seminar on business failure in May 2001²⁸, organised jointly with the Dutch authorities, highlighted the need for a clear

²⁷ Commission Recommendation on Improving and Simplifying the Business Environment for Business Start-ups, OJ L 145, 5.6.1997, p. 29.

²⁸ Information on this seminar (report and speeches) are available at: <http://www.businessfailure.ez.nl>.

legal framework, timely intervention, restructuring of viable businesses and the need to address the stigma of failure. The Commission has also launched a study on the legal and social consequences of insolvency.

The Commission made three contributions during 2001 towards simplifying and improving the regulatory environment: an interim report to the Stockholm European Council, the White Paper on European Governance - both of which present guidelines for a better regulation process - and a specific communication on the definition of this co-ordinated strategy²⁹. The communication proposes to open a discussion upon the main topics of better regulation: simplifying the *acquis communautaire*, well-prepared legislation, a new culture within the institutions and better transposition and application of Community law.

In view of developments towards an overall strategy for simplifying the regulatory environment, a Best Procedure project on the existing Business Impact Assessment system (BIA) was launched in September 2000. The project seeks to explore methods of estimating costs and benefits of legislative proposals to business and to contribute to discussions on better regulation. Good practices were exchanged at a workshop in June 2001 with the Member States.

Both the Member States and the Commission delivered reports on the regulatory environment to the Laeken European Council. The Commission report emphasised, among other initiatives, the need to implement a systematic impact assessment system for analysing and reporting on the estimated costs and benefits of new and revised legislation. The new system will be in place by the end of 2002. A broader impact assessment, which should include an assessment of the impact on sustainable development, will also be up and running by the end of 2002.

Existing Internal Market legislation is currently being reviewed by national experts and by businesses, consumers and trade organisations in the framework of the SLIM initiative. These reviews focus on those provisions which are unclear, out of date and which give rise to costs and burdens for users and the national authorities. The Business Test Panels (BTP), launched in 1998, aim to complement other impact assessment procedures by providing detailed information from businesses that may be affected by new proposals as regards compliance costs and administrative burdens. The Commission has undertaken an evaluation of the BTP and is currently discussing with the Member States how to strengthen their efficiency.

In addition, the Commission launched the Interactive Policy Making initiative in April 2001. It aims to improve governance by using the Internet for collecting and analysing reactions in the marketplace for use in the EU's policy making process. SMEs are invited to participate in online consultations through the "Your Voice in Europe" website and the Enterprise Directorate-General's homepage. They can also turn to one of over 200 Euro Info Centres to report back to the Commission on the problems they have encountered while doing business in the Internal Market. This feedback will help the Commission to respond more quickly and accurately to the demands of SMEs, the intention being to make EU policy formulation more transparent, comprehensive and effective (see also the new SOLVIT network proposed on page 24).

With a view to simplifying the regulatory environment and reducing administrative burdens on business, the Commission supports the efforts of Official National Commerce Registers to

²⁹ "Simplifying and improving the regulatory environment", COM(2001) 726 final, 5.12.2001.

improve their services to enterprises and their network for the exchange of good practices between over twenty European official registers.

On 29 November 2000, the Commission adopted a new regulatory framework for horizontal co-operation agreements. This consists of two block exemption regulations - on the application of Article 81(3) of the Treaty to categories of specialisation agreements and to categories of research and development agreements³⁰ - and guidelines on the applicability of Article 81 to horizontal co-operation agreements³¹. The adoption of these texts reduces the compliance burden for companies by making the applicability of Article 81 to horizontal agreements more predictable and less burdensome. These advantages are particularly evident in respect of SMEs. The new *de minimis* notice adopted in December 2001 by the Commission³² clarifies that agreements between SMEs in general fall outside Article 81(1), as they do not affect trade between Member States.

On 12 January 2001, the Commission adopted Regulation (EC) No 70/2001 on the application of Articles 87 and 88 of the EC Treaty to state aid to small and medium-sized enterprises³³, thereby replacing the Community guidelines on state aid for small and medium-sized enterprises of 1996. The new regulation exempts Member States wishing to grant such aid from the duty to notify their intention in advance to the Commission. The exemption only applies, however, provided that such aid is compatible with all the conditions stipulated in the regulation. The new regulation was adopted with the intention of simplifying administration and should allow Member States to grant such aid to SMEs more quickly. On the same day, the Commission also adopted a regulation³⁴ clarifying its approach towards *de minimis* aid which can be granted without prior notification. While *de minimis* aid, i.e. aid of up to EUR 100 000 per beneficiary over three years, is not limited to SMEs, aid of such size can be expected to serve the needs of small companies in particular.

3.4 Availability of skills

The Commission has established, in co-operation with the Member States, a group of experts to analyse and monitor the demand for ICT and *e*-business skills, as well as the supply of a skilled workforce in Europe. The ICT Skills Monitoring Group (2001-2002), composed of experts from all Member States, aims to monitor and benchmark national policies to improve the availability of ICT and *e*-business skills.

The Commission's recent Communication on the *e*-Economy³⁵ acknowledges the urgent need to tackle ICT and *e*-business skills shortages and, in this context, to promote the

³⁰ Commission Regulation (EC) No 2658/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of specialisation agreements (Text with EEA relevance), OJ L 304, 5.12.2000, p. 3-6 and Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements (Text with EEA relevance), OJ L 304, 5.12.2000, p. 7-12.

³¹ Commission Notice - Guidelines on the applicability of Article 81 to horizontal co-operation agreements, OJ C 3, 6.1.2001, p. 2.

³² Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1) of the Treaty establishing the European Community (*de minimis*), OJ C 368, 22.12.2001, p. 13-15.

³³ OJ L 10, 13.1.2001, p. 33.

³⁴ Commission Regulation (EC) No 69/2001 on the application of Articles 87 and 88 of the EC Treaty to *de minimis* aid, OJ L 10, 13.1.2001, p. 30.

³⁵ "The impact of the *e*-Economy on European enterprises: economic analysis and policy implications", COM(2001) 711 final, 29.11.2001.

development of *e-learning* solutions. E-learning³⁶ is seen as an important enabler for adult education, with increasing emphasis on the importance of informal and non-formal learning, and is proving to be a popular and cost-effective way of providing the necessary skills and competence for rapidly changing business needs (up to 60% of the training needs of key players in the ICT sector is now provided by *e-learning*).

The Communication on Lifelong Learning³⁷ presents a comprehensive strategy to support the creation of a European area of lifelong learning. The Communication recommends networking and co-operation between SMEs and with training providers, as well as partnerships with other enterprises through learning networks and competence sharing. The Commission, in co-operation with the European social partners, will also launch a survey on learning in SMEs, with particular focus on non-formal and informal learning.

The Leonardo da Vinci programme supports, *inter alia*, transnational projects dealing with the promotion of training for (mainly) SME managers. In addition, the programme offers financial incentives exclusively for SMEs to take part in European exchange programmes of apprentices and people in continuing training.

European Social Fund (ESF) support for lifelong learning is estimated at approximately EUR 12 000 million for 2000-2006. Programmes increasingly embody a wider commitment to develop a framework for lifelong learning in the workplace. This includes efforts to recognise qualifications and skills and to develop multi-media training packages and distance learning methods to support ICT skills in SMEs. The Commission also adopted, in February 2001, a Communication on New European Labour Markets³⁸, which was endorsed at the Stockholm European Council. As a follow-up, the Commission created a high-level Task Force on Skills and Mobility, comprising senior industry representatives, labour market experts and teachers, which recommended a series of measures to make the European labour market open and accessible to all by 2005. On the basis of these recommendations, the Commission will adopt an Action Plan for submission to the Barcelona European Council. Proposals will include actions to abolish obstacles to mobility, ensure a better EU-wide recognition of qualifications and improve the functioning of European labour markets, such as the strengthening of the European Employment (EURES) network to support the mobility of workers and to assist SMEs in their search for qualified workers.

In June 2001, the Commission adopted a Communication on “A Mobility Strategy for the European Research Area”³⁹, which aims to create a favourable environment for the mobility of researchers that will, *inter alia*, contribute to “enhancing the transfer of knowledge and technology between the different actors of the European research and innovation system, including industry.”

3.5 Improving online access

In March 2001, the Commission adopted a Communication on “Helping SMEs to GoDigital (*eEurope GoDigital*)”⁴⁰. The GoDigital initiative described in this Communication follows up the *eEurope* Action Plan endorsed by Member States at the Feira European Council. The Plan

³⁶ See also “The *eLearning* Action Plan - Designing tomorrow’s education”, at: http://europa.eu.int/comm/education/elearning/doc_en.html.

³⁷ COM(2001) 678 final, 21.11.2001.

³⁸ COM(2001) 116 final, 28.2.2001.

³⁹ COM(2001) 331 final, 20.6.2001

⁴⁰ COM(2001) 136 final, 13.3.2001.

identifies SMEs as being critically important for promoting *e*Europe, and defines specific targets and a schedule for implementation. Member States and the Commission are invited, *inter alia*, to encourage SMEs to “GoDigital” through co-ordinated networking activities for the exchange of best practices, *e*-commerce readiness and benchmarking. “Reference centres” (established networks that aim to provide information and advice in different parts of the EU) could help SMEs to introduce *e*-commerce into their business strategies. A grant theme of EUR 0.75 million has been made available for organising GoDigital workshops and seminars, and a Euro Info Centre GoDigital campaign in eighteen countries started in September 2001.

In its Communication on “The impact of the *e*-Economy on European enterprises: economic analysis and policy implications” of November 2001⁴¹, the Commission further underlined the need for public administrations to be at the leading edge of online service delivery and to provide incentives for SMEs to access such services. The need to strengthen ongoing initiatives at all levels to help SMEs acquire ICT and *e*-business skills is also emphasised.

3.6 More out of the Single Market

The Commission adopted its five-year Strategy for the Internal Market in November 1999, with the aim of identifying areas that require action and keeping these under the sharpest focus. The Strategy emphasises the need for continued structural and economic reform measures and a strong political commitment to tackle priority issues designed to improve the competitiveness of EU businesses. The Commission reviews the Internal Market Strategy annually (last done in April 2001⁴² and to be reviewed again in April 2002) to consider past performance and make proposals for improvement. One of the four objectives in the Strategy is to improve the business environment, in which many of the individual target actions have specific provisions to help small businesses (for example, the simplification of public procurement procedures or other sectoral product directives).

In order to improve the Internal Market, the Internal Market Initiative for industrial goods was launched in 2001. This initiative aims to ensure that Internal Market rules adapt to technological change without regulatory hindrance and to reduce the administrative burden on enterprises. The Commission carried out a four-month online consultation of business stakeholders to identify remaining obstacles to the free movement of goods and related services in the EU. The results of the survey and an action plan will be presented in early 2002.

In November 2001, the Commission adopted a Communication which outlined new proposals for an effective problem solving system in the Internal Market called “SOLVIT”⁴³. This calls for an integrated approach, with the creation of an EU-wide online database to facilitate the monitoring and resolution of problems related to the misapplication of rules by public authorities. The Commission has also set out in a Recommendation⁴⁴, addressed to the Member States, some common principles and deadlines that Member States should follow.

The Commission’s package of legislative proposals to simplify and clarify existing public procurement regulations should make them more readable and easier to understand. The promotion of the use of electronic means for procurement, and increased transparency regarding the criteria used to award contracts will benefit small companies so that they can

⁴¹ COM(2001) 711 final, 29.11.2001.

⁴² COM(2001) 198 final, 11.4.2001.

⁴³ COM(2001) 702 final, 27.11.2001.

⁴⁴ COM(2001) 3901 final, 7.12.2001.

concentrate their efforts on the opportunities where they consider they have the best chance of winning the tender.

A major problem for small businesses is that of late payments. The European Parliament and the Council adopted the Directive on Combating Late Payments in Commercial Transactions in June 2000⁴⁵. The Directive must be fully implemented by the Member States by 8 August 2002. Meanwhile, an information leaflet has been distributed to the European business community and made available on the Internet.

The electronic commerce directive came into force in Member States on 17 January 2002. What it means in practice is that a business established in one Member State can, in most cases, treat the Community market as its own home market, knowing that compliance with its own national law is sufficient, as opposed to having to consider the laws of fourteen other Member States when providing cross-border services in the Community. This represents an enormous saving in terms of both costs and resources for SMEs.

The EU legal framework on the processing of personal data and privacy also offers the advantage of the home country control principle. SMEs complying with the national data protection law of the Member State where they are established can collect and process personal data for the provision of their services, products or internal organisation throughout the Internal Market. A clear and effective privacy policy is essential to gain consumers' trust and confidence.

The IDA (Interchange of Data between Administrations) work programmes for 2001 and 2002 put an emphasis on actions that provide *direct* benefits to enterprises at European level, starting with a survey of the requirements of enterprises for pan-European services with public administrations. IDA has also initiated a horizontal action to facilitate the creation of interoperable portal websites providing public access to administrative and public service information in the Member States. The main initiative foreseen is the establishment of a common portal for the EU administration.

3.7 Taxation and financial matters

A Best Procedure project on transfer of business, launched in December 2000, aims to monitor the implementation of the 1994 Commission Recommendation on the transfer of small and medium-sized enterprises⁴⁶. This Recommendation invited the Member States to improve their legal and fiscal environment for business transfers, to raise awareness and to provide support for business transfers. The Commission has set up an expert group to help collect information on measures taken and to assess their effectiveness. The final report is expected for June 2002.

The Commission is also carrying out a study on the legal and administrative environment for employee stock options. These could play an important role in the promotion of entrepreneurship, since they help to attract, retain and motivate key personnel and also save liquidity. However, complex and unclear legal and administrative provisions in many Member States (in particular regarding taxation) seem to hinder their use. In addition, the Commission has issued a study on "Corporation tax and innovation: issues at stake and

⁴⁵ Directive 2000/35/EC of 29.6.2000, OJ L 200, 8.8.2000.

⁴⁶ OJ L 385, 31.12.1994, p. 14 and the accompanying Communication containing the motivations of the Recommendation, OJ C 400, 31.12.1994, p. 1.

review of European Union experience in the 1990s”, which analyses the strengths and weaknesses of various policy approaches.

The Financial Services Action Plan contains measures aimed at helping to raise finance on competitive terms on an EU-wide basis for SMEs, and at removing any unnecessary administrative or legal barriers to the raising of capital on a cross-border basis. This is the intention behind the proposed Directive on a Single Prospectus, which aims to ensure that a prospectus or offer document approved in one Member State will be accepted in all Member States. In addition, financial reporting will be enhanced by removing national variances in accounting standards through the introduction of International Accounting Standards across the EU.

In October 2001, the Commission issued its mid-term evaluation of progress under the Risk Capital Action Plan (RCAP). Adopted by the Cardiff European Council, the RCAP sets out a series of actions to break down the barriers to the establishment of a well-functioning risk capital market in the EU. The evaluation emphasises the positive development of venture capital in Europe in recent years and the growth of finance for seed capital and start-up ventures. It also points out that the European venture capital industry has become more sophisticated and better organised. However, the depth of markets continues to vary significantly between Member States. Particular attention needs to be given to ways and means of stimulating the emergence of potential new growth companies, including improving the links between the world of scientific research and that of business.

In September 2001, the Commission published a report on progress under the CREA Seed Capital Action. The Action supported recently created seed capital funds with at least EUR 4 million investment capital, as a way of overcoming the early-stage financing gap. Twelve active funds have invested EUR 102 million in 114 new companies, creating 1 637 new jobs. The majority of these funds invest locally or regionally in information technology, communications, electronics and life sciences.

The Fourth Round Table of Banks and SMEs, which concluded in December 2001, concentrated on the candidate countries and covered a wide range of access to finance issues. The final report matches best practices with problems identified, and makes a series of suggestions for action and recommendations to the EU. The Commission was requested by the Industry Council of December 2001 to facilitate contacts between banks/financial institutions and SMEs, to produce a code of good practice in this area and to identify good practices in the simplification of procedures.

In October 2001, the Commission launched, together with the Member States, a Best Procedure project on establishing good practices in business angel activities.

Within the Fifth Framework Programme for RTD, a number of projects to facilitate access to private innovation finance have been launched under the “gate2growth” initiative. These include the following Europe-wide networks: the I-TecNet venture capital forum - a network of professional venture capital operators active in early-stage, innovative technology investing; the incubator forum - a network of managers of technology incubators, business accelerators and seed funds; and a network of academic experts on entrepreneurship, training and private innovation finance.

Based on the Council decision of 20 December 2000 on the Multiannual Programme for Enterprise and Entrepreneurship (2001-2005), the Commission and the European Investment Fund have agreed on the implementation of the programme’s financial instruments: the ETF

Start-up Scheme, the SME Guarantee Facility and the Seed Capital Action. These instruments are delivered via financial intermediaries.

The objective of the ETF Start-up Scheme is to increase the availability of risk capital to innovative SMEs during the start-up and early-stage phases. The EIF invests on equal terms with other equity investors in specialised venture capital funds. The funds considered under this facility are smaller or newly established ones, in particular those operating at a regional level, those focusing on specific industries or technologies and those which finance the exploitation of R&D results.

The SME Guarantee Facility aims to stimulate job creation by supporting SMEs' investment activities, through increased availability of loan finance. This is achieved by increasing the capacity of guarantee schemes and relates to both new and existing portfolios. The Guarantee Facility provides four different "windows", for (traditional) loan finance, microloans, loans for ICT investments and equity investments.

The Seed Capital Action aims to stimulate the supply of capital for the creation of innovative new businesses with growth and job creation potential, including those in the traditional economy, through support for seed funds, incubators or similar organisations. This support is aimed at the long-term recruitment of additional investment managers to reinforce the capacity of the venture capital industry to cater for investments in seed capital.

In addition, through the Growth and Environment Scheme, the EIF offers a guarantee to financial institutions that grant loans to SMEs for environmentally friendly investments. This guarantee is free of charge for the financial institution and for the company through sponsorship of the Scheme by the EU. The Scheme supports thirty-eight financial intermediaries and more than 4 000 enterprises. The Memorandum of Agreement signed on 7 June 2001 between the European Commission and the EIB provides a framework for closer co-operation in boosting research and technological innovation in Europe by offering complementary, though independent, forms of financial support. The main objective of this co-operation is to increase the impact of grants given by the European Commission and loans or risk capital provided by the EIB for research projects and infrastructure and innovative enterprises. This will be achieved by better development of synergies between the Community Research Framework Programme and the EIB's Innovation 2000 Initiative.

3.8 Strengthen the technological capacity of small enterprises

SMEs are an important target group of the Sixth Framework Programme for RTD, with 15 % of the budget for the seven thematic priority areas reserved for SMEs. This amounts to around EUR 1 700 million, making the Framework Programme one of the largest support instruments in the world for SMEs in the field of research and innovation. Furthermore, for less research-intensive (or traditional) SMEs, specific research actions are foreseen: EUR 450 million has been earmarked for the Collective Research and Co-operative Research (CRAFT) programme. In order to provide information and assistance on the Sixth Framework Programme to SMEs, a dedicated network of National Contact Points (NCPs) will be established.

The Regional Innovation Measures aim to encourage regions to act in an international context by facilitating the exchange of experience between those regions that are involved in innovation actions. The new generation of innovative actions for 2000-2006, financed under the Structural Funds, are particularly relevant for small enterprises. Three themes have been chosen for this period: a regional economy founded on knowledge and technological

innovation (to assist the least developed regions in developing competitive tools and implementing partnerships between the public sector, enterprises, research organisations and universities); *eEurope-regio*: the Information Society and regional development (to assist projects in the digital technology service sector in order to lessen the handicaps of, for example, peripheral regions); and regional identity and sustainable development (to encourage regions to build on their cultural assets or specific competencies to improve the professional environment in the regions). A total budget of EUR 400 million is available for these programmes.

Under the Fifth Framework Programme for RTD, the Pilot Action of Excellence for Innovative Start-ups (PAXIS) offers a network for economic areas that provide exemplary conditions for start-ups and spin-offs. PAXIS regions are expected to become European “showcases” of regional excellence in fostering innovation. A call for proposals launched in May 2001, on “Mechanisms to facilitate the setting-up and development of innovative firms”, will provide funding for up to twenty-two European economic areas fulfilling excellence criteria for the creation of innovative firms, clustered into five thematic networks. It also provides for cross-border projects on instruments and approaches to create innovative firms, and for various accompanying measures.

“CORDIS”, the Community Research and Development Information Service, is hosting a new service to help SMEs participate in and benefit from European research funding. It will be of particular value to innovative SMEs that apply for research funding through the SME Specific Measures of the Fifth Framework Programme for RTD, and for those who are interested in applying. SMEs - especially those wishing to innovate and internationalise - will benefit from the SME TechWeb service. Further CORDIS services for SMEs include the Training and Dissemination Schemes. These focus on raising public awareness of innovation processes and initiating dialogue between technologists, economic actors and their communities. The modified proposal for the Sixth Framework Programme for RTD⁴⁷ includes a section on “Human Resources and Mobility”, the objective of which is to promote mobility for “training purposes, the development of expertise or the transfer of knowledge, in particular between different sectors (e.g. academia and industry)”.

To help improve the ability of public research organisations, notably universities, to co-operate with industry and to facilitate the transfer of knowledge and technologies, the “gate2growth” initiative (see also point 3.7) supports the “Proton Europe” network. This is a network of industrial liaison offices (ILOs) in public research organisations that facilitates interaction and exchange of good practices between ILO and IPR (intellectual property rights) managers. A study is also being carried out, and an expert group set up, to identify and promote good practices regarding IPR rules applied in publicly funded research, with the aim of facilitating transnational research co-operation and technology transfer, particularly between universities and enterprises, including SMEs. This may also contribute to a favourable environment for creating spin-offs from public research organisations.

Enhancing co-operation between enterprises and research institutions is one of the themes covered by the “Trend Chart on Innovation in Europe”. At a workshop on “Favouring Industry-Science Relationships through Human Capital Mobility” in October 2001, policy makers from twelve Member States exchanged good practices.

⁴⁷ COM(2001) 709 final, 22.11.2001.

In the Education and Training action area of the IST Programme, there is a cluster of projects that pilot and develop best practice for advanced on-the-job training solutions in SMEs. The objective is to foster the adoption of technology-based solutions and services that enable a complete life cycle of on-the-job training in SMEs, including the development of sustainable business models.

3.9 Successful e-business models and top-class small business support

As underlined by the Go Digital Communication (see point 3.5), benchmarking is a major tool to promote further the use of ICT and the Internet by SMEs. In this context, the Commission launched a Best Procedure project which aims to analyse and benchmark national and regional policies and instruments for the promotion of *e*-business for SMEs. An “E-Business Policy Group” (EBPG), including experts from all Member States and Norway, will issue policy guidelines as well as establishing targets and indicators.

The “Trend Chart on Innovation in Europe” (see also point 3.8) pursues the collection, regular updating and analysis of information on innovation policies at national and Community level, focusing on innovation finance, the establishment and development of innovative businesses, the protection of intellectual property rights and the transfer of technology between research and industry. It also provides a European forum for benchmarking and the exchange of good practices.

The conclusions of the Best Procedure project on business support services set out fifteen guidelines for best practice⁴⁸. These included a reaffirmation of the fundamental importance of client-orientation in support service provision, emphasis on the need for more coherent services based on a professional approach that aims to help enterprises build their own management capacity, reference to the need to develop support organisations’ scope for providing services tailored to the individual needs of clients and the basic requirement to create an evaluation culture that feeds back into the design and operation of support services.

In October 2001, the Commission launched the Support Measures and Initiatives for Enterprises (SMIE) databases. The SMIE project includes a support measures database of more than 2 000 business support measures and initiatives across Europe (EU, EEA, six candidate countries and Switzerland) and a database collecting good practices in business support initiatives. The aim is to provide a systematic overview of business support measures in order to facilitate comparative analysis and evaluation, and to increase transparency and visibility.

3.10 Develop stronger, more effective representation of small enterprises’ interests at Union and national level

A high-level consultative body advising the European Commission on enterprise policy - the Enterprise Policy Group (EPG) - was created in November 2000⁴⁹. The EPG is divided into two sections: a group including Directors-General responsible for Industry and for SMEs in the Member States; and a Professional Chamber, which gathers a representative sample of Europe’s enterprise community active in industry, services and trade unions, or in promoting growth in innovation. The chamber includes SME entrepreneurs, and those with experience of working in and with SMEs, among its thirty-five senior members. The Chamber advises the

⁴⁸ “Creating Top-class Business Support Services”, SEC(2001) 1937, 28.11.2001.

⁴⁹ Commission Decision of 8 November 2000 setting up an Enterprise Policy Group, OJ L 285, 10.11.2000.

Commission on the choice of enterprise policy priorities, helps disseminate information about Commission or Member State activities and provides useful feedback on the impact of, and possible improvements to, Community programmes. In addition, the Commission holds regular meetings with European business organisations, with particular emphasis on those representing SMEs. The Enterprise Directorate-General has also recently created an SME Envoy, a high-level official who is charged with maintaining the dialogue with SMEs.

The formalised consultation structures are complementary to already ongoing, and ad hoc, bilateral discussions with European and national SME organisations. For example, in June 2001, there was a special seminar to inform SMEs about the review of European chemical legislation. Increased use of the Internet and the possible development of the Business Test Panel structure will ensure improved transparency from the policy maker and more feedback from business.

4. CONCLUSIONS

General

Progress has undoubtedly been made since the Feira European Council, although the perceived nature of the changes, and the fact that many of them are recent, makes it difficult to evaluate their overall impact. Nevertheless, the diversity of measures is itself a source of strength, showing how much scope there is for further, more systematic actions. Given the recent deterioration of the economic situation in Europe, it is more important than ever to restore small businesses' confidence and support their entrepreneurial dynamism.

Achievements vary from one country to the next and there is clearly scope for further development. Performances also vary according to the area considered. Most Member States have turned their attention, for example, to the need to facilitate business start-up and to improve small enterprises' access to *e-commerce*. This may, in part, be because it is a relatively visible issue that lends itself to short-term improvement. Promotion of entrepreneurial spirit, on the other hand, is a tougher assignment and is likely to take longer. Against that, progress will be correspondingly valuable. There also remains plenty of scope for more systematic representation of small business.

Education and training for entrepreneurship

Fostering entrepreneurial spirit requires a broad range of medium-term measures and a much wider commitment to support for learning and entrepreneurship.

- The entrepreneurial spirit remains weak across Europe, despite the fact that all Member States are engaged in efforts to promote entrepreneurship within the education system and among other groups of potential entrepreneurs. Training needs to be further encouraged among entrepreneurs and their employees.
- Another area of interest is business incubators. The potential for greater use of these instruments in the EU is significant and their results have been impressive. Efforts in this field look likely to be rewarding.

Cheaper and faster start-up

In a number of countries, the combination of time, costs and capital requirements constitutes a significant obstacle to entrepreneurship, and further efforts are required to simplify existing requirements; for instance, replacing the validation of documents by self-certification. Further progress could also be achieved through the more widespread implementation of the Commission Recommendation on Improving and Simplifying the Business Environment for Business Start-ups.

- In order to deliver benchmark performance in terms of times and costs, the total number of procedures for starting a business could be an important target for simplification.
- There remains considerable scope for exploiting information technology, particularly in terms of online registration. This should be accompanied by reform of procedures.
- Member States with high minimum capital requirements should re-examine the need for this barrier.

Better legislation and regulation

Businesses themselves identify this as one of the areas where reform is most urgent. Therefore, governments' efforts to lessen the regulatory burdens on business, and to improve the quality of new legislation, are particularly welcome.

- Further attention should be given to repealing or retiring redundant regulations and to the review of old legislation. The introduction of burdensome legislation can be avoided through tighter monitoring of regulatory programmes, greater co-operation between government departments and well-structured consultation on proposed legislation.
- More use should be made of systematic impact assessments as a working tool for administrations when new legislation is drafted and decided upon. Early involvement of stakeholders and interested parties, and greater use of economic analysis, should be encouraged to support the analysis of estimated costs and benefits to business.
- Bankruptcy laws should be examined with a view to finding solutions for insolvent but viable business and to lessening the penalties and stigma attached to "honest" failure.

Availability of skills

Despite some notable exceptions, Europe is failing adequately to address its skills gap. Ensuring sufficient skills for the current and future needs of the European economy requires action over the long term.

- There is a need to focus more on certain key skills in the education system, to develop stronger governmental support for the industry-science base and to encourage business investment in R&D.
- Beyond the education system, lifelong learning, particularly in ICT-related skills, needs to be encouraged in order to overcome the skills deficit.
- Greater mobility of labour within and between Member States should be encouraged to enable some of the skills bottlenecks to be surmounted and to improve access by SMEs to a wider pool of qualified labour.

Improving online access

National administrations are increasingly committed to making all relevant documents and forms available online, as well as to providing guidance and information via the Internet.

- Those countries that are creating the conditions for enterprises to register online or submit tax and social security forms electronically could constitute an example for others.
- Progress in this area needs to be sustained and further refined to meet businesses' needs.

More out of the Single Market

The Internal Market has already been of immense benefit to business, but it is clear that these benefits will increase with its full completion. SMEs can particularly benefit from increased openness in public procurement.

- Member States are reminded of the need to meet the transposition targets set by the Stockholm European Council.
- The Commission will continue its efforts to improve the business environment, particularly for small businesses, through the target actions in the Internal Market Strategy.

Taxation and financial matters

Access to finance is fundamental to translate business ideas into reality. Despite important progress in this area, businesses still see lack of financial support as their greatest constraint.

- While there has been a very rapid increase of venture capital in some countries, mainly for high-growth and technology businesses, in others venture capital is still in its infancy and needs to be further developed. Early-stage financing (seed and start-up capital) still constitutes a very limited share of venture capital available. There is also a need to exploit further the financing potential of business angels, now active in almost all Member States.
- Measures to provide access to finance to small businesses in more “traditional” sectors through loan and mutual guarantee schemes should not be neglected.
- The increasing use by the Member States of tax incentives and exemptions aimed at enabling small enterprises to reinvest is welcome. The promotion of stock options can also benefit small enterprises, as a way of attracting and rewarding staff.

Strengthen the technological capacity of small enterprises

All governments are committed to promoting technology transfer to small enterprises, and increasing attention is being given to co-operation between enterprises and research institutes. However, less has been reported about inter-firm co-operation, clusters and networks, which raises the question of whether or not enough progress is being made in these areas.

- Improvement in this area requires a long-term commitment to promoting and facilitating technological change in SMEs, inter-enterprise co-operation and clustering.

Successful e-business models and top-class small business support

E-commerce is clearly a key priority in all countries, and the results of ongoing efforts are encouraging. However, performances differ greatly between one country and another. There is plenty of scope for raising the profile, and use, of e-commerce among small business.

The extent and depth of the progress in the area of support services remains difficult to assess. Beyond infrastructural progress, such as the restructuring of services, the creation of one-stop-shops, regional co-ordination of service provision, the increase in web portals, etc., there is a growing commitment to offering more coherent client-oriented and user-friendly services.

- Strengthening of the legal framework for e-commerce and infrastructural improvements need to be combined with awareness raising measures and training in ICT skills.

- Member States can learn from the many examples of good practice in the existing provision of support services. Basic guidelines for improvement include the development of more client-oriented services, providing coherent services that aim to help enterprises build their own management capacity and greater evaluation of services.

Develop stronger, more effective representation of small enterprises' interests at Union and national level

While some Member States' initiatives to constitute consultation committees with representatives of small business are encouraging, regular consultation of small businesses in policy-making generally remains weak across Europe. Providing small business with the opportunity to voice their interests, preferably in a systematic manner, is of crucial importance.