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

Think Small First
A Small Business Act for Europe

Impact Assessment

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1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

This Impact Assessment accompanies the Commission's proposal for a "Small Business Act" for Europe. This document does not pre-judge the final form of any decision to be taken by the Commission.

It has to be highlighted that, given that the proposal for a "Small Business Act" represents a package of measures in a wide range of areas of a different nature, this impact assessment cannot analyse the impacts of each individual action. Specific actions or legislative proposals to be presented together within the "Small Business Act" for Europe and which would normally require an Impact Assessment will be accompanied by separate Impact Assessments as needed.

1.2. Background

In its Communication to the October 2007 Meeting of Heads of State and Government: "The European Interest: Succeeding in the age of globalisation" the Commission underlined the need to fully unlock the growth and jobs potential of SMEs and make full use of their innovative capacities. This was reflected in the strategic report on the renewed Lisbon strategy for growth and jobs adopted on 11 December 2007, which substantially increases the emphasis on SMEs in the context of the next Lisbon cycle 2008-2010. Lastly, the March 2008 European Council expressed a strong support for the "Small Business Act" initiative and requested its swift adoption, to further strengthen SMEs' growth and competitiveness. The Commission has therefore received a mandate to go further and to propose a new initiative to fully unlock the growth and jobs potential of SMEs.

1.3 Consultation and expertise

This impact assessment is based on: the results of a dedicated stakeholder consultation; consultations on specific actions to be proposed; and a broad range of internal and external studies and surveys. This includes:

1.3.1 Studies

The results of a number of studies have been considered for this impact assessment.

- Internal studies and surveys from the Commission, including the 2007 Observatory on EU SME;
- Previous consultations by the Commission on SME related topics;
- External reports have provided further important input.

More detail in particular about references used by the services responsible for drafting the impact assessment is given in annex I.

1.3.2. Stakeholder consultations and inter-service group

Internally, an ad-hoc inter-service group was set up in November 2007 involving all relevant Commission services[1]. This group met on a regular basis and also provided input for the work on the impact assessment.

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[1] Including : Secretariat General, Legal Service, Competition DG, Social Affairs and Equal Opportunities DG, Agriculture and Rural Development DG, Energy and Transport DG, Environment DG, Research DG, Internal Market and Services DG, Regional Policy DG, Taxation and Custom Union DG, Education and Culture DG, Health and Consumer Protection DG, External relation DG, Trade DG

Externally, DG ENTR launched an internet stakeholder consultation on the "Small Business Act" for Europe. The results of the answers (more than 500) were summarized in the report published on the Commission's website and attached in annex II[2].

A stakeholder hearing was organised on 6 February 2008 with Commission President Barroso and Vice-President Verheugen. More than 350 stakeholders from Member States, industry, NGOs, private companies, trade associations, and management consultancies participated. In parallel, DG ENTR received a number of position papers from various stakeholders and screened all of them.

Moreover, regular information and meetings with European business organisations chaired by the SME Envoy[3] provide a forum for a regular exchange of information on the Commission's major legislative and policy initiatives and their impact on SMEs. In addition, several high-level stakeholder conferences have brought together a wide variety of representatives from the European Parliament, Member States and business community, furthering the commitment of all key players to implement Modern SME policy.

1.3.3. Opinion of the Impact Assessment Board

This impact assessment report takes into account the opinion of the Impact Assessment Board issued on 5 June 2008 on an earlier version of the report. The following improvements have been made to address the main recommendations of the Impact Assessment Board:

- Improve the outline of expected development under the baseline scenario: The problem description has been substantially reworked to distinguish more clearly between policies which are already in place or planned, and remaining problems. In addition, a better description of the expected developments in the SME sector under the existing policies has been carried out.
- Strengthen the link between the objectives and the proposed policies: The objectives have been revised accordingly to strengthen the link between the remaining problems and the policy options and have been made more specific and precise. In particular, a greater emphasis has been given to the positive opportunities for SMEs, especially under the environmental objective.
- Give an indication of the magnitude of the impact of new policies: Where possible, data on the economic, social and environmental incremental impacts of the new action have been provided. However, due to the cross-cutting nature of the SBA, no overall quantitative estimation could be developed. In the future, we intend to develop a new SME Performance Review to improve the situation and have more quantitative data on SME policies.

2. WHAT ISSUE/PROBLEM IS THE POLICY/PROPOSAL EXPECTED TO TACKLE?

The general issue, analysed in detail hereafter, is that EU SMEs, which are crucial for economic growth, job creation and social cohesion are not reaching their full potential. In particular, EU SMEs have lower productivity and grow more slowly than their US counterparts and do not innovate sufficiently.

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2 http://ec.europa.eu/enterprise/entrepreneurship/sba_en.htm

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

2.1. SMEs - which are crucial for economic growth, job creation and regional and social cohesion - are not reaching their full potential in the EU

2.1.1. Facts and figures

From a statistical point of view, SMEs are by far the dominant form of business organisation in the EU economy. There are around 23 million SMEs in the EU 27[4] and 41000 large companies. SMEs represent 99.8 % of all enterprises and generate 57.6 % of the EU-27's non financial business economy value added (see EU SME definition in box 1 in annex IV)[5].

2.1.2. SMEs, job creation and regional and social cohesion

SMEs account for almost 70% of total employment (in 2004, 67.1 % of the EU-27's non-financial business economy workforce was employed by an SME[6]) with micro-businesses providing the bulk of employment (see figure 1 in annex IV)[7]. This is particularly marked in the service sector (see figure 2 in annex IV).

In addition, studies have shown that SMEs are responsible for most of the net job creation in the EU[8] (see figure 3 in annex IV). In France, for example, where the active population grew by 10% between 1985 and 2004, employment remained stable in large companies (250 employees and more) at around 5.5 million employees, whilst the number of employees in SMEs grew by 35% (+ 2.3 million jobs) to reach 8.9 million employees in 2004[9].

SMEs also play a key role for local, regional and social cohesion. There are SMEs in each region of the EU and they contribute to employment and wealth in every part of Europe, including rural and peripheral areas, urban areas and industrial redeployment areas. Thus they contribute to the development of regions not considered attractive by multinational firms. The 2007 Observatory of European SMEs shows that the smaller the firm, the more likely it is to hire local labour: while 89% of an SME's workforce is local, only 77% of the workforce of large-scaled enterprises (LSEs) comes from the same region[10].

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4 Estimations vary on the exact number of EU-27 SMEs: Eurostat, in European business, Facts and figures 2007, mentions 19 million enterprises in the EU-27's non-financial business economy in 2004. The 2003 Observatory of EU SMEs: (http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes_observatory_2003_report8_en.pdf, indicates an absolute number of around 24,668 million SMEs for EU 15 (18,698 million, 2003 data) + EU 12 + Turkey (5,970 million, 2001 data). These statistical differences stem mainly from a different evaluation of the number of micro enterprises and from the fact that Eurostat data do not take into account personal services where many enterprises are SMEs. However, both Eurostat and the EU Observatory of EU SMEs acknowledge that 99.8 % of EU-27 enterprises are SMEs.

5 Eurostat, European business, Facts and figures, 2007

6 67.1 % of the EU-27's non-financial business economy workforce was employed within SMEs in 2005: Eurostat, Enterprises by size class -overview of SMEs in the EU, 2008

7 See: http://ec.europa.eu/enterprise/entrepreneurship/facts_figures.htm

8 Eurostat: SMEs and entrepreneurship in the EU 2006: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-NP-06-024/EN/KS-NP-06-024-EN.PDF

9 OSEO, Quels emplois pour les PME? Etude sur les PME et l'emploi en France, 2007

10 European Commission, Observatory of European SMEs, 2007

2.1.3. The importance of SMEs and entrepreneurship for economic growth

An extensive literature review on the theoretical framework linking entrepreneurship and economic growth has been developed in the report "SMEs in Europe 2003"[11] analysing the new theories of industry evolution (including Jovanovic, 1982; Ericson and Pakes, 1995; Audretsch, 1995; Hopenhayn, 1992; Lambson, 1991 and Klepper, 1996). The main feature of these evolutionary theories is to recognise entrepreneurship and SMEs' role in economic growth as agents of change in a knowledge-based globalised and interlinked economy.

Entrepreneurship direct contribution to growth potential

Entrepreneurship generates economic output by providing diversity among enterprises. Not only does entrepreneurship generate a greater number of enterprises, but it also increases the variety of enterprises in a given location. There has been a series of theoretical arguments[12] suggesting that the degree of diversity, as opposed to homogeneity, in a location will influence the growth potential.

SMEs' indirect contribution to productivity growth

In this theoretical framework, what is crucial for aggregate productivity growth, and therefore for economic growth, is the continuous process of entry, development and exit of new enterprises or the process of 'creative destruction' usually ascribed to Joseph Schumpeter. Firms' entry and exit help increase aggregate productivity growth thanks to the continuous reallocation of resources from exiting, less productive, firms to new, more productive, firms (the so called churning process). This process increases competition and therefore forces existing firms to innovate, to upgrade technology, or change work organization to promote efficiency[13]. With new entrants and exiting firms being typically small, SMEs are, almost by definition, at the heart of this process.

New complementarities between enterprises in a knowledge-based, globalised and interlinked economy

With the development of a knowledge-based, globalised and interlinked economy, productivity growth can now be obtained in a more decentralised way than concentrating capital and labour to generate economies of scale within big companies. Now, economies of scale can be generated by combining factors through networks on an *ad hoc* basis. In this context, there is a higher level of complementarities between enterprises, notably between small and big players.

This can be observed in the field of innovation where "greater competition across enterprises facilitates the entry of a new enterprise specializing in some particular new product niche. This is because the necessary complementary inputs and services are likely to be available from small specialist niche enterprises but not necessarily from large, vertically integrated producers[14]". These complementarities come from new business models but also from the inherent nature of knowledge. According to Baumol (2002)[15] the most efficient innovation environment is in fact one in which most of the breakthrough innovation occurs in small firms while most of the improvement on those

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11 European Commission, Observatory on EU SMEs, SMEs in Europe 2003, http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes_observatory_2003_report7_en.pdf

12 European Commission, Observatory on EU SMEs, SMEs in Europe 2003, p.14

13 Cotis, J. P. ,OECD Chief Economist, Entrepreneurship as an Engine for Growth: Evidence and Policy Challenges, GEM Forum Entrepreneurship: Setting the Development Agenda, London, 10 and 11 January 2007

14 European Commission, Observatory on EU SMEs, SMEs in Europe 2003, p.12

15 Baumol, W.J. , The Free-Market Innovation Machine, Princeton University Press, 2002

innovations and wide-scale dissemination occurs in large oligopoly firms. In line with this theoretical analysis, Eurostat data[16] on the intensity of innovation per size class and country in EU 27, show a high level of correlation and suggest that there are complementarities between innovative large and small firms (see figure 4 and 5 and 8 in annex VI).

In addition, the globalisation of production brings new forms of mutually beneficial relationships between SMEs and large companies[17]. This form of globalisation is driven mainly by the search for efficiency, which includes *inter alia* subcontracting inputs to more efficient producers and the search for complementary and strategic assets. In this context, large companies benefit from efficient SMEs. For SMEs, this reorganisation of production at the international level also provides new opportunities and challenges. "New niches for the supply of products and services continuously emerge from the fragmentation of production, where small firms can quickly position themselves, exploiting their flexibility and their ability to move fast[18]". This can lead SMEs to substantial benefits in terms of information flow, technology transfer and learning opportunities but also through enhanced internationalisation and growth.

2.1.4. Comparison with the US indicates that EU SMEs are not fulfilling their potential

In Europe, however, SMEs do not reap the full benefit of the above mentioned opportunities (in particular when compared to their US counterparts) and thus do not reach their full potential in terms of aggregate economic growth, job creation and social cohesion.

EU SMEs have lower productivity than large companies and their US counterparts

Aggregate labour productivity tends to be lower for EU SMEs than for large EU firms since their share in value added is typically lower (45% in manufacturing and almost 60% in services) than their share in employment. This size-class difference is partly due the sectoral distribution of small and large enterprises. Larger companies are more present in manufacturing, which is capital intensive, whereas smaller companies are predominantly active in the service sector, which inherently is more labour intensive[19] (see figure 2 in annex IV). However, this difference does not exist in the US, where "small businesses employ about half of the private sector work force and produce about half of private sector output[20]".

EU SMEs contribute less to the "creative destruction" process and have less beneficial interactions with large firms than US SMEs

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16 European Commission, BEPA Monthly Brief - Issue 11, January 2008, The role of SMEs in Innovation in the EU, By Reinhilde Veugelers, Isabel Grilo (ENTR) and Josefa Monteagudo (ENTR)

17 See: OECD Working Party on SMEs and Entrepreneurship (WPSMEE) study on Enhancing the Role of SMEs in Global Value Chains, 2007, p.13

18 See: OECD Working Party on SMEs and Entrepreneurship (WPSMEE) study on Enhancing the Role of SMEs in Global Value Chains, 2007, p.13

19 See : Baumol, W. J., "Macroeconomics of unbalanced growth: the anatomy of urban crisis", American Economic Review, 57 (3), 1967, and "Paradox of the Services: exploding costs, persistent demand", Chapter 1 in "The growth of Service Industries – The Paradox of Exploding Costs and Persistent Demand" edited by T. ten Raa and R. Schettkat, Edward Elgar Publishing Limited, 2001. According to Baumol (2001), while some services (e.g. postal delivery times, rubbish collection) may have benefited from technological advances and many in particular from computerisation (particularly in the financial industries), he argues that so far, these productivity gains had been modest, whilst in other services no significant sources of productivity gains can be identified (e.g. care of the elderly)

20 U.S. Small Business Administration, The 2005 Small Business Economy, Report to the President.

A comparison with the US seems to indicate that the role played by SMEs in the creative destruction process is lower in the EU than in the US[21]. There is no strong evidence to suggest that entry rates are very different between the US and the EU[22]. In the EU almost 90% of employment in newly born firms in 2003 was created by firms of less than 20 employees[23]. But exit rates and hence gross turnover rates (the sum of entry[24] and exit rates) are higher in the US than in the EU. As a result, successful SMEs in the US can grow faster, because inefficient firms (SMEs or large) leave the market and do not continue to occupy "valuable" market space (see figure 6 in annex IV). In addition, lower entry and exit costs in the US allow firms to enter more easily, thus benefiting from the experimentation process offered by the market[25].

EU SMEs grow more slowly post-entry than US SMEs

As a condition for their survival, smaller firms should have higher growth rates than their larger counterparts. This is particularly so in manufacturing sectors, especially in high-tech sectors[26]. The links between firm size and firm growth are however more ambiguous in Europe. In the United States, surviving firms on average increase their employment by 60% by their seventh year[27], while employment gains among surviving firms in Europe are in the order of 10 to 20% (see figure 7 in annex IV). Even in highly dynamic industries, surviving US firms show a stronger employment expansion, compared with those in most other countries. For instance, post-entry growth at 7 years for manufacturing is 6% of the US rate in France, 17% in Finland and 60% in the UK. The same, to a lesser degree, applies to the total business sector[28]

EU SMEs are not sufficiently innovative

SMEs have a crucial role to play in the innovation process, in particular by generating more radical innovation. This takes place in Europe, especially in the case of young innovative companies. For instance, in the German community innovation survey (CIS[29]) sample, the share of sales from radically new innovations in total sales for young innovative companies is on average 23%, which

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21 Aghion, P., R. Blundell, R. Griffith, P. Howitt and S. Prantl: "Entry and Productivity Growth: Evidence from micro-level data", Journal of the European Economic Association, 2003, 265-276

22 See: European Commission, BEPA Monthly Brief – Issue 10, December 2007, The role of SMEs in EU's growth and jobs , By Reinhilde Veugelers, Isabel Grilo (ENTR) and Josefa Monteagudo (ENTR)

23 European Commission, SMEs and Innovation, Note for the Economic Policy Committee, Brussels, 26 October 2007

24 Based on data for a sample of nine EU15 countries and the U.S. both entry and exit rates are lower in the EU than in the U.S. though the differences in exit rates are substantially larger. Exit rates in EU range between 1/10 and 1/3 of US rates, while EU entry rates represent between 0.4 and 0.8 of the U.S. entry rates. See Van Reenen, J. (2007): Economic Performance of the EU and the Structural Reforms Agenda: Firm Level Evidence, GEPA Meeting of 9th July. Cincera, M.,and O. Galgau (2005): "Impact of Market Entry and Exit on EU Productivity and Growth Performance," Economic Papers 222, European Commission

25 Aghion, P., R. Blundell, R. Griffith, P. Howitt and S. Prantl: "Entry and Productivity Growth: Evidence from micro-level data", Journal of the European Economic Association, 2003, 265-276

26 See Sutton, 1997, Caves, 1998, Geroski, 1995 for surveys. Audretsch, (1995) shows the growth advantage of small and new firms vis-à-vis large enterprises to be even greater in high technology industries. See Almus and Nerlinger (2000); and Harhoff, Stahl and Woywode (1998) for European results

27 In the US, 70% of all the new jobs created by new firms between 1992 and 1996 came from just 3% of the fastest growing firms: Birch et.al. (1997)

28 Eric Bartelsman, John Haltiwanger and Stefano Scarpetta, Microeconomic evidence of creative destruction in industrial and developing countries, 2004, Worldbank

29 http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136250,0_45572555&_dad=portal&_schema=PORTAL

is three times higher than the total average[30]. However, relative to US SMEs, EU SMEs are less R&D intensive[31]. Moreover, in Europe, a lower percentage of SMEs innovate successfully (i.e. introduce new products or processes) as compared to large firms, both in services and in industry sectors (see figure 5 in annex IV).

2.2. Remaining problems holding back EU SMEs, in spite of the existing SME policies

2.2.1. Existing policies already implemented

Existing policies at EU level

EU policy makers, both in the Member States and at EU level, have long recognised the need to allow EU SMEs to fulfil their potential. As a consequence, a comprehensive EU Modern SME policy was put in place in 2005[32] as an integral part of the Lisbon Partnership for Growth and Jobs[33], aimed at alleviating SMEs' specific problems and market and regulatory failures in five key areas:

(1) cutting red tape;
(2) improving SMEs' access to markets;
(3) promoting entrepreneurship and skills;
(4) improving SMEs' growth potential;
(5) strengthening dialogue and consultation with SME stakeholders.

A great number of specific policies have already been developed in this framework or have already been planned to reinforce it, and a comprehensive list has been included in annex III. The present section only singles out some of the key existing measures and does not claim to be exhaustive:

- As regards the regulatory and administrative burden, the Commission has taken important steps towards creating a more SME-friendly regulatory environment. In January 2007, the Commission presented an Action Programme to reduce the administrative burdens on businesses in the EU by 25% by 2012[34]. It addresses 13 priority areas covering around 40 legislative acts and a list of ten fast-track reduction proposals. A High Level Group was established to provide advice on the implementation of the Programme and an on-line consultation on the administrative burden has been launched. To date, the baseline measurement of administrative burdens has been almost completed for one of the 13 priority areas (company law/annual accounts) and the results for the remaining 12 areas are expected for the autumn. As regards simplification, the Commission has tabled 100 initiatives since the launch of the rolling simplification programme in 2005. 20 initiatives have been adopted so far, whilst 47 are currently pending for adoption before the co-legislators. The Commission will further strengthen its action, taking stock of progress achieved and introducing a new set of simplification initiatives. Additional measures will contribute towards facilitating the environment for SMEs. For instance, State Aid rules traditionally adopt a positive approach towards SMEs. In particular,

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30 For sales of new products (incremental as well as radical), the superior performance of YIC is less outspoken: while YICs have an average of 51.7% this is "only" twice the average share. This superior performance of YICs is confirmed in multivariate analysis, correcting for other firm and industry characteristics, Veugelers & Schneider (reference to be added), Working Paper in progress, 2008

31 On average the R&D intensity of SMEs is 0.34% in EU, 0.53% in US, according to DGRTD Key Figures 2007

32 Commission Communication: Implementing the Community Lisbon Programme Modern SME policy for Growth and Employment, (COM(2005)551)

33 See Annex III. For more detailed information on existing SME policies and measures, see the European portal for SMEs:
http://ec.europa.eu/enterprise/sme/index_en.htm

34 COM(2007) 23

the revision of the Community state aid rules has increased to €200,000 the *de minimis* threshold under which aid need not be reported. Moreover, the Services Directive[35], which Member States have to implement by the end of 2009, requires Member States to simplify their procedures and formalities, to abolish unjustified requirements and to set up single points of contact, through which all relevant procedures and formalities can be completed. Full and timely implementation of the Services Directive will help accelerate business start-up times.

- Concerning SMEs' access to markets, many measures also already exist. An integrated business and innovation support network (the Enterprise Europe Network) was set up in 2007 and became fully operational in 2008 to assist SMEs in benefiting more from the opportunities of the Single Market. It promotes match-making events between SMEs, technology brokerage and partner searches, and organises feed-back from SMEs on EU legislation and standards. In addition, the new Services Directive will free up the provision of services, which account for 70% of EU value added and have a considerable potential to stimulate growth and employment. Moreover, the Commission is already providing co-funding to support the participation of experts representing SMEs' interests in the process that establishes European standards. In addition, the Public Procurement Directives provide a framework to foster competitive public procurement markets to the benefit of SMEs, including in particular the use of electronic public procurement. Finally, EU actions include the development of trade facilitation provisions in future free-trade agreements (FTAs) and in the WTO and regulatory and industrial policy dialogues with third countries to tackle regulatory obstacles to trade.
- As regards the promotion of entrepreneurship and skills many measures depend on the Member States. For its part, in February 2006, the Commission adopted a Communication on fostering entrepreneurial mindsets through education and learning[36], providing examples of good practices which were discussed at the Oslo conference on entrepreneurship education. Moreover, it is estimated that more than 200,000 secondary school students participate in a practically-oriented training scheme, launched by the Commission, whereby they run mini-companies to familiarise themselves with basic business concepts and skills. These students are four times more likely to create their own company than others. To facilitate the take-up of e-skills, not the least by SMEs, the Commission has also proposed a new e-skills policy agenda. In addition, to safeguard the estimated 2.8 million jobs which are at stake through the transfer of businesses each year, the Commission is promoting good practices on how to design services to establish contacts between potential sellers and buyers of transferable businesses. Further to a Commission Communication[37], a pilot action aims to promote mentoring schemes in EU Member States in order to enhance the knowledge and core competences that are essential for the successful transfer of business ownership. Finally, the Commission adopted a Communication on "Overcoming the stigma of business failure – for a second chance policy" where areas of action for facilitating the fresh start of honestly failed entrepreneurs are put forward[38].
- To improve SMEs' growth potential, the Commission has already developed many policies. Among many other measures, these include programmes to facilitate SMEs' access to finance. The Commission has increased the SME focus within major Community spending programmes for the period 2007-2013. SMEs are at the core of Cohesion Policy which is expected to invest around €27 billion – the largest share of EU funding – in the area of entrepreneurship and business support services. Moreover, €1.1 billion has been earmarked for financial instruments within the Competitiveness and Innovation Framework Programme (CIP) for that period. In

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

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

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

38 COM(2007) 584 final

addition, to allow efficient use of financial instruments at regional level, the Commission with the European Investment Bank (EIB) and the European Investment Fund (EIF) launched the JEREMIE initiative of the Structural Funds[39]. The European Agricultural Fund for Rural Development (EAFRD)[40] will also spend up to €10 billion to support the creation and development of non-agricultural enterprises in rural areas, skills acquisition and training, as well as SMEs in agriculture, the food industry and forestry. In addition, to foster SMEs' research and innovation, the EU's 7th Framework programme for research and development (FP7) established the target of allocating 15% of the budget of its Co-operation programme to SMEs. The results[41] of the first calls for proposals show that the part allocated to SMEs in the main proposals listed (e.g. after evaluation) is just below 20%. Moreover, the Commission's innovation policy and specific support actions have contributed to increasing SMEs' participation in innovation by addressing market failures and promoting cooperation between stakeholders. Finally, the ambitious environmental goals of increasing energy efficiency and reducing greenhouse gas emissions by at least 20% by 2020 and promoting renewable energy sources require the emergence of a new business paradigm. The challenge is to help SMEs to adopt sustainable production and business models and thus make them active players in shifting the European economy towards more environmentally-friendly production and consumption, while in parallel allowing SMEs to reap the economic benefits that this presents. Some innovative SMEs are already active in "green markets" and the Commission has proposed a programme to further help SMEs to integrate environmental concerns into production processes and products starting with a better compliance with environmental legislation[42].

- Lastly, regular information and discussion meetings with European business organisations chaired by the SME Envoy provide a forum for a regular exchange of information on the Commission's major legislative and policy initiatives and their impact on SMEs.

Existing policies at Member State level

- Member States, for their part, have all integrated SME-specific measures in their Lisbon reform programmes. They have also made efforts to deliver on the five priority actions requested by the 2006 Spring European Council[43] (establish a one-stop-shop for setting up a company, encourage entrepreneurship through education, facilitate the recruitment of the first employee, make the 'Think Small First' principle a guiding principle in all relevant legislation and facilitate SMEs' access to public procurement), thus contributing to the implementation of the "Think Small First" principle throughout the European Union. In particular, the majority of Member States have established a one-stop-shop for setting up a company and most of them have reduced the time required to do so. Many of them have taken measures to develop entrepreneurial mindsets through education, although the progress is relatively slow. Moreover, Member States are introducing measures to raise enterprises' awareness of public procurement opportunities, although few have put in place a specific strategy to help SMEs participate in public tenders.
- Moreover, the regular dialogue with Member States on SME-policy has led to better complementarities between national and EU measures. The Commission has supported this process by facilitating mutual learning and exchange of best practice. It has collected and published on-line, in the framework of the European Charter for Small Enterprises' process, more than 250 good practices from the Member States, e.g. in the areas of improving on-line access, taxation and better regulation.

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

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

41 1st progress report of the FP7 SME inter-services task force

42 ECAP Programme: http://ec.europa.eu/environment/sme/programme/programme_en.htm

43 For more details, see table 2 in Annex III

2.2.2. Expected developments under the current existing SME policy

The existing measures described above already address some of the most pressing issues facing SMEs. A mid-term Review of the existing Modern SME policy took place in 2007[44] and showed that a lot of progress had already been made. The main achievements include:

- both Member States and the Commission have made considerable progress in implementing actions to create a better business environment, to mainstream SME issues in major policy areas and to encourage more people to become entrepreneurs;
- the better regulation "culture" has also begun to take root across the EU.

Indeed, creating a better business environment for all businesses, including SMEs has already had a great impact on economic growth. According to the Impact Assessment on the Action Programme[45], various studies using different economic models point to potential rises in the level of GDP due to a 25% reduction of the administrative burden of between 1.4% and 1.8% of GDP. The 10 'fast track actions' identified within the Action Programme alone are expected to generate significant benefits (estimated at €1.3 billion) through requiring relatively minor changes in the underlying legislation[46]. This programme will indeed benefit to all businesses, including SMEs.

Moreover, the mid-term review analysis showed that the implementation of the Modern European SME policy, which has been carried out in a context of increasing economic growth, has had a positive impact on job creation. In 2006, EU GDP growth reached 3.0% – almost twice the rate of 2005 – and about 3.5 million new jobs were created. Indeed, SMEs are the main driver of employment growth, in particular in sectors like construction, transport, communication or tourism.

However, in spite of the progress of the comprehensive policies that are in place, the 2007 mid-term review of the Modern SME policy[47] concluded that there is room for further improvement, since some problems are currently not or only inadequately dealt with and there is a need for better coordination of existing policies. The mid-term review therefore emphasized the need to fully unlock the growth and jobs potential of SMEs and make full use of their innovative capacities by putting even more emphasis on SMEs in the context of the next Lisbon cycle 2008-2010. These findings are confirmed by the worse performance of EU SMEs compared to their US counterparts, analysed in section 2.1.4 above.

Consequently, an analysis of the main existing SME policies at EU and national level has been carried out in the context of this impact assessment, as well as by screening a number of studies and surveys (including the public consultation on this initiative), to single out the remaining problems that might continue to hamper SMEs' potential.

The details of this screening exercise can be found in Annex III. However, for proportionality reasons, the main text of the present assessment will only focus on the analysis of the selected remaining problems. The following list does not claim to be exhaustive, due to the wide scope and inherently interdisciplinary nature of the "Small Business Act" initiative.

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44 Commission Communication: Small and medium-sized enterprises - Key for delivering more growth and jobs. A midterm review of Modern SME policy, COM(2007) 592 final

45 SEC(2007) 84

46 European Commission, Second strategic review of Better Regulation in the European Union, COM(2008) 32 final

47 Commission Communication: Mid-term Review on the Implementation of the Modern SME Policy, (COM(2007) 592 final)

2.2.3. Remaining problems for SMEs, in spite of existing policies, which might need further public action

EU SMEs are facing remaining problems in a number of policy areas:

Remaining problems for SMEs as regards the implementation of the "Think Small First" approach

- Implementation of the "Think Small First" principle at EU level

The results of the stakeholder consultation on this initiative (see Annex II), has confirmed that the administrative burden, overregulation and bureaucracy are by far the main general concerns for SMEs. At EU level, as seen above, a comprehensive policy has already been underway since January 2007. This policy is currently being implemented and will take more time to deliver fully.

In line with the objective of this programme, it is essential to make sure that future legislation developed at EU and national level takes into consideration SMEs' specific requirements from the start. This is crucial as smaller enterprises, especially very small businesses, bear higher than average regulatory costs. Estimates indicate that where a big company spends one Euro per employee because of a regulatory duty, a small business might have to spend on average up to ten Euros[48].

However, a remaining difficulty for SMEs comes from the fact that new EU legislation coming into force is introduced at many different dates during the year, depending on the negotiation process. In the public consultation, the support for common commencement dates reached 68%, although there are arguments that the initiative should be implemented only at national level and not at EU level.

- Heterogeneity of the implementation of the "Think Small First" principle at national level

Five priority actions were established at the Spring European Council in 2006 – start-up time/one stop shops, recruiting the first employee, entrepreneurship education, "Think Small first", and access to public procurement. Overall, the implementation of the five priority actions is going in the right direction[49]. However, policy actions need to be intensified and coordinated at EU level in the framework of the Lisbon Partnership. Particular attention is given here to start-ups and bankruptcy procedures at national level, due to their role in the churning process identified before as an important determinant of productivity growth (more details on each priority action can be found in annex III, table 2).

– Start ups:

One of the 2006 Spring European Council priority actions was that start-up times should not exceed one week. The latest evaluation carried out by the Commission states that only 13 out of 27 Member States comply with this objective. The same source also indicates that although 23 out of 27 Member States comply with the main objective concerning the costs involved in starting a business, there remain significant differences between Member States. These facts are reciprocated

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48 European Commission, Report from the Expert Group on "Models to Reduce the Disproportionate Regulatory burden on SMEs", May 2007
http://ec.europa.eu/enterprise/entrepreneurship/support_measures/regmod/regmod_en.pdf

49 The analysis on the Member States' achievements come from the Communication from the Commission to the European Council: Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new cycle (2008-2010), COM(2007) 803 final, PART III, available at:
http://ec.europa.eu/growthandjobs/pdf/european-dimension-200712-annual-progress-report/200712-annual-report-annex3_en.pdf

by the feelings of the main stakeholders. Around 60% of replies to the public consultation indicated that there is still a need to reduce the time and costs to set up a business. Some respondents pointed out that significant differences exist even within Member States. The lack of information and the lack of appropriate support for newly created enterprises were identified as additional problems. Although the real responsibility for acting in this area clearly rests with the Member States, the fact that these huge disparities still exist is also an indication that the coordination role at EU-level has not performed as well as intended.

– Bankruptcy/stigma of failure

Lower exit rates have been analysed above as the main explanation for the less dynamic churning process in the EU than in the US. Different elements determine the level of exit of companies out of the market. Bankruptcy/insolvency law is one crucial element in allowing easier exits, in particular by reducing the time and costs incurred. Bankruptcies account for some 15% of all company closures[50]. In the EU, the stigma of failure is still present in the business environment, the legal framework and also in cultural and societal behaviour. This creates unnecessary hurdles to entrepreneurs who wish to restart. 47% of Europeans would be reluctant to order from a previously failed business; 51% of them would never invest in businesses in financial difficulties. To correct this stigma, one important element is to clearly distinguish between fraudulent and non-fraudulent bankruptcy. In the EU, only 4-6% of bankruptcies are fraudulent[51]. However, this policy area is essentially in the remit of Member States. Given its limited competencies in the area, the Commission can only flag up the need to improve bankruptcy procedures[52] and has recently published a Communication on overcoming the stigma of business failure[53]. Additional action at EU level in this domain can therefore only concentrate on a better implementation at Member State level.

Remaining problems affecting entrepreneurial activity

- Education system/ entrepreneurship

All EU Member States are well aware of the need to integrate entrepreneurship training into the education curricula, but it is still far from universal in schools and further and higher education institutions. And whilst there are many examples of initiatives which have had great results in encouraging young people to think in a more entrepreneurial way, entrepreneurship is a recognised objective of the education systems and is embedded explicitly in framework curricula in only a few EU Member States. Even in those Member States, implementing means (teacher training, teaching materials) still need to be stepped up[54]. In line with this analysis, 84% of the respondents to the public consultation think that the education system, and in particular the school curriculum, does not focus enough on entrepreneurship. They therefore consider it important to intervene in the education system with more systematic measures.

- Entrepreneurial gap between men and women

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50 A.C.P. de Koning, Business failure and entrepreneurship in international perspective, EIM Small Business Research and Consultancy, 1999

51 The percentage would be 3-4% in Italy and the UK and 7% in Austria (2003-2006 national data)

52 The European Commission has limited itself to collecting data on the legal and social consequences of business failure, facilitating the identification and dissemination of good practices and recently to working on early warning tools as a means of reducing the stigma of failure.

53 COM(2007) 584 final

54 European Commission, Assessment of compliance with the entrepreneurship education objective in the context of the 2006 Spring Council conclusions

Today female entrepreneurs constitute only 34.4% of self-employed people in the EU25. Their share in start ups is around 30%. In terms of preferences, only 39.4% of women would choose to be self-employed compared to 50.2% of men, which shows that women are more reluctant than men to become entrepreneurs[55]. In addition to economic and sociological elements common to both genders, the lack of social protection or the reduced level of protection available to self-employed women, notably in the case of maternity protection, constitutes an additional obstacle to the participation of women in self-employed activities[56].

Remaining problems affecting SMEs' access to markets

- Standardisation

SMEs still face difficulties when participating in and benefiting from European standardisation, which helps them to do business in other Member States[57]. According to the 2002 Observatory of European SMEs, the main problems SMEs face are the lack of information on new standards (26 %), the lack of information on which standards have to be met (23 %), difficulties in applying standards correctly (21 %), difficulties in obtaining certification of compliance with standards (16 %) and finally the lack of opportunities to participate in the development of new standards (16 %).

- SMEs' access to the public procurement market

More than 70% of the stakeholders answering the consultation on this initiative see a need to improve SMEs' access to public procurement and consider it very useful to increase transparency in EU procurement procedures. Indeed public procurement is an important market capable of boosting innovation, stimulating companies' growth and creating jobs. According to estimates from DG Internal Market[58], the total value of public procurement in the then 25 Member States amounted to some €1,800 billion in 2006, corresponding to 16% of total EU-25 GDP[59], of which €370 billion are above the thresholds of the EU Directives.

A 2007 study performed on behalf of the European Commission estimated that in 2005 the proportion of the value of public procurement above EU thresholds secured by SMEs was 42%, which corresponds to 64% of the number of contracts[60]. Obviously, these figures relate only to public contracts above the thresholds set by the EU Directives and do not take account of subcontracts of all sizes won by SMEs. However, while the share of medium-sized companies in

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55 In line with these data, Reynolds, Bygrave, Autio, Cox and Hay (2002) have shown that men are about twice as likely involved in entrepreneurial activity than women: Reynolds, P.D. Bygrave, W.D., Autio, E. Cox, L.W.& Hay, M., 2002, Global Entrepreneurship Monitor, 2002, executive report, Babson College, London Business School and Kauffman Foundation

56 European Commission; Good practices on social protection of new entrepreneurs and assisting partners and the impact on business creation" EIM Business and Policy Research: http://ec.europa.eu/enterprise/entrepreneurship/craft/craft-studies/documents/social_protection_final_report_en.pdf

57 The Council Conclusions on European standardisation of December 2004, Document 14790/2/04 REV 2, noted that: "adequate participation in standardisation of all parties concerned (social partners, NGOs, environmental interest groups, consumers, SMEs, authorities, etc.) is not sufficiently implemented at present within all Member States. European standardisation should be recognised as a strategic tool for competitiveness and for the uniform application of technical legislation in the internal market"

58 http://ec.europa.eu/internal_market/publicprocurement/index_en.htm

59 These estimates were based on data provided by National Statistical Institutes to Eurostat for National Accounts and from annual reports and other sources for the Utilities sector.

60 Evaluation of SME Access to Public Procurement Markets in the EU, Final Report by GHK and Technopolis, available at: http://ec.europa.eu/enterprise/entrepreneurship/public_procurement.htm

the total value of public procurement contracts above the EU thresholds is quite positive as compared to their importance in the economy, the analysis suggests that situations differ greatly from one Member State to the other: SMEs' share of public procurement above the EU thresholds ranges from 78% and 77 % in Slovenia and Slovakia to 35% and 31% in France and the UK. While such discrepancies might be partly explained by the relatively high share of large enterprises in the economy of certain Member States, the comparison between the respective combined company turnovers generated by SMEs and the value of the public contracts won by SMEs would suggest that there is still room for improvement and more coordination at EU level.

In addition, SMEs continue to face difficulties in accessing public procurement due to the administrative burden[61]. This means that to reach the share of public procurement they have, SMEs have to bear high transaction costs. The EU Public Procurement Directives include a set of flexible rules which leave a certain discretion to tendering authorities. However, the procurement culture in many Member States is focused on short-term cost savings which often means in practice lumping together smaller lots into a big tender often not accessible to SMEs, as well as weighting too heavily the price criteria at the expense of, for example, innovative, environmentally-friendly and more sustainable products. Therefore the promotion of principles and best practices and a tighter monitoring at EU level of the implementation of rules reducing the administrative burden could be needed.

Remaining problems affecting SMEs when undertaking research and development as well as putting innovative ideas into practice

According to the 2007 Observatory of European SMEs, only around 3 out of 10 SMEs in the EU indicated that they have new products or have income from new products. In addition, EU SMEs are less R&D intensive than US SMEs[62]. In Europe, more than 60% of the overall turnover is made by SMEs while these companies only account for 25% of the business financed research expenditure[63]. Moreover, R&D expenditure as a proportion of turnover is, on average, lower in EU SMEs than in their larger counterparts.

The EU SMEs' lack of innovation and their lower level of R&D intensity compared to larger companies is partly due to a limited access to finance, which is crucial for developing R&D, and is limited by market risk aversion, as seen in the previous section. In addition, part of SMEs' remaining difficulties in this field stems from the fact that SMEs face higher relative costs for patenting and maintaining a patent than large companies or their US counterparts. In Europe, SMEs are approximately five times less likely to apply for a patent than large companies and are estimated to account for less than 20% of patent applications from EU firms at the European Patent Office[64]. Moreover, EU SMEs do not access patent protection under the same economic conditions as their

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61 This includes: difficulties in obtaining information (as they cannot allocate sufficient resources to information collection); lack of knowledge about tender procedures; the large size of the contracts; too short time span to prepare the proposal; cost of preparing the proposal (since many costs are fixed, SMEs face disproportionately high costs in comparison with larger enterprises); high qualification levels and required certification; financial guarantees required, discrimination against foreign tenderers /favouring local or national enterprises; finding collaboration partners abroad.

62 The average R&D intensity of SMEs in Europe is 0.34% versus 0.53% in the US. This compares to an overall average R&D intensity in Europe of 1.17% versus 1.57% in the US. Source: DGRTD Key Figures 2007

63 OECD, SME and Entrepreneurship Outlook 2005, Data for 2001. The same result is found in respect to innovation activities. See: Eurostat (2004) Innovation in Europe, p. 40

64 For example, a company of 50 employees with a turnover of 5 million euro would need to spend over 300,000 euro a year to maintain a portfolio of 50 patents, amounting to nearly 7% of turnover. Source: 2006 Trendchart report "Patent applications by SMEs". Data from the 3rd Community Innovation Survey for 16 European countries and from 2000 EPO data for six EU countries

competitors on the global market and face higher patenting costs in procedural fees, external service costs and translation costs[65]. In addition, European SMEs have difficulties in managing their intellectual property abroad. They are usually not aware of the rules that can help them protect their inventions and are ignorant of the ways to fight piracy and counterfeiting.

This problem was identified many years ago and a Community Patent and an EU-wide Patent Jurisdiction would be a major improvement of which in particular SMEs would benefit most. The remaining problem here is the delay in the adoption of these improvements.

Remaining problems affecting SMEs' access to specific segments of financing

First, the European venture capital market is still fragmented and hence inefficient. Because of the cost, time and effort needed to invest across borders in Europe, many funds cannot become sufficiently specialised and their management teams cannot develop the sectoral expertise required for long-term profitability. Although the European venture capital industry has shown an upward trend since 2004[66] and the number of venture-backed firms is higher in the EU, the volume of capital such European firms receive is much lower than in the US.

Secondly, EU SMEs have insufficient access to mezzanine finance (combining features of equity and debt). SMEs face a situation where they do not have access to (further) debt financing, yet they do not wish to share ownership and are thus unwilling to consider equity finance as an alternative – or they do not have the potential for rapid growth required by venture capitalists. The discussions from the Fifth Round Table between bankers and SMEs demonstrated that there is practically no supply of mezzanine finance between €100 000 and €1 million.

Third, the lack of microcredit can specifically hinder the expansion of SMEs, especially micro-enterprises. For European SMEs, borrowing small amounts for business purposes is also difficult as the overhead costs are high for banks and there are not enough non-bank microfinance institutions. This makes self employment and the development of micro enterprises difficult.

SMEs' insufficient access to finance is partially intrinsic because of the larger volatility of their profitability and growth compared to large firms, but it is partially due to market imperfections caused by principal/agent problems and asymmetric information. Such imperfections are worsened by structural rigidities like low national savings, an inappropriate regulatory framework and the structure of the financial system[67]. Consequently, for many finance providers financing SMEs is an

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65 According to a ULB-Solvay study (WP_CEB 06-002, 2006), the direct cost to patent and maintain a patent including translation and external service costs in only 13 Member States for 10 years (corresponding to the average approximate lifetime of a patent), amounted to 56292 Euros for an SME, as opposed to 10062 Euros in the USA. For the European patent in 13 Member States, 33100 Euros are translation and external services costs, and 23172 Euros are processing and renewal fees. Therefore, the application of a reduction of 50% of the taxes to SMEs for application and maintenance fees would represent an advantage of 11585 Euros for 13 Member States only corresponding to a reduction of about 20% on the overall costs for a 10 year patent. This advantage is less than the total of the translation costs (13600 Euros). It is to be noted that these calculations are limited to 13 Member States and do not take into account the additional cost of defending a patent in 27 Member States. The US Patent Office and the Japanese Patent Office apply a 50% reduction in fees for SMEs. At an EU conference on IPR Policy in Berlin in 2007, it was calculated that the total cost of application and maintenance of a patent for 20 years per million inhabitants is 30 times lower in the USA than in the EU 27.

66 European venture capital industry has shown an upward trend since 2004. In 2006, out of €71 billion of total equity capital invested, venture capital investments amounted to €17.2 billion and more than 30% of the equity investment volume has flowed into the small enterprises. In figures this means nothing less than more of 70% of all investment decisions had been taken to finance companies with less than 100 employees. EVCA Yearbook 2007; BVK Special "Private Equity in Europa 2006, 17.07.2007, page7.

67 OECD, The SME Financing Gap: Volume I, Theory and Evidence, 2006

unattractive activity. This is particularly problematic for innovative firms that need large amounts of investment in an untested idea. The due diligence costs are considerable and the mortality rate of such firms is high, lowering the overall return on portfolios of investment in such firms. This problem concerns more specifically young, fast growing, and innovative enterprises[68].

New problems stemming from globalisation

- SMEs and the environment: persistent lack of information and awareness

SMEs still lack information and expertise as regards their own environmental impact, and they are not always well informed about their obligations under environmental legislation[69]. This persisting difficulty prevents SMEs from fully exploiting the opportunities for increased efficiency, competitiveness, innovation and growth offered by a sound environmental management. Indeed, the current SME uptake of environmental management schemes (EMS) or simple measures to preserve environmental resources and energy is low[70]. The 2007 Observatory of EU SMEs indicates that only 6% of SMEs have an Environmental Management System (EMS) in place and that only 29% of SMEs have instituted some measures for preserving energy and resources (46% in the case of large enterprises). Only 4% of EU SMEs have a comprehensive system in place for energy efficiency, which is much lower than for large enterprises (19%). Half of the respondents to the consultation on this initiative found that easier access to the European Environmental Management and Audit system (EMAS) would be potentially useful.

This problem particularly affects SMEs. The bigger the company, the more likely it is to have a pro-active environmental policy[71], which is linked to the scarcity of dedicated human resources in the smallest firms. Data shows that "93% of firms with more than 500 employees usually have an employee to deal with environmental matters. Among smaller firms with 50-99 employees, only 55% have a designated person to deal with environmental affairs[72]".

- Barriers still hinder SMEs' access to international markets

Many European SMEs still remain focused on their national markets: the 2007 Observatory of European SMEs indicates that only 8% of EU SMEs reported turnover from exports (7% of micro-enterprises reported exports), which is significantly lower than the respective share of large enterprises (28%). Moreover, only 12% of the inputs of an average SME are purchased abroad. This average percentage includes, however, a high level of disparities amongst Member States. According to the final report of the Commission's Expert Group "Supporting the internationalisation of SMEs[73]", this lack of knowledge of foreign markets is mostly the consequence of two elements: insufficient managerial time and/or skills required for internationalisation and the lack of financial resources. This is the reason why, indeed, many

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68 According to the European Investment Bank's SME consultation of 2007/2008, there is a "lack of adequate financing tools for a variety of SME segments, e.g. micro-enterprises without business or personal assets to offer as security, young, fast growing, innovative enterprises or those facing the challenge of transmission."

69 *Idem*. See also European commission, Impact Assessment on the ECAP programme: http://ec.europa.eu/environment/sme/pdf/impact_assess_906_en.pdf

70 European Commission: Public Policy Initiatives to promote the uptake of environmental management systems in small and medium-sized enterprises, Final Report of the BEST project expert group, January 2004

71 See for instance: NUTEK, Environmental Work in small enterprises – a pure gain?, R 2003:7, page 9-10

72 http://ec.europa.eu/environment/sme/pdf/impact_assess_906_en.pdf

73 European Commission, Supporting the internationalisation of SMEs, Final Report of the Expert Group, December 2007: http://ec.europa.eu/enterprise/entrepreneurship/support_measures/internationalisation/report_internat.pdf

national and local actors have already created many services to help SMEs go international, i.e. traditional business incubator services and a broad range of other services (going from dissemination of information, legal assistance, cultural education to activities in the field of science and technology)[74].

The remaining problem however is that these services are very heterogeneous and therefore not all service providers provide all services and not all provided services are accessible to SMEs, regardless of their home country. In China, for example, only 43% of the service providers offer cultural education and networking activities. In addition, only 37% of them provide activities in the area of science and technology compared to 80% that provide dissemination of information activities[75]. Moreover, access to these services is traditionally based on nationality. Only in the recent past has there been an opening of services to non-national SMEs. Therefore some SMEs do not have access to special services. Others must rely on specific service providers and therefore cannot benefit from competition.

The nature of the problem is therefore not a lack of existing services for EU SMEs wanting to go international, but the lack of existing schemes' accessibility and also the suboptimal level of services due to the lack of competition. This analysis is confirmed by the answers to the public consultation on this initiative in which coordination and synergies with all the actors involved (Member States, business organisations, Chambers) and existing centres/networks is considered a key element for the success of the EU centres (and crucial to avoid duplication with market based service providers).

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74 See : Feasibility study on setting-up of a European Centre in China for European SMEs and other activities (TRADE07/B2/B0) April 2008

75 *Idem*

2.3. Summary of the remaining problems, in spite of the existing policies

The major remaining problems EU SMEs are still facing can be divided into two groups:

- coordination and/or implementation issues of existing policies;
- remaining market or regulatory gaps not addressed at all by existing policies.

The remaining problems can therefore be summarized in the table below, by policy area and by category of problems. Depending on the category into which a particular problem falls, it may determine whether a harder or softer policy response is required and whether the use of existing instruments or new ones is appropriate.

Remaining problems	**Implementation /coordination problems**	**Remaining market or regulatory gaps**
Impact of future EU legislation on SMEs		
Heterogeneity of the implementation of the "Think Small First" principle at national level, including: – Start-ups – Stigma of failure + bankruptcy procedures.		
Entrepreneurship is still not sufficiently reflected in educational and training policies		
Insufficient level of women's entrepreneurship		
SMEs' difficult access to markets		
SMEs' access to public procurement and culture of tendering authorities		
SMEs' difficulty in accessing, using and participating in the development of standards		
Insufficient access to finance • Availability of mezzanine finance • Availability of micro-credit • Fragmentation of venture capital		
Difficulty taking advantage of the opportunities linked to the environment		
SMEs' difficulties in accessing international markets and especially fast growing markets		

2.4. Who is affected?

- The target population of this initiative is both Community and Member States' administrations and other public administrations at regional and local level;
- through concrete new actions, this initiative will also affect all types of SME from micro-enterprises to medium sized enterprises operating throughout the European Union. These SMEs cover an enormous variety of sectors, legal forms and organisational structure, including craft businesses.
- however, certain specific actions described below could be particularly beneficial to micro and small enterprises, such as the General Block Exemption Regulation for State Aid, mobility schemes for apprentices and young entrepreneurs, actions to develop the availability of micro-funds or reduced VAT rates principally for locally supplied services.

3. WHAT IS THE OVERALL POLICY OBJECTIVE IN TERMS OF EXPECTED IMPACTS?

General objective:

The overall objective of this proposal is to fully unlock the growth and jobs potential of European SMEs and make full use of their innovative capacities, in order to contribute to the objective of the renewed Lisbon Partnership for Growth and Jobs decided in 2005.

Specific objectives:

To reach this general objective, two different types of specific objectives have to be fulfilled:

1) Improve the implementation of the "Think Small First" principle and the coordination of existing policies, by:

- **increasing the partnership with Member States to better implement and coordinate existing policies:**
  - create synergies and spillovers between Member States (e.g. by giving SMEs better access to existing national and local service providers which help SMEs to access international markets);
  - reinforce the monitoring of the implementation of existing policies at EU and national level, in the framework of the Lisbon Partnership (e.g. strengthening the implementation of the conclusions of the 2006 Spring European Council at Member State level);
  - encourage the exchange of experiences at EU level, e.g. to promote the teaching of entrepreneurship in education systems.
- **anchoring the "Think Small First" in policy making at EU and national level:**
  - develop a set of common principles to be applied at EU and national level when conceiving and implementing policies, in order to generate political commitment to act in favour of SMEs;
  - propose concrete initiatives to make SMEs' life easier;
  - avoid overlaps between policies;
  - simplify State Aid rules by proposing a new General Block Exemption Regulation;
  - reducing cross-border difficulties in the Single Market by proposing a European Company Statute.

2) Address the remaining regulatory and market gaps

- fostering entrepreneurship, by:
  - promoting entrepreneurship and the image of entrepreneurs in education curricula;
  - encouraging new entrepreneurs, in particular female entrepreneurs ;
- further improve SMEs' access to finance, by:
  - increasing the availability of micro-credit and mezzanine finance for SMEs;
  - reducing venture capital market fragmentation at EU level ;
- increasing SMEs' access to markets, by:
  - fostering a more SME-friendly culture among tendering authorities;
- improving SMEs' access to, use of and participation in the development of standards;
- increasing SMEs' awareness of the opportunities of sustainable products and processes by developing on-the-ground environmental and energy advice;
- improving SMEs' access to international markets and especially fast growing markets such as China and India.

3.1. Has account been taken of any previously established objectives?

The present initiative from the Commission takes into account:

- The Lisbon objective of the EU becoming the world's most competitive and dynamic knowledge-based economy capable of sustainable economic growth with more and better jobs, greater social cohesion and respect for the environment. To reach this goal, the coordinated European reform agenda put in place under the renewed Lisbon Partnership for Growth and Jobs[76] has, *inter alia,* encouraged an increasing number of Member States to integrate the interests of SMEs into their policy-making processes.
- The EU's Better Regulation Agenda in which the reduction of the administrative burden by 25% by 2012 and the simplification of existing legislation are main priorities. The existing 164 simplification initiatives selected by the Commission for the period 2005-2009 aim at making rules clear, easy to understand and user-friendly without watering down essential regulatory protection. Effort is being focussed on projects bringing significant benefits to business and citizens, in particular small and medium sized enterprises.
- The Single Market review[77] announced that the Commission will examine a range of initiatives to back SMEs, in the form of a Small Business Act for Europe in 2008.
- In the Commission's Communication to the October 2007 Meeting of Heads of State and Government: "The European Interest: Succeeding in the age of globalisation" the Commission underlined the need to fully unlock the growth and jobs potential of SMEs and make full use of their innovative capacities.
- The existing EU Modern SME policy (see annex III, table 3, for a detailed analysis).

4. WHAT ARE THE MAIN POLICY OPTIONS AVAILABLE TO REACH THE OBJECTIVE?

4.1. Which policy options have been considered?

The previous sections of this document have mapped the existing problems in different policy fields which explain the lack of sustainable growth of EU SMEs, and analysed the EU's entitlement to address these problems. The present section focuses on how these problems could most efficiently be tackled, by comparing different options. However, while the problems identified above cover a broad range of areas, the analysis hereafter will not scrutinise every specific option to tackle each specific problem but instead will establish the best approach to achieve the general policy objective. In addition, each individual action covered in this initiative which normally requires an impact assessment will either be subject to an individual impact assessment or has already been subject to such an assessment.

There are 4 possible basic options for how the EU may address the problems identified above: i.e. the insufficient implementation of the "Think Small First" principle, the insufficient coordination and coherence of certain SME policies at national and EU level and the persistence of certain market and regulatory gaps facing EU SMEs:

- **Option 0**: to withdraw existing SME policy measures at EU level and let Member States and local authorities develop their own policies depending on their specific needs and particular remaining market or regulatory gaps;
- **Option 1**: no additional action (baseline scenario);

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[76] Commission Communication: Working together for growth and jobs. A new start of the Lisbon strategy, COM(2005)24

[77] Commission Communication: A single market for 21st century Europe, COM(2007) 724 final

- **Option 2**: stepping up EU SME policy through a political partnership approach with the Member States, aimed at enhancing framework conditions for SMEs and entrepreneurship including specific additional policies to address remaining market and regulatory gaps;
- **Option 3**: developing and implementing a fully-fledged Community approach to SME policy with legally binding objectives and principles to be implemented at EU and Member State level and far-reaching Community programmes to address the remaining market and regulatory gaps EU SMEs are facing.

4.1.1. Options discarded at an early stage

- **Option 0**: the option to withdraw existing SME policy measures at EU level and let Member States and local authorities develop their own policies would deny the positive experience with SME policy introduced as part of the renewed Lisbon Strategy as evidenced by the assessment of the results of the first 2005-2007 cycle (and analysed in detail in Annex III, table 3). Moreover, this option would not be credible from a political point of view. Indeed the stakeholders' answers to the public consultation on this initiative revealed an apparent clash between a number of opinions arguing for less EU-level action and those favouring more EU intervention and universality in the field of SME policy. However, the latter view prevails, as an overwhelming majority of business organisations argue for a legally binding SBA. The "cut back" option is not a credible option from both an economic and a political perspective and will therefore not be analysed further.
- **Option 3**: Developing and implementing a fully-fledged Community approach to SME policy with legally binding objectives and principles to be implemented at EU and Member State level and far-reaching Community programmes will not be further analysed either. This option was seriously considered at the beginning of this exercise, as many business organisations argue for a legally binding SBA. However, as many of the areas relevant to SMEs' growth potential are mainly or partly in the remit of Member States (e.g. education, start-up, insolvency law), setting legally binding objectives is clearly in contradiction with the subsidiarity principle, which is a requirement and presupposition for Community action. This was confirmed by the answers to the public consultation where the systematic application of the subsidiarity and proportionality principles was considered helpful by 70% of the respondents. Moreover, this option would not differ fundamentally from option 2 in terms of its potential impacts (economic, social and environmental), as its main incremental benefits as compared to the baseline option would be the same as those of option 2, i.e. the development of synergies between policy areas and spillovers between local and EU level. In fact the effect of an increased level of implementation of the "think small first" principle as compared to the baseline scenario would be almost impossible to assess due to the reason that the non-respect of the subsidiarity principle could to a large extent increase the resistance to implementation on the ground. For these reasons, option 3 has not been selected for further assessment.

4.1.2. Options selected for further assessment of their impacts

- **Option 1 (no additional action or baseline option)**: This option consists of the existing EU SME policy, which is mainly composed of the existing Modern SME policy as endorsed by the Council and specific targeted EU support programmes, as well as a number of measures already planned or in implementation phase, as described in the table 3 in annex III. The "no additional action" option will serve as the baseline against which option 2, which is the only credible option, will be assessed.

- **Option 2:** This option consists of stepping up the existing EU SME policy through a political partnership approach with the Member States, aiming at enhancing framework conditions for

SMEs and entrepreneurship and including targeted policies to address the remaining market and regulatory gaps facing EU SMEs, as analysed in the problem definition. It aims at establishing a true political dynamic between the EU and Member State level to put SMEs at the forefront of economic policies as part of a long-term vision. In substance, this requires an improvement in the policy approach towards SMEs both at Community and national levels by making sure that legislation and programmes are conceived from the start and then implemented in a way that respects the needs and specific characteristics of SMEs (the "Think Small First" principle). A set of new actions, compared with the existing EU policy, could be developed – in partnership – into a coherent framework in the policy areas where a justification to act has been ascertained in the problem definition. The content of these new actions will be described in the next section, on a case by case basis, when comparing the impact of this option with the baseline.

5. ANALYSIS OF IMPACTS

5.1. Impacts of option 1: No additional Action (baseline option)

The problem definition has singled out two types of remaining problems SMEs are facing, in spite of existing polices:

- problems of implementation and coordination of existing policies and;
- remaining market or regulatory gaps, not covered by established or planned policies.

Therefore, the main negative impact of option 1, i.e. keeping EU SME policy as it is, would be not to address the remaining gaps and would therefore maintain some barriers to EU SMEs' growth. As regards coordination and implementation issues, it is difficult to foresee what type of progress could be achieved over the long run at EU and Member State level, but the main impact of option 1 in this respect would be a lower pace of reforms favourable to SMEs. However, the current SME policy would continue to produce its beneficial effects. The following type of economic, social and environmental impacts might consequently arise:

Economic impacts

Even if it is very difficult to give a quantitative estimation of the impact of the current EU SME policy on economic growth, what is clear is that this policy delivers and will continue to deliver several key actions focussed on some main determinants of growth including R&D and innovation, investment and access to finance. To give just some examples, the Structural Funds could remain the largest Community funding instruments benefiting SMEs[78]. Around 16-18% of the total allocation for Cohesion Policy of €347.4 billion is planned to be spent in relation to SMEs. Moreover, the Seventh Framework Programme for Research and Technological Development (FP 7) includes a number of incentives for SME participation, including an increased upper rate of reimbursement for research and technological development activities from 50% to 70%. The results[79] of the first calls for proposals show that the proportion allocated to SMEs in the main proposals listed (e.g. after evaluation) is just below 20%[80]. Moreover, the Competitiveness and Innovation Framework Programme (CIP)[81], with a budget of approximately €3.6 billion, provides better access to finance for SMEs and support for entrepreneurship, innovation, ICT as well as to a

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

79 1st progress report of the FP7 SME inter-services task force

80 Data show that this result can have a positive correlation with GDP. For example, a 1-euro increase in public spending on research and development (in EU countries) results in an additional 0.93-euro of expenditure on research and development in the private sector, , Competitiveness Report, 2004

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

wider uptake of new and renewable energies and improving energy efficiency. Lastly, the European Agricultural Fund for Rural Development (EAFRD)[82] will spend up to €10 billion during the programming period 2007-2013 to support the creation and development of non-agricultural enterprises in rural areas, skills acquisition and training, as well as SMEs in agriculture, food industry and forestry.

Social impacts

From a social point of view, one impact of keeping the EU SME policy as it is would be to maintain the contribution of EU SMEs' growth to job creation and regional cohesion. Of course, "the implementation of the Modern European SME policy has been carried out in a context of increasing economic growth: in 2006, EU GDP growth reached 3.0% – almost twice the rate of 2005 – and about 3.5 million new jobs were created" and it is difficult to establish a clear causal link between the EU SME policy and these results at aggregate level. However, SMEs being the main driver of employment growth (see problem definition), particularly in sectors like construction, transport, communication or tourism, this option would continue to influence job creation positively. In addition, current actions under the EU SME policy may have a positive impact on employment in the future by fostering entrepreneurial mindsets and by making education and training more broadly available through the existing Life Long Learning programme. For instance, it is estimated that more than 200,000 secondary school students already participated in a practically-oriented training scheme, launched by the Commission, whereby they run mini-companies to familiarise themselves with basic business concepts and skills. However, option 1 will not sufficiently address the gender gap which would have a negative impact on a specific category of entrepreneurs, particularly important for local development. Neither would this option address in the short run the insufficient extent to which entrepreneurship is embedded in national framework curricula.

Environmental impacts

Part of SMEs' difficulty in complying with environmental legislation is their relatively high fixed costs. The Commission has therefore developed a programme to help SMEs to integrate environmental concerns into production processes and products starting with a better compliance with environmental legislation[83]. The environmental benefit of such an approach can be very significant as the collective impact of SMEs on the environment is high. Although precise data are scarce, a frequently quoted estimate is that SMEs, taken together, could be responsible for up to 70 per cent of all industrial pollution[84] and 60% of total carbon emissions[85]. However, in the current situation, a remaining problem is SMEs' lack of awareness of their own impact on the environment and of the opportunities stemming from more sustainable products and processes. Existing policies as summarized in table 3 in annex III already provide many opportunities. Some room for improvement seems to exist in the area of increasing awareness of the environmental challenge and existing opportunities. For instance, half of the respondents to the consultation on this initiative found Community support for energy audits potentially useful.

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

83 http://ec.europa.eu/environment/sme/programme/programme_en.htm

84 See: European Commission: Public Policy Initiatives to promote the uptake of environmental management systems in small and medium-sized enterprises, Final Report of the BEST project expert group, January 2004, p. 15. See also: Smith, M.A., Kemp, R., Small firms and the Environment 1998: A Grounded Report, 1998, Groundwork, Birmingham

85 Marshall: Economic Instruments and the Business Use of Energy, 1998, Stationery Office, London

5.2. Impacts of option 2 as compared to option 1

Economic impact of option 2 as compared to option 1		
• **Policy areas**	• **Baseline (option 1)**	• **Option 2**
• **Improving the administrative and regulatory burden on SMEs**	• In January 2007, the Commission presented an Action Programme to reduce administrative burdens on businesses in the EU by 25% by 2012[86]. According to the Impact Assessment on the Action Programme[87], various studies using different economic models point to potential rises in the level of GDP from a 25% reduction of the administrative burden of between 1.4% and 1.8% of GDP. The 10 'fast track actions' identified within the Action Programme alone are expected to generate significant benefits (estimated at € 1.3 billion) through relatively minor changes in the underlying legislation[88]. This would benefit all businesses including SMEs. • New EU legislation coming into force is introduced at many different dates along the year, depending on the negotiation process.	• Potential new actions: • Further guidance in IA guidelines to measure SME impacts • Examine the possibility to establish common commencement dates at EU level • Incremental economic effect as compared to option 1: • SMEs have specific cost sensitivity[89]: where a big company spends one Euro per employee because of a regulatory duty, a small business might have to spend on average up to ten Euros. • Usually three explanations are offered for the disproportionate regulatory burden on smaller businesses, i.e. the fixed-cost nature of regulation, the lower efficiency of smaller businesses in dealing with regulation and the fact that in small businesses the most important resource, the entrepreneur himself, has to deal with regulation. • Therefore option 2, by increasing the focus on SMEs' specific needs in future legislation would bring a additional particular benefit to SMEs. • According to the Small Business Research Trust survey (2001) in the UK, a small business with 10-14 employees spends 31 hours a month complying with government regulation and paperwork, while an owner of a business with 50 or more workers needs 43.4 hours a month to comply, with business indicating that introducing common commencement dates would lead to an estimated10% reduction of costs overall. • Data from the US illustrate, *ceteri paribus,* the potential magnitude of the benefit resulting from administrative burden reduction for SMEs. In fiscal year 2003 alone, the US Small Business Administration Office of Advocacy documented more than USD $6.3 billion in regulatory cost savings and more than $5.7 billion in recurring annual savings on behalf of small business[90].
• **Entrepreneurship**	• In the current situation, entrepreneurship is a recognised objective of the education systems and is embedded explicitly in national framework curricula in only a few EU Member	• Potential new actions: • Promote teaching of entrepreneurship in national curricula and improve the image of entrepreneurs. • Promote women's entrepreneurship by establishing an EU network of female entrepreneur

86 COM(2007) 23
87 SEC(2007) 84
88 European Commission, Second strategic review of Better Regulation in the European Union, COM(2008) 32 final
89 http://ec.europa.eu/enterprise/entrepreneurship/support_measures/regmod/regmod_en.pdf
90 Office of Advocacy of the U.S. Small Business Administration, The Small Business Economy: A Report to the President, 2004

	States. Even in these Member States, implementing means (teacher training, teaching materials) still need to be stepped up. • There is remaining a gap in terms of entrepreneurship between men and women.	ambassadors and promoting mentoring schemes to inspire women to set up their own business and promote entrepreneurship to women graduates • Incremental economic effect as compared to option 1: • Promoting entrepreneurship in education system thanks to an increased partnership with Member States in the framework of the Lisbon Strategy could increase implementation of this policy. • In turn, this could increase the entrepreneurial mindset in Europe, which is largely determined by cultural and societal determinants. For instance, the Commission has estimated that students having participated in mini-companies projects to familiarise themselves with basic business concepts and skills are four times more likely to create their own company than others[91]. • Higher level entrepreneurship has a correlation with economic growth, particularly in high-income countries[92], although GDP growth is influenced by many other factors. In particular, countries exhibiting a greater increase in entrepreneurship rates tend to exhibit greater subsequent decreases in unemployment rates[93]. • Increased women's entrepreneurship could contribute to higher economic growth. As shown by the OECD LEED programmes, countries with low rates of enterprise creation are also those in which business creation is significantly lower among women than men. In contrast, in countries that experienced robust growth in the late 1990s, such as the United States, Australia, Canada, Korea, Spain and Norway, levels of women's entrepreneurship were highest[94].
• **Innovation and R&D**	• The EU's 7th Framework programme for research and development (FP7) established the target of allocating 15% of the budget of its Co-operation programme to SMEs. • The results[95] of the first calls for proposals show that the proportion allocated to SMEs in the main proposals listed (e.g. after evaluation) is just below 20%.	• Potential new actions: • Continue efforts over time to ensure a relevant level of participation of SMEs to FP7. • Adapt FP7 participation rules to encourage the growth of SMEs, by ensuring that an SME participating in a FP7 project can keep the benefit of SME treatment for the whole duration of that project, even if it exceeds the SME ceilings during that period. • Incremental economic effect as compared to option 1: • An increased partnership between the EU and Member States to increase the level of R&D in SMEs, including through research programmes could generate spillovers, whose mechanism can be exemplified by what happened in the framework of the existing Lisbon Partnership. Looking at EU R&D in general (not SME-specific), it has been estimated that if Member States achieve the R&D intensity targets announced in their Lisbon National Reform Programmes, R&D expenditures in the EU will increase from 1.9% of GDP in 2004 to around 2.7% in 2010, whereas

91 Commission Communication: Fostering entrepreneurial mindsets through education and learning: http://ec.europa.eu/enterprise/entrepreneurship/support_measures/training_education/commplan.htm

92 Global Entrepreneurship Monitor 2004

93 D. Audretsch, Entrepreneurship: A survey of the literature, October 2002

94 See: OECD, Entrepreneurship and Local Economic Development, Programme and Policy Recommendation, Paris, 2003

95 1st progress report of the FP7 SME inter-services task force

		this could lead to an increase in output of 3.3% for the European Union as whole. Cross-border knowledge spillovers would account for roughly half of these gains[96].
• **Access to finance**	• The current policy has already improved SMEs' access to finance. The Competitiveness and Innovation Framework Programme (CIP)[97], with a budget of approximately €3.6 billion, provides for improving access to finance for SMEs. • However, the following remaining problems would not be solved:	• Potential new actions: • Increase SMEs' access to finance (see below) • Incremental economic effect as compared to option 1: • In general, option 1 would keep the benefits of the baseline and, in addition, push for better Member State framework conditions in order to overcome the barriers that restrict the development of a Single Market for financing, especially risk capital financing, within Europe. • Long term impacts could include an improved financing structure of European firms (more equity), more efficient financial markets; and better matching of supply and demand of finance. • This option would provide impetus to the further development of European markets for financing SMEs, acting as a catalyst for private funding and complementing in areas where market imperfections are still large and private investors scarce.
	• **Availability of micro-credits** • Option 1 already provides support for increasing the availability of micro-credit. For example, the financial guarantees of the Multiannual Programme for Enterprises and Entrepreneurship have benefited over 177 000 micro-enterprises. • However, if no additional action is developed to support microfinance institutions, many potential entrepreneurs will still not get access to microcredit because banks consider them too risky.	• Potential new actions/option 1 • Support microfinance institutions through a new "Microfund" providing additional support for non-bank microfinance institutions, with an initial capital of about €40 million. • Ensure that accompanying business support services are available for entrepreneurs getting microcredit. • Ensure that microfinance institutions benefit from appropriate regulation • Incremental economic effect as compared to option 1: • Option 1 would encourage the further emergence of microcredit institutions that could also attract private investments, thus benefiting riskier entrepreneurs and microenterprises.
	• **Availability of mezzanine finance** • In the basic alternative, the mezzanine finance market would develop slowly due to the limited number of private finance providers (mostly public institutions for the promotion of SMEs).	• Potential new actions/option 1: • Developing markets for mezzanine financing in cooperation with the EIB, including for High Growth SMEs or SMEs that wish to internationalise. • Member States should develop financing programmes that address the availability of mezzanine funding between €100 000 and €1 million. • Incremental economic effect as compared to option 1:

[96] European commission, Spillovers and complementarities in the context of the Lisbon Growth and Jobs Strategy including economic effects of the Community Lisbon Programme

[97] http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

		• The availability of attractive instruments would help to develop the mezzanine finance market more quickly, especially in countries that have no tradition in such instruments. The goal is also to attract private investors.
	• **Venture capital** • In the current situation, many Member States are too small to develop a market where venture capital funds can have a sufficient volume of deals that would allow them to specialise and develop world-class expertise in specific industries. • The drawback in the current situation is that the growth potential of innovative firms is limited by the small amount of venture investments per deal[98], which can slow down the growth of those firms that have the highest potential to grow into big ones and give an edge to competitors from elsewhere with comparable technology or service. In the end, this shortage also leads to a higher probability of failure of those investments in Europe.	• Potential new actions: • Member States to review tax systems so that private investors (like business angels) have incentives to invest in SMEs either directly or indirectly through investment funds. • The Commission to define a set of benchmarks for the content of investment readiness programmes; and establish easily accessible quality criteria. • Establish a standing network linking the Commission, the EIF and Member States and regions implementing JEREMIE • Incremental economic effect as compared to option 1: • Option 1, in comparison, would increase the efficiency of the venture capital market in Europe by allowing easier operations across Europe. This would expand the benefits of the Single Market to venture capital. • This would help venture capital funds to specialise and grow, would raise the profitability of venture capital, and increase its attractiveness for private institutional investors.
• **Standardisation**	• In the current situation the Commission is already increasing its co-funding to support the participation of experts representing SMEs' interests in the process that establishes European standards. • However, in practice SMEs still face difficulties when participating in, and benefiting from European standardisation which helps them to do business in other Member States.	• Potential new actions: • Increasing EU financial support to promote SMEs' access to standards and the standardisation process. • Promoting the publication of abstracts of European Standards with unrestricted access in all languages. • Create an "SME Help Desk" in the European Standard Organisations. • Incremental economic effect as compared to option 1: • An increased use of standards could help SMEs benefit more from interoperability and complementary products/services within the Single Market, in particular as regards the introduction of complex systems, such as the expansion of the Internet. Facilitating interoperability would increase competition between new and already existing products, services and processes among all businesses, including SMEs.

[98] The average deal size for European early-stage investment is just €0.4 million against €2.2 million in the US. Source: Recent Developments in the European private equity markets, ECFIN/REP/55145/07-EN, 12 November 2007

		• Increased SMEs' participation in the standardisation process could foster their innovation capacity. Indeed, the use of standards contributes to diffusing knowledge and facilitating the application of technology; this may then trigger innovation, in particular non technological innovation in the service sector where SMEs are the dominant form of business. • Standards provide customers with trust in the safety and performance of new products and allow differentiation of products through reference to standardised methods and are therefore key for SMEs to enter niche markets.
• **Public procurement**	• SMEs, in particular medium size companies, have reached a proportional share of public procurement as compared to their weigh in the economy. In 2005 the proportion of the value of public procurement above EU thresholds secured by SMEs was 42% which corresponds to 64% of the number of contracts. • Situations differ greatly from one Member State to the other and more coordination at EU level would be useful. • Moreover, SMEs face higher costs to access public procurement, due to the remaining administrative burden at all levels and culturally-related difficulties as regards awarding authorities. This reduces SMEs' overall competitiveness as they have to reallocate comparatively more resources to gain their share in public procurement. • From an economic point of view, this means that their productivity is hampered compared to big companies.	• <u>Potential new actions:</u> • Option 2 would improve transparency and SMEs' access to public procurement through exchange of best practices and the development of a code of conduct to awarding authorities, in order to reach a proportion of the value of public procurement above EU thresholds secured by SMEs that would reflect even better their share in the total added value (57.6 % of the EU-27's non financial business economy value added). • An additional action at EU level would be to encourage the development of e-procurement. • <u>Incremental economic effect as compared to option 1:</u> • As the main problem faced by SMEs is the transaction cost to access public tenders, option 2 as compared to the baseline scenario would help SMEs to reallocate resources to other activities (R&D, innovation) and increase their productivity. • Even an incremental increase of SME participation in public procurement could have an important multiplication effect, due to the volume of the market at stake. According to estimates from DG Internal Market[99], the total value of public procurement in the then 25 Member States amounted to some €1,800 billion in 2006, corresponding to 16% of total EU-25 GDP[100], of which €370 billion is above the thresholds of the EU Directives. • Another indirect positive effect could be, by changing the tendering authorities' culture, to create positive social and environmental impacts by weighting less heavily the price criteria at the expense of, for example, innovative, environmentally-friendly and more sustainable products.
• **SMEs difficulty to take advantage from the opportunities linked to the**	• Policies already exist to increase SMEs' environmental up-take. This includes the ECAP Programme, which already helps SMEs to integrate environmental concerns into production processes and products starting with	• <u>Potential new actions:</u> • Establish a network of environment and energy efficiency experts in the new Enterprise Europe business and innovation support Network, financed by the CIP programme. • <u>Incremental economic effect as compared to option 1:</u> • This approach could help SMEs to understand the economic benefit of sustainable production.

99 http://ec.europa.eu/internal_market/publicprocurement/index_en.htm

100 These estimates were based on data provided by National Statistical Institutes to Eurostat for National Accounts and from annual reports and other sources for the Utilities sector.

environment	a better compliance with environmental legislation[101]. • However, SMEs still lack awareness of the opportunities linked to sustainability and of their own impact on the environment.	• Once their lack of awareness has been tackled, SMEs would be well placed to devise and implement effective environmental strategies, due to shorter lines of communication, close personal links, less bureaucracy and the ability to initiate change quickly[102].
• **Access to international market**	• A certain number of SMEs, especially from the old Member States, have at least, by a restricted number of service providers, access to nearly all relevant services to go international and to do business in China. • However, under the current situation, many other SMEs are excluded from services/service providers who would help them to go international. • Service providers do not face serious competition and services are therefore suboptimal.	• <u>Potential new actions:</u> • Establish European Business Centres in selected markets, starting with fast growing economies such as India and China. • Member States to encourage coaching from of SMEs by large companies in order to bring them to international markets. • <u>Incremental economic effect as compared to option 1:</u> • EU Centres will not be a genuine service provider. SMEs themselves will benefit more from this information than big companies as they do not have sufficient resources to gather such information by themselves. • Moreover, the EU Centres could compensate for the potentially higher transaction costs for EU non-national SMEs using the services of another EU national service provider by establishing a kind of voucher support scheme. • Therefore all groups of SMEs would benefit from these EU Centres. SMEs that do not have access at the moment will get it. SMEs that do already have it could expect higher quality services related to increased competition. Lastly, existing centres could gain more customers. • This option would most likely be very cost efficient because it takes stock of the already existing expertise on the ground. • In addition, encouraging coaching of SMEs by large companies could provide SME suppliers with access to global markets at lower costs than those faced by individual small-scale producers, due to the intermediation function assured by the larger contractor[103]. • By the fact that this option is more likely to attract more SMEs abroad than the baseline scenario, it could lead to higher competitiveness and economic growth. Effectively, the 2002 OECD study "High-Growth SMEs and Employment" demonstrates that exporting is a precursor of strong growth. The link between exports and enhanced productivity/competitiveness is clearly established by numerous studies[104]and, specifically, firms with international sales have higher sales growth than firms that sell only domestically

101 http://ec.europa.eu/environment/sme/programme/programme_en.htm

102 Correa, JA, Hurtado-Torres, N, Sharma, S and García-Morales, VJ - Environmental strategy and performance in small firms: A resource-based perspective, Journal of Environmental Management, vol. 86, Issue 1, 2008, pp. 88-103

103 *Idem*

104 As an example: Establishment level empirical study of links between exporting, innovation and productivity-CIS4" Richard Harris and Q Cher Li, September 2006

Social impacts of option 2 as compared to option 1

Overall, option 2 could foster SMEs' growth potential more than option 1. As seen in the problem definition, SMEs have a particular capacity to generate net job creation. Therefore the main incremental social impact of option 2 would be to foster employment. To give one example, providing easier access to even small amounts of finance can have a large job creation effect by facilitating self-employment. However, no aggregate quantitative estimation of this effect is available as it would require complex modelling beyond of the remit of this exercise.

In addition, the partnership approach of option 2 could be particularly efficient in influencing entrepreneurship preferences. These preferences are based on cultural determinants and are therefore difficult to change. Against this background, option 2 proposes a new action to promote teaching of entrepreneurship in national curricula and improve the image of entrepreneurs. This action would typically be based on increased cooperation between EU and Member Sates, as education is a national competence. Exchanges of best practices at EU level could increase the knowledge of how to teach entrepreneurship. In addition, synergies between EU policies could help develop a favourable regulatory and societal environment, multiplying the effect of a new action in the field of education[105]. By the same logic, another complementary action of option 2 could promote women's entrepreneurship by establishing an EU network of female entrepreneur ambassadors and by promoting mentoring schemes to inspire women to set up their own business and promote entrepreneurship to women graduates. This would have a positive effect on female entrepreneurs but also bring additional opportunities for economic growth and therefore employment. Increased women entrepreneurship could contribute to higher economic growth and at the same time favour the inclusion of women in the labour market.

Lastly, the creation of political momentum in favour of SMEs, through increased cooperation at EU and national level could create political spillovers in the social field, e.g. the SME focus may facilitate accompanying measures in the respective policy domains or facilitate other complementary reforms. The effects stemming from such political economy complementarities can be potentially powerful. For instance, Community action directed at improving SME performance can generate political momentum for nationally-driven labour market reforms.

Environmental impacts of option 2 as compared to option 1

Overall, option 2, as compared to option 1, could have a more positive environmental impact. As seen above in the problem definition, one difficulty SMEs are facing in this field is complying with environmental legislation. A partnership approach between the EU and Member States could improve this situation for SMEs, on the one hand by making sure that legislation is conceived from the start in a way that ensures a high level of protection of the environment but also respects the specific needs of SMEs, and on the other hand by avoiding a situation whereby the terms of Community directives are exceeded significantly when implemented in national law (so called gold plating issue). This approach could therefore help to prevent negative cross border externalities (such as pollution), while ensuring a reduction of the administrative burden for SMEs. In addition, in the environmental field, the increased synergy effect between policy areas will again play a role. Option 2, however, would consist of a series of measures with different levels of relevance for the environment. Some of them would have a direct positive impact; others would have an indirect or an insignificant impact on the environment.

- Potential new actions with direct positive environmental impacts

[105] See: European Commission, Green paper, entrepreneurship in Europe, COM(2003) 27 final

As seen in the problem definition, SMEs lack awareness of their own impact on the environment and of the economic opportunities associated with sustainable production. Option 2 therefore proposes establishing a network of environment and energy efficiency experts in the new Enterprise Europe business and innovation support Network, financed by the CIP programme. This new action could increase SMEs' awareness through direct contact at local level, environmental advice and sharing of best practices. As a consequence, SMEs could better seize the opportunity linked to sustainability through savings stemming from energy and environmental efficiency and new market opportunities.

As regards savings, few aggregate data are available at EU level, but national estimates can give an order of magnitude of their potential impacts. To give one example "Stimular", a Dutch initiative to stimulate environmental innovation, estimates that €1 spent on this programme can save €13.50 in costs for the SMEs, e.g. energy savings, waste and emissions reductions, etc[106]. Another example comes from the UK Carbon Trust and concerns the potential benefit of a more widespread adoption of advanced metering systems in the UK SME community. According to the Carbon Trust study[107], a total of 5.1 MtCO2 savings could be identified and 2.5 MtCO2 savings could be implemented per year. This level of identified savings is equivalent to over 2% of all carbon emissions from UK businesses. Scaling up the results in financial terms indicates that total cost savings of £650 million could be identified and £300 million implemented per year across the UK SME community.

As regards market opportunities, SMEs are well placed to devise and implement effective environmental strategies, due to shorter lines of communication, close personal links, less bureaucracy and the ability to initiate change quickly[108]. In addition, SMEs (as analysed in section 2.1.3) already play a key role in creating radically new innovations that open up entirely new markets or revolutionise them. The environmental and energy efficiency field provides new opportunities. Examples include the extraction, supply, distribution and conversion of renewable energy, but there is also fertile ground in the delivery of services through low-carbon means, the re-design of existing products, the management of energy demand, changing behaviour and the adaptation of existing infrastructure. UK estimates[109] indicate that on the basis of the UK Government's plans to tackle climate change and the emerging voluntary market, the UK market opportunity alone will be worth £4 billion a year by 2010. The compliance market resulting from the UK Government's climate change programme over the next 10 years will be worth around £30 billion or more.

Moreover, option 2, by increasing partnership between EU and Member States could generate political momentum, and reaching out at local level would help to spread information and examples of the opportunities offered by sustainable products and processes.

- Potential new actions with indirect positive environmental impacts (synergy effect)

Option 2 would aim at developing a proper Single Market for venture capital in Europe. This in turn could bring synergies in the environmental field, since it has been estimated that venture capital is becoming increasingly important for environmental sustainability (€1.25 billion was raised in

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106 EIM, Stimular naar het jaar 2000, een evaluatie van 5 jaar Stimular, 1996. For more examples, see: http://www.environmental-savings.com/. For additional example see: http://www.environmental-savings.com/

107 Carbon Trust, Advanced metering for SMEs, Carbon and cost savings, 2007.

108 Correa, JA, Hurtado-Torres, N, Sharma, S and García-Morales, VJ - Environmental strategy and performance in small firms: A resource-based perspective, Journal of Environmental Management, vol. 86, Issue 1, 2008, pp. 88-103

109 Opportunities for innovation, the business opportunities for SMEs in tackling the causes of climate change, Shell Springboard, October 2006

2006). Sustainable venture capital funds invest in the range of €1-5 million with a focus on early-stage and typical investments in renewable energies and clean technologies[110] which could be particularly beneficial to SMEs focusing on niche markets.

The same type of benefit could stem from an increased participation of SMEs in the standardisation process and the use of standards. Indeed, standards are essential to improve the energy and resource efficiency of products, processes and services and the competitiveness of European industry, including SMEs. Standardisation is important in enabling the uptake of eco-innovation and environmental technologies, facilitating their dissemination in the Single Market, and accessing global markets[111]. In addition, advanced performance benchmarks and wider use of labelling are key to informing consumers about product performance and rewarding frontrunners. This could enable SMEs to increase the return on investment in environmental and energy efficiency.

Option 2 would also strive to change the culture of awarding authorities in the public procurement field. This also could have a positive effect on SMEs' uptake of environmental practices. Indeed, the procurement culture in many Member States is focused on short-term cost, weighting too heavily the price criteria at the expense of, for example, innovative, environmentally-friendly and more sustainable products. A more sustainable culture could help SMEs market sustainable, innovative products, for instance in the field of energy efficiency equipment, where many producers are SMEs.

- Potential new actions with no relation to the environment

Potential measures proposed in option 2 focusing on direct determinants of SME growth (start-up/bankruptcy policy implementation) would not have any direct impact on the environment. However, by fostering SMEs' growth, they could lead to more production and therefore to a more extensive use of natural resources. However, this side effect would be offset by the accompanying use of the above mentioned measures.

6. COMPARISON OF THE OPTIONS

The proposal for a "Small Business Act" is a package of different measures of various natures. Therefore, the impacts of options 1 and 2 are compared on a qualitative basis only, since a comprehensive quantitative assessment would require complex modelling that goes beyond the scope of proportionality for this impact assessment.

Two main categories of problems were singled out in the problem setting section:

- implementation/coordination of existing policies
- remaining regulatory or market gaps not addressed by existing policies.

As regards the second category of issues, option 2 evidently has a clear benefit, as the continuation of option 1 would not address spontaneously the remaining problems.

Looking at the first category of issues, option 1 and 2 would differ in terms of timescale. One can argue that option 1, business as usual, could solve the implementation problem over the long run in the framework of the Lisbon Partnership. In contrast, option 2 would bring the benefit of

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110 Meyer, T., Venture Capital in Europe: Spice for European Economies, Deutsche Bank Research, Oct. 2006

111 See : Commission Communication : Towards an increased contribution from standardisation to innovation in Europe, COM(2008) 133 final

accelerating the pace of reforms at EU and national level to set the right framework conditions for SMEs.

However, option 2, by increasing the level of coordination at EU and national level and by widening the scope of the current SME policy would bring a specific added value for Community action, including:

- The cross border dimension of the remaining specific problems of EU SMEs: Section 2 above has highlighted a number of remaining problems that hamper the development of EU SMEs and which clearly have a major cross-border EU dimension. One example relates to the fragmentation of the European venture capital market along national borders that contributes to small funds, small invested amounts and low profitability of venture capital in Europe. The environmental challenge facing SMEs clearly also has, by definition, a cross-border dimension. In these fields, the EU level, by virtue of its scale and scope, is best suited to fostering the compatibility of systems, ensuring a minimum level of harmonisation and tackling negative cross-border externalities such as pollution.
- Spillovers and synergies For most of the issues mentioned above, the EU and the Member States each appear to have an important complementary role to play. There is therefore a strong case, in line with the Lisbon strategy for Growth and Jobs, to develop inter-linkages between national policies and to coordinate their approach to generate spillovers and complementarities. Actions taken by one national government for its own SMEs and for its economy in general have an impact on the performance of other countries' SMEs and affect EU markets. In such cases, purely national, uncoordinated, action would be suboptimal because the important cross-border externalities or economies of scale would be left unexploited. For example, the creation of an EU Business Centre in China could take stock of the already existing expertise on the ground and multiply its efficiency through networking and enhanced competition. SME policy being essentially interdisciplinary, there are also important complementarities between reform measures within or across policy domains which give rise to potentially strong synergies from their coordinated implementation. For instance, better access to finance and innovation and skills as well as a reduced administrative burden and increased entrepreneurship are also intrinsically interrelated.
- Increased monitoring: Some issues seem more clearly in the remit of Member States than others. This is typically the case of start-up procedures and insolvency laws which have a major role in the churning process and therefore on SMEs' growth potential. These problems, however, depend essentially on national legislation and are mainly or partly outside EU competence. At Community level, however, useful actions can consist of mutual learning and an increased monitoring of the implementation of SME-friendly reforms in the framework of the Lisbon Partnership.

Against this background, it appears that option 2 does not bring negative impacts as compared to option 1 but does address gaps that option 1 does not address and adds value to the current SME policy framework.

Therefore option 2 should be the preferred option.

6.1. Justification for action at EU level

6.1.1. Subsidiarity test and impact on budget

It has to be underlined once more that the proposal for a "Small Business Act" is a package of different measures. This impact assessment will therefore not check the subsidiarity case for each of the specific possible action. In fact, under option 2, the Commission would announce a number of

new initiatives (both legislative and non legislative) to support SMEs' growth. While some initiatives will be adopted at the same time as the main document, others will be adopted at a later stage. Where appropriate, the Commission will carry out detailed impact assessments of the specific initiatives in accordance with the impact assessment guidelines[112].

Currently an overall subsidiarity check can be provided for the following list of measures:

(1) Initiatives to be included in option 2, of legislative nature that have already been subject to an impact assessment:
- Proposal for a European Private Company (SPE)

(2) Initiatives to be included in option 2 that do not need an impact assessment:
- Proposal for a General Block Exemption Regulation
- A Code of Practice (public procurement)

(3) Initiatives of non legislative nature that have a substantial budgetary impact:

The initiatives falling under this category will be developed within the current EU budget (CIP, FP7, Structural funds, Cohesion fund). They would correspond to marginal relocation of public funds within certain programmes taking into consideration remaining problems.

• Increased EU financial support to SMEs' information on, and use of European standards.	• No EU or MS budgetary implication • Support increased to €1 million in 2008 and €2.1 million from 2009 onwards • CIP budget
• New micro-fund to be set up and managed by the EIF, providing additional support for non-bank micro-finance institutions through capital and technical assistance to such institutions and with an initial capital of 40 million euro.	• No EU or MS budgetary implication • No EU or MS budgetary implication • €40 million: €20 million will come from the EIB, the rest will come from private sources
• Financing a network of environmental and energy efficiency experts.	• No EU or MS budgetary implication • €4 million earmarked for 2009, CIP budget
• European Business Centres	European Business Centres • €5 million in 2008 (DG RELEX) • Final decision to establish a Centre in China by end of 2008 (after presentation of feasibility study) European Business and Technology Centre in India • Budget for preparatory action: €7 million in 2007and €5 million in 2008. (DG RELEX) • Call for Proposal closed end May 2008 • Contract signature in August 2008 and start of the Centre by spring 2009

6.1.2. Are there especially severe impacts on a particular social group, economic sector (including size-class of enterprises) or region?

This initiative intends to bring positive impacts to all SMEs, but also to address specific target groups (e.g. young innovative firms, women entrepreneurs). However, if this objective is reached through a balanced approach, it will foster economic growth and therefore benefit other players, e.g. large companies.

6.2. Are there impacts outside the Union ("external impacts")?

- Should this initiative contain legally binding elements, it will have some impacts on non EU Member States. For the Candidates Countries which have to integrate the "acquis communautaire" in their national legislation (Croatia, Turkey and the Former Yugoslav Republic of Macedonia), it will have the positive impacts described above.

[112] SEC(2005)791

- Moreover, any provisions of this initiative concerning the Single Market will apply to the EEA/EFTA countries (Norway, Iceland and Liechtenstein).
- Support measures in this initiative to increase environmental sustainability and energy efficiency in SMEs will also help with tackling global challenges such as climate change and would therefore have a potentially positive international impact. The development and transfer of eco-efficient technologies would therefore also help developing countries and economies in transition to use resources more efficiently and thus save financial resources for their development needs.
- The SBA could be a source of inspiration and guidance for neighbouring countries when developing their SME policy.

7. IMPLEMENTATION AND MONITORING

7.1. Implementation

Option 2 is the preferred option. This option aims at ensuring a balanced approach between the ownership of the SME policy needed at all levels and a necessary degree of peer pressure through a regular monitoring of a high level political commitment. Therefore, this option needs implementation measures that combine the respect of the subsidiarity principle but also a higher level of enforceability of the SME focus, to bring an added value as compared to the current situation. Taking these elements into consideration, this option could best be implemented as follows:

The initiative could take the form of **a Communication from the Commission** containing common principles for EU and national level and defining specific actions targeted at SMEs in a wide range of policy areas. An eventual endorsement of these principles and objectives by the European Council would secure the highest degree of Member States' political commitment.

In addition, the European Council could establish a mechanism of regular review of the progress made in relation to SMEs' framework conditions and monitoring of progress in achieving the agreed objectives.

7.2. Monitoring and evaluation

A thorough implementation of the SBA is of primary importance and requires the full commitment of both the Community and the Member States. The Commission therefore expects the European Council to endorse the SBA in order to demonstrate its recognition of the role played by SMEs and the need to unlock their growth and jobs potential.

The Small Business Act for Europe being a key component of the Lisbon Strategy for Growth and Jobs, the monitoring of its implementation needs to take place within this framework. In practice, Member States could be invited to integrate the SBA in their National Reform plans, taking advantage of the update of the Lisbon cycle which is foreseen for the end of 2008 and which will influence the setting-up of national SME policies for the next three years. Subsequently, the progress made in implementing these SBA principles and actions would have to be reported in Members States' annual implementation reports. As for the Commission, it would assess the progress made in implementing the SBA, in the framework of its Community Lisbon Programme (CLP). Progress made both at national and community level would be presented as a result in the annual Lisbon strategic report prepared by the Commission. That would allow the European Council to review progress made in the field of SME policy in its spring meeting and may adopt where appropriate policy targets based on the SBA objectives.

ANNEX I

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ANNEX II

Report on the results of the open consultation on the "Small Business Act" for Europe

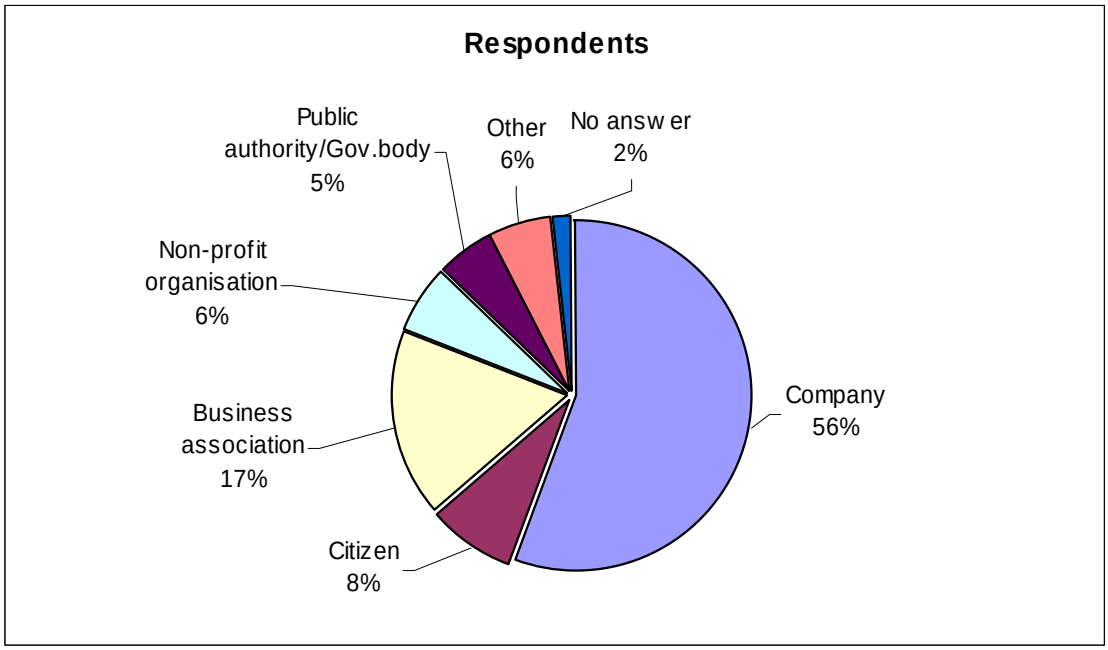
INTRODUCTION

Over the past few years, the European Commission has implemented a specific policy in favour of SMEs and has committed itself to improving the business environment in which they operate by applying the "Think Small First" principle[113]. This policy has already produced significant improvements in creating a more SME-friendly business environment.

However, the need to fully unlock SMEs potential for growth, innovation and job creation remains. As a major contribution to this objective, the Commission has proposed the preparation of a Small Business Act for Europe whose main aim will be to set out principles and concrete measures to improve the framework conditions for European SMEs, while taking full account of their diversity.

Consequently, an open on-line consultation was launched to allow all interested parties to give their opinion.

Profile of respondents



More than 500 contributions were received (499 via the IPM tool[114]) as well as a number of position papers from SME stakeholders and regional and national administrations. This report focuses on the replies received via IPM but all the contributions received will be taken into account in the preparation of the SBA.

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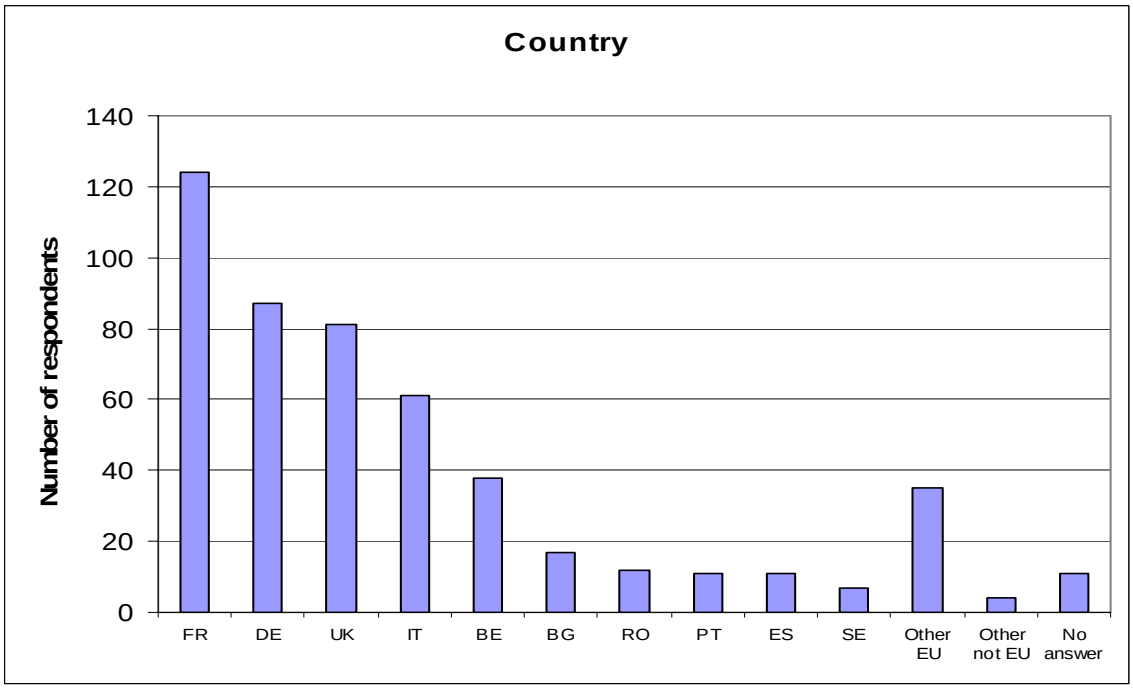
113 See Communications on Modern SME Policy and on Mid-term review of Modern SME Policy (http://ec.europa.eu/enterprise/entrepreneurship/sme_policy.htm).

114 A statistical overview of the IPM replies is also available

The majority of the respondents are companies and in particular micro- and small enterprises. The respondents are based in 25 of the EU Member States with a large participation from France, Germany, UK and Italy.

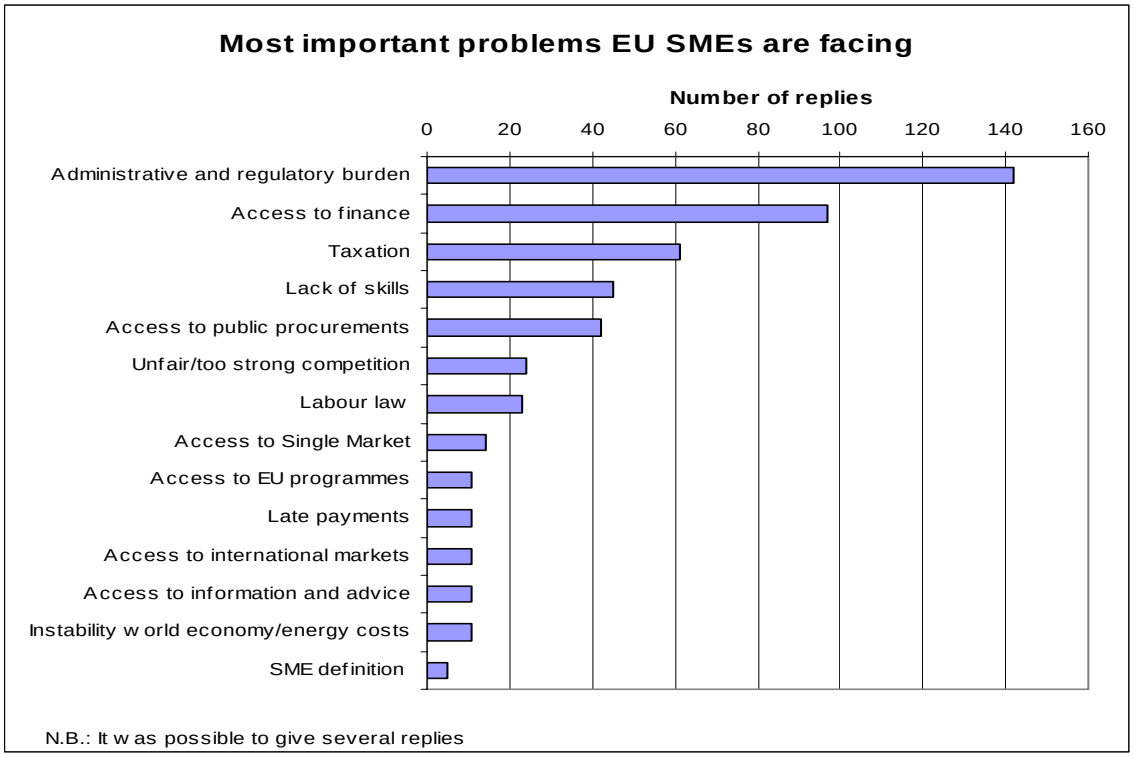
A significant number of comments/suggestions were provided in answer to the open questions.



Main problems that European SMEs are facing

What are the most important problems that European SMEs are facing and which prevent their growth? How to tackle them?

The administrative burden, overregulation and bureaucracy are by far the main general concerns, followed by access to finance, taxation, lack of skills, access to public procurement, unfair competition and labour law. Excessive payment delays are also described by many respondents as an important problem for SMEs.



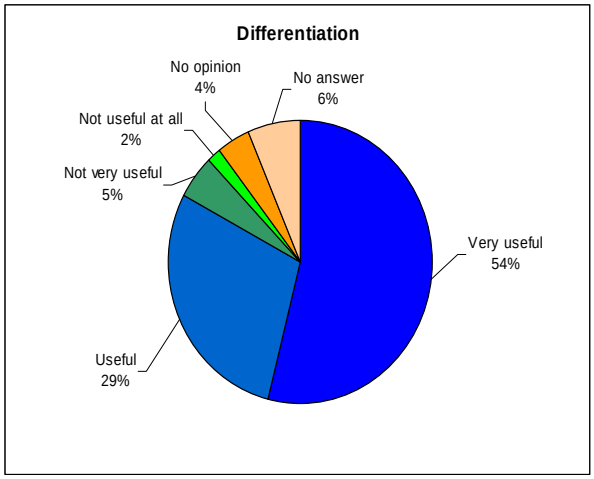
1. BETTER REGULATION FOR THE BENEFIT OF SMES

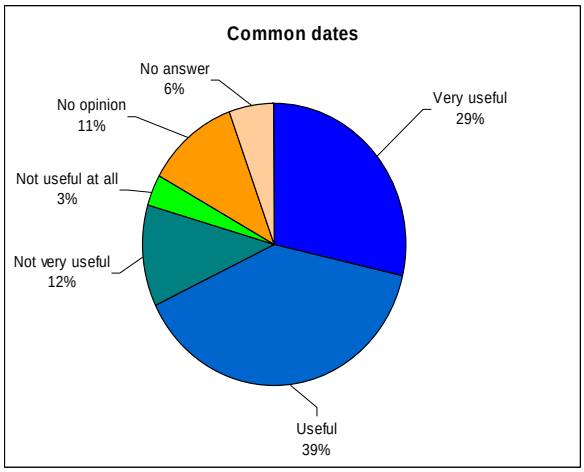
Questions

- 1.1 Is the current EU SME definition an obstacle to targeting support for SME growth in the right way? If so why?
- 1.2 In addition to the systematic application of the subsidiarity and proportionality principles in legislation (see question 6.2), could differentiation regarding the way legislation is elaborated and applied according to the size of the company be useful (e.g. lower fees, fewer reporting requirements, thresholds or longer transition periods)?
- 1.3 Do you consider that directly applicable EU-level legislation in certain areas creates a disproportionate and un-necessary administrative burden on SMEs? If yes, in which areas? Would excluding SMEs from such direct application of EU legislation be a solution?
- 1.4 Would the introduction of common commencement dates for all SME-relevant legislation coming into force and/or publication of an annual legislation statement be useful for SMEs?
- 1.5 Do you think additional focused measures to alleviate the administrative burden on SMEs would be useful? If yes, in which specific areas or topics?
- 1.6 Would you suggest any other obstacles or additional issues to address?

The majority of respondents (around 60%) think that EU legislation creates an unnecessary burden on SMEs. Concerning the solutions, there is a mixed picture about the possibility to fully exclude SMEs from the direct application of EU legislation as half of those who have an opinion are in favour and half are against. There is, however, a large consensus (more than 80%) on the fact that focused measures to alleviate the administrative burden would be helpful.

About two thirds of respondents do not think that the SME definition represent an obstacle to SME growth and should be modified. However, differentiation regarding the way legislation is elaborated and applied according to the size of the company (including differentiation between micro, small and medium-sized enterprises) is largely advocated by all types of stakeholders. More than eighty percent consider it useful/very useful. However, some opinions warn about the danger of adding to the complexity of the legislative landscape. The support for common commencement dates reaches 68%, although there are arguments that the initiative should be implemented only at national level and not at EU level.





The areas of employment and social affairs, health and safety including hygiene and labelling rules, public procurement, environment, and VAT and tax issues are most commonly quoted as sources of disproportionate burden on SMEs. CE marking, consumer protection, statistical requirements, accounting rules and standardisation add to the list. Participation in R&D projects and EU programmes is also often quoted as being difficult and bureaucratic. Access to IPR and in particular the cost of patents is also problematic. Furthermore, some respondents consider that measures should be taken against competition from third country enterprises which are not subject to the stringent EU rules.

Some participants preferred to remain general and advocate an overall reduction of red tape and the administrative burden. These include the argument that many of the concerns and complaints about red tape emanating from business relate to national administrative practices such as licensing and authorisations, and should be tackled at national level. Others have forwarded concrete proposals such as an increase of the turnover level required for VAT registration, the simplification of cross-border VAT rules, simplification of the Directive on qualifications, the obligation to apply payment terms of a maximum of 30 days, longer implementation periods for labelling, prohibiting public authorities in the case of public tenders from demanding documents that are already in possession of the State (e.g. tax or social contribution certificates) and greater use of electronic services. Exemptions from legislation from SMEs and mitigating measures facilitating the implementation of legislation by SMEs are also advocated. Implementation of the Services Directive and the establishment of portals, via which all applicable regulations are visible to businesses, are other measures deemed important to alleviate the burden on SMEs. Finally, financial and other support for entrepreneurs and SMEs is advised.

Overall there is strong support for the "Think Small First" principle based on reinforced consultation of SME representatives, ex ante and ex post impact assessment of legislation on SMEs and a stronger role of the SME Envoy especially in screening legislation. The implementation of the proportionality principle, the safeguard principle (withdrawal of the proposal if cost/benefit-ratio is

inappropriate) and the 'only once' principle (avoid the situation where the same information or administrative requirements are asked several times by public authorities) have been strongly mentioned and supported.

A particular emphasis is put on the problem of gold-plating and there are suggestions that the Commission should regularly analyse the level of gold-plating in each Member State when EU legislation is implemented.

2. PUTTING SMEs AT THE FOREFRONT OF SOCIETY

Ensuring full recognition by society of the role of entrepreneurs

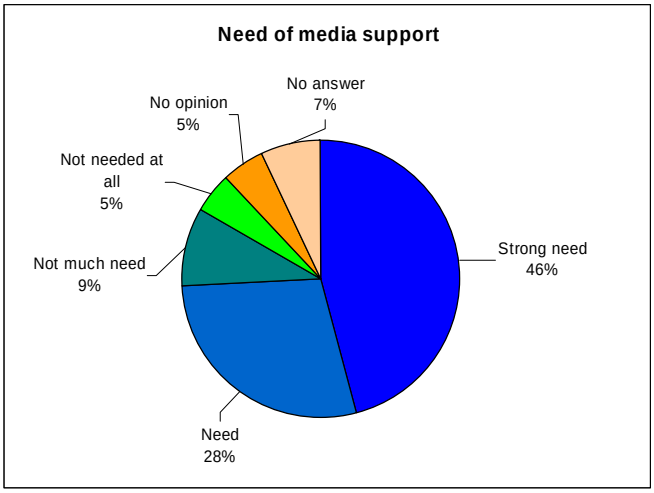
Questions

- 2.1 Do you see a need for additional measures in the Member States or at EU level to stimulate entrepreneurship through education?
- 2.2 Is entrepreneurship sufficiently reflected in school curricula and if not, how could the situation be improved?
- 2.3 Do you see a need for the media to take a stronger role in fighting negative stereotypes towards entrepreneurship?
- 2.4 Would you suggest any other obstacles or additional issues to address?

Different concrete issues discouraging young people from becoming entrepreneurs are mentioned. They range from burdensome administrative procedures to a lack of appropriate training and financing. However there is a common acknowledgement that the main problem is the cultural attitude, and in particular the bad image of entrepreneurs as well as a generally risk-averse culture.

A large majority of respondents (84%) think that the education system, and in particular the school curricula does not focus enough on entrepreneurship. They therefore consider it important to intervene in the education system with more systematic measures. Generally speaking, curricula are considered to be important but the crucial element for encouraging an entrepreneurial mindset is a closer link between the SME community (including all types of companies and SME stakeholders) and schools. Firstly, it is essential to change teachers' negative attitudes about entrepreneurship by bringing them closer to the real world of SMEs. Practical training/seminars for pupils should be organised at every educational level, starting at an early stage with the involvement of all types of local SMEs. Basic economic principles with a special focus on difficulties and constraints linked to creating and running an enterprise should be included in school curricula and not limited to specific studies. Mini and virtual companies are also mentioned as useful tools for developing entrepreneurial attitudes especially among younger pupils (i.e. in primary schools).

The media, for their part, do not recognise the important role played by entrepreneurs and when they do they focus on large enterprises mostly ignoring SMEs. SME success stories are not sufficiently highlighted, while the risks related to creating and running an enterprise are emphasized too much.



Setting up or transferring a business and second chance

Questions

- 2.5 Would it make a significant difference to further reduce the time and costs for registering a company?
- 2.6 Do you think it would be useful to propose additional measures to facilitate business transfer and tackle bankruptcy?
- 2.7 Would you suggest any other obstacles or additional issues to address?

Around 60% of replies indicated that there is still a need to reduce the time and costs to set-up a business. Some respondents pointed out, that significant differences exist within Member States in this regard. The lack of information and the lack of appropriate support for newly created enterprises are identified as additional problems.

In general, new measures for facilitating business transfer and tackling bankruptcy are considered useful (around 80% of replies) and should be taken up at Member State level. Fiscal incentives, specific training, financial/technical support and promotion of different transfer models (succession, cooperatives of employees etc.) are mentioned as possible supporting initiatives for facilitating the transfer of companies. Respondents think that a second chance should be given, as failure is a "normal" event in the life of an enterprise. However there is a clear orientation towards the need to distinguish "honest" failures from fraudulent ones and to clearly avoid encouraging the latter.

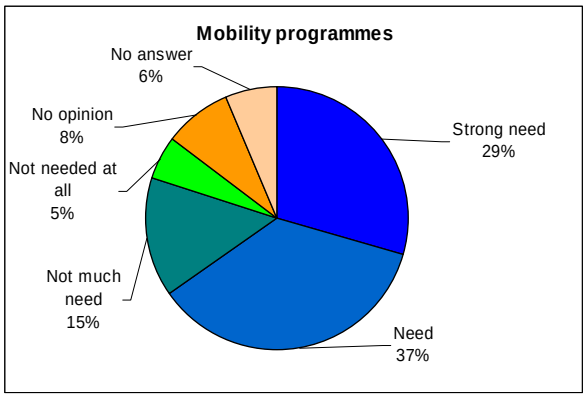
Helping SMEs acquire the skills they need

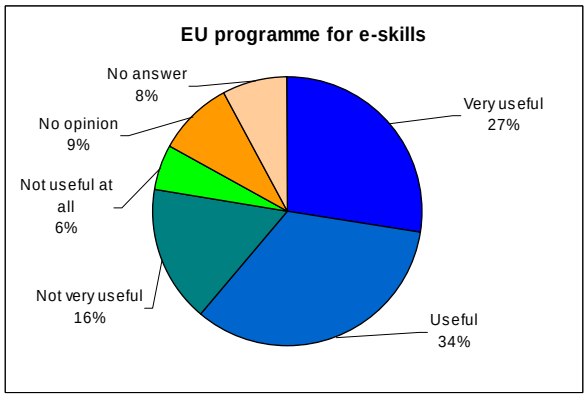
Questions

- 2.8 Do EU education systems deliver the necessary basic skills needed by entrepreneurs?
- 2.9 How adequate are the existing measures for recognising qualifications at EU level?
- 2.10 Do you see the need for cross-border mobility programmes for entrepreneurs and apprentices?
- 2.11 Would the development of a programme to foster the e-skills of entrepreneurs at EU level be useful?
- 2.12 Would you suggest any other obstacles or additional issues to address?

There is a recognised need to improve the way in which skills are acquired. EU schools do not provide the technical competences needed for more than 60% of companies responding. There is a more mixed picture on the evaluation of existing measures, which are considered to be inadequate by about 45% of respondents.

Recognition of informal training, training courses better tailored to SMEs' needs and taking into account the different types of company, more practical education and the improvement of technical skills are among the suggestions made. There is in particular a lack of ICT skills which are considered essential to better exploit the opportunities offered by new technologies (and also for training itself, considering that small entrepreneurs often cannot follow traditional courses). Some ask for uniform requirements for qualification within EU countries and mobility programmes for entrepreneurs/apprentices. In this context, EU programmes for cross-border mobility and e-skills would be useful/very useful for the majority of respondents (66% and 61% respectively). Finally, the necessity of bringing together all the relevant actors (SME stakeholders, schools and administrations at EU, national and regional/local level) is underlined.





3. FACILITATING SMEs' ACCESS TO MARKETS

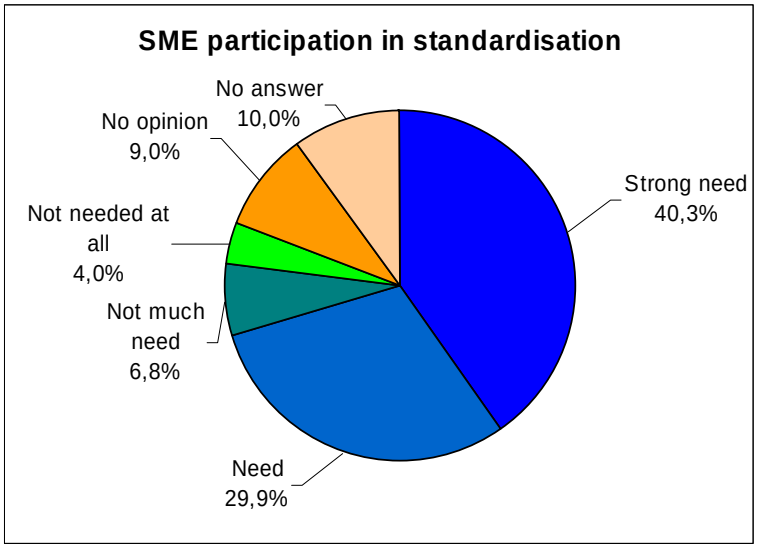
Supporting SMEs to go beyond their local markets and better use the Single Market

Questions

- 3.1 What are the areas where standards are not yet widely applicable and where SMEs would benefit from them?
- 3.2 Do you see a need to increase the participation of SMEs and their representative organisations in standardisation and improve the dissemination of standards?
- 3.3 Do you see a need for improving the situation of SMEs in the area of direct and indirect taxation; if yes, which measures would be the most significant? In particular, should VAT rules be further reviewed?
- 3.4 Which additional measures would you suggest to help SMEs to better use the potential of the Single Market including the EEA and Candidate Countries?

Common standards are in general considered important for the good functioning of the Single Market and only a few think that there are enough or even too many. However, the replies suggest that standards should be developed according to the needs of each specific sector and should not be too costly or too complicated to understand and use (e.g. provide free guidance). A total exemption from all costs was not explicitly mentioned. There is general agreement on the fact that SMEs and their representatives need to be better involved in the standardisation process. In particular, there is

a lack of information and dissemination of standards and SME are not represented enough in the standardisation bodies.



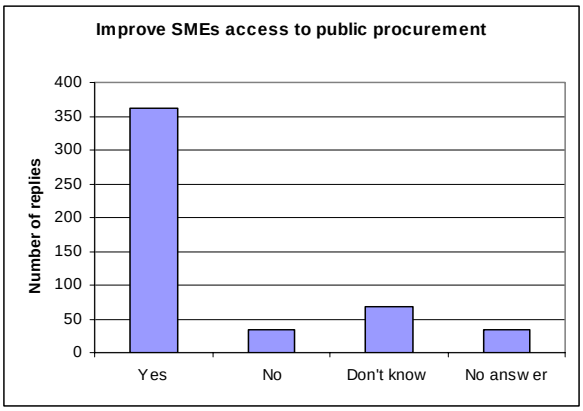
Concerning taxation, there is a clear need to improve the situation through reduction, simplification and harmonisation, especially for VAT. Refund procedures and VAT rules in general are considered too complicated for small companies, especially when related to cross-border activities. Dedicated one-stop-shops could be a useful tool for some of the respondents. Reduced VAT is asked for certain sectors and especially for local and labour intensive services, while specific tax measures are requested for R&D activities. A number of different proposals for taking better advantage of the Single Market are suggested. They include the European Private Company Statute, full and effective implementation of the Single Market, specific training actions to help SMEs going abroad (including foreign languages), improved information systems/networks, transnational cooperation between SMEs, etc. Some of the suggestions focus on issues already raised in other questions (late payments, standards, simplification, and improved access to public procurement).

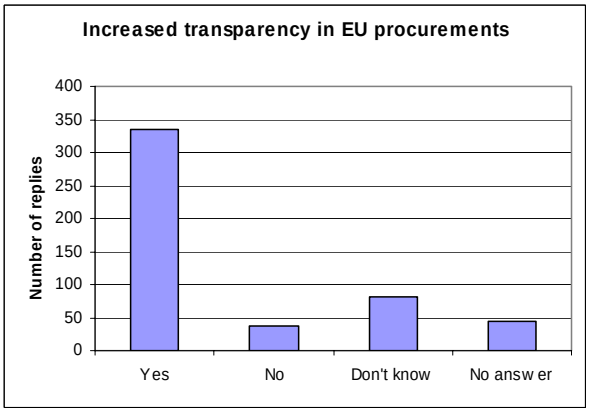
Facilitating SMEs' access to public procurement

Questions

- 3.5 Do you see a need to improve SMES' access to public procurement and if so how?
- 3.6 Would increased transparency of EU procurement opportunities below the thresholds make a difference (e.g. through a voluntary database disseminating procurement opportunities, central databases in the Member States or a broader use of electronic platforms)?
- 3.7 Would you suggest any other obstacles or additional issues to address?

More than 70% of the companies and of all the responding stakeholders in general see a need to improve SMEs' access to public procurement and consider it very useful to increase transparency in EU procurement procedures. It is also worth mentioning that SMEs' access to public procurement appears as an issue in the answers of various other questions throughout the consultation paper.





The idea of having special quotas in the field of public procurement, whether this is for SMEs, only for micro- or for young enterprises, is mentioned by some. Proposals going in the same direction suggest giving bonus points to offers involving SMEs.

An overwhelming majority of those responding propose, however, other solutions to facilitating SMEs' access to public procurement. First, it is necessary to improve information on public tenders including on tender opportunities below the thresholds of the EU Directives. Concrete proposals suggest ensuring that web portals publishing public procurement opportunities are free of charge, the introduction of centralised tendering platforms for each Member State, a review of the EU publication system (OJ), consistent publishing of prior information notices, systematically publishing the winner and the amount of the tender and giving feedback to unsuccessful enterprises, setting up tools to facilitate the search for complementary partners in view of collaborating for bids for larger contracts. Secondly, a major administrative simplification is required, which would imply less paperwork, more use of e-procurement and electronic signatures, and increased time for responding to tenders. Simplification and improvements are also required as far as technical specifications are concerned. Dividing markets per type of activity and dividing tenders into lots, better application of the proportionality principle as far as previous references and financial and insurance requirements are concerned, especially in view of improving the participation of young enterprises, leaving more scope for innovation in the technical specifications, prohibiting the restrictive condition of minimal turnover or obliging r tendering authorities to justify this condition, allowing for better cooperation between SMEs. In addition, organisations of cooperatives consider that special attention should be given to tenders that include social or environmental clauses.

Further training for SMEs on how to prepare tenders, increased dialogue between large organisations and SMEs to discuss how best they can work together, and encouraging the expansion of preferred supplier arrangements are advocated as well.

Special attention needs to be paid to the activities of municipalities which might in some cases be biased when buying goods and services. Furthermore, the issue of subcontracting has also been pointed out and particularly the need to improve the conditions of subcontracting, for instance through direct payments to subcontractors or by imposing minimum standards or standard contracts. Finally, too long payment periods are an obstacle to SMEs' access to public procurement.

Encouraging SMEs to tap opportunities outside the Single Market

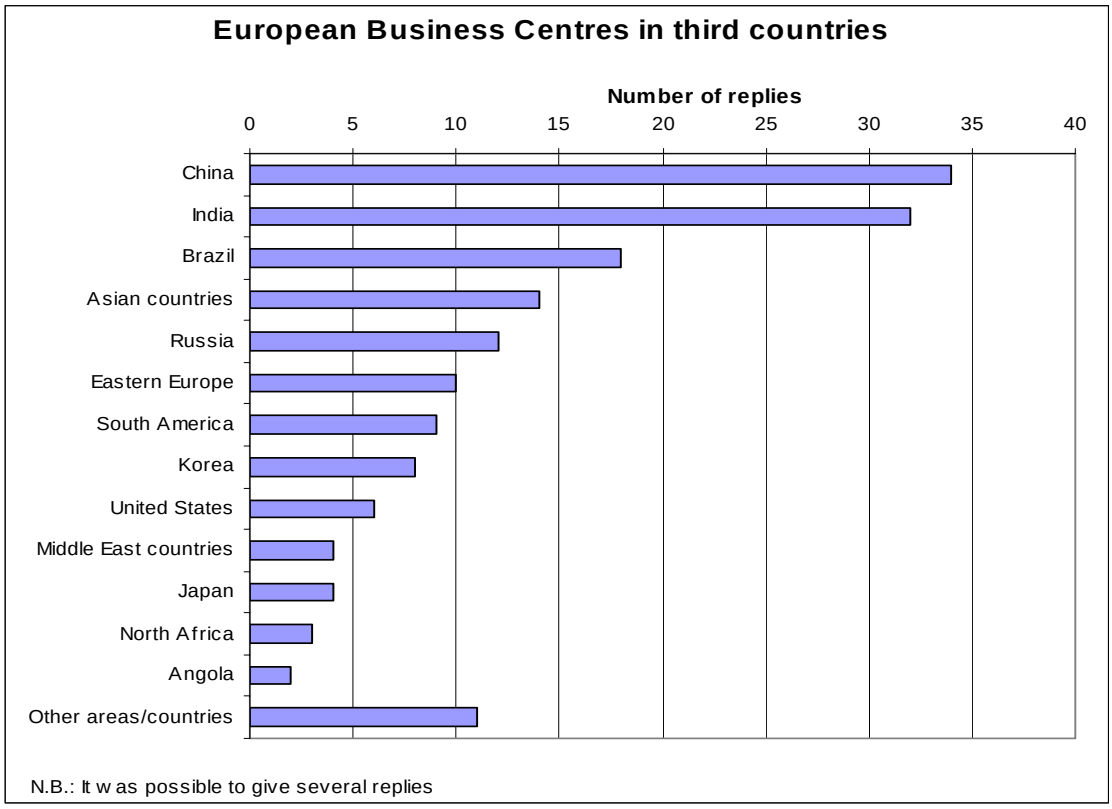
Questions

- 3.8 In general, how can SMEs be helped to go global? Which countries/areas should be given priority?

- 3.9 Is there a need to establish European Business Centres in some fast-growing countries and, if yes, in which ones?
- 3.10 Do you see the need for new programmes supporting SMEs entering these markets, following the example of Gateway to Japan and the Executive Training Programme?

Concerning access to markets outside the EU, the identified areas for action range from the provision of information and practical support (including the exchange of good practices), to linguistic and technical training better tailored to SMEs. The respondents think that the EU has an important role to play in multilateral and bilateral negotiations in order to reduce trade barriers. Some replies ask for more reciprocity with third countries and propose that trade defence instruments should be better adapted to SMEs. Networks among SMEs and among SMEs and large companies and financing for going abroad are among the specific suggestions for helping SMEs to go global. The neighbour countries (Mediterranean, Eastern Europe), Asia and South America are considered the most interesting markets followed by Africa and the US. In particular, the so-called BRIC countries (Brazil, Russia, India and China) are mentioned most frequently.

More than half of the respondents are favourable to establishing EU centres in the fast-growing countries. The places mentioned most frequently for these centres are - by far - China and India, and in general the Asian countries followed by South America (Brazil) and Russia. Coordination and synergies with all the actors involved (Member States, business organisations, chambers) and existing centres/networks is considered a key element for the success of the EU centres (and crucial to avoid duplications with market based service providers).



4. SUPPORTING SMEs' ACCESS TO FINANCE AND INNOVATION

Improving SMEs' access to finance at EU and national level

Questions

- 4.1 How could public policies and instruments to facilitate SMEs' access to finance be improved (e.g. awareness, procedures, cost, or better adequacy of products)?
- 4.2 What are the main problems SMEs face in accessing various EU support programmes such as the 7th Framework Programme for Research and Development, the Competitiveness and Innovation Framework Programme (CIP) or the Structural Funds (including the JEREMIE initiative)?
- 4.3 What are the main obstacles for SMEs in accessing micro-credit (less than 25000 Euros)?
- 4.4 Would you suggest any other obstacles or additional issues to address?

Respondents agreed on the necessity of improving current policies and instruments. Important points were making it possible to deal with a bank in another EU country (e.g. to get a loan) and developing pan-European venture capital markets. It is also proposed to extend the use of the Small Firms Loan Guarantee Scheme, to create a specific EU instrument for the financing of start-ups, to promote mezzanine finance and to improve the distribution of EU instruments by the banking sector. As for the CIP Financial instruments, it is suggested that they should include pilot-type instruments to finance specific operations such as business transfers or innovation.

The main problems identified regarding SMEs' access to EU programmes were the lack of awareness of these programmes, the difficulty created by the need to have a consortium and, finally, the administrative burden together with the long timescale associated with any application, in particular in the context of the 7th Framework Programme for R&D and the JEREMIE initiative.

To overcome these difficulties, the creation of single contact points at national level, both to better inform SMEs about EU schemes but also to facilitate the supply of financial instruments was suggested in several replies. Some mention the key role of business intermediaries not only to inform SMEs about these programmes but also to provide guidance and practical support. E-solutions in the context of support schemes should also be encouraged.

Several obstacles to access to micro-credit were identified and several respondents regretted that banks usually wanted to lend against property, request collateral and are in general risk-averse. As a solution, it was proposed to promote mutual guarantee schemes for SMEs and to establish an EU fund to support micro-credit schemes at national level. For some, banks should communicate better on their credit decision criteria and rating systems, while for some others it would be important to allow non-banks to provide micro-loans.

Encouraging a knowledge-based economy

Questions

- 4.5 Is there a need to help SMEs deal with IPR protection, to improve awareness and provide support services for SMEs to protect their innovation?
- 4.6 What are the most significant problems SMEs face in the use of patents?
- 4.7 Would you suggest any other obstacles or additional issues to address to further enhance the innovation capacity of SMEs?

In the field of innovation, several replies insist on the need to better consider non-technological innovation. The importance of knowledge transfer for SMEs and of better cooperation between SMEs, universities and research centres is also pointed out. The link between innovation and finance is often made, and the availability of strong equity is mentioned as a key factor for innovation. Moreover, for several respondents a key action would be to support cluster management and to favour cross-border cooperation between clusters.

In the field of Intellectual Property Rights, the main obstacles identified widely in responses are the high level of patent fees and the fact that SMEs have difficulties in defending their rights because of their lack of legal knowledge and because this usually implies complex and costly procedures, especially if the violation of the IP rights occurs outside the European Union. In addition, many replies also mention the need for harmonisation of IPR legislation and insist on the need to have a Community patent adopted soon. Several respondents propose to improve patent litigation system to help especially SMEs, a simplified linguistic regime and a significant reduction of patent fees, in particular for the first patent submission of by SME. Finally, the detrimental effect of counterfeiting is described as a worry for many European SMEs and it is suggested that an EU-wide alert system and confiscation procedure for counterfeited goods should be introduced.

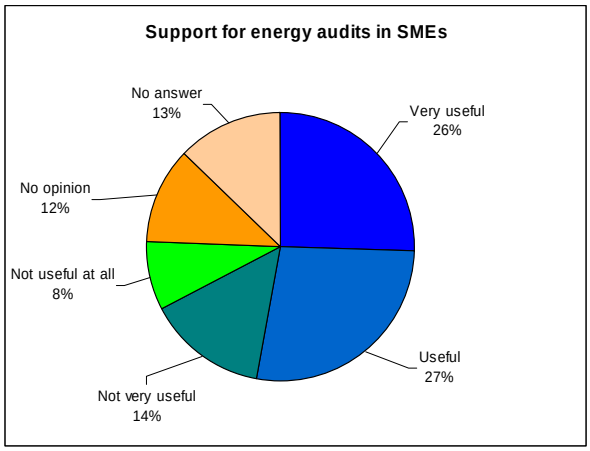
From a general point of view a large majority of stakeholders (more than 70%) think that SMEs need support in the area of IPR protection.

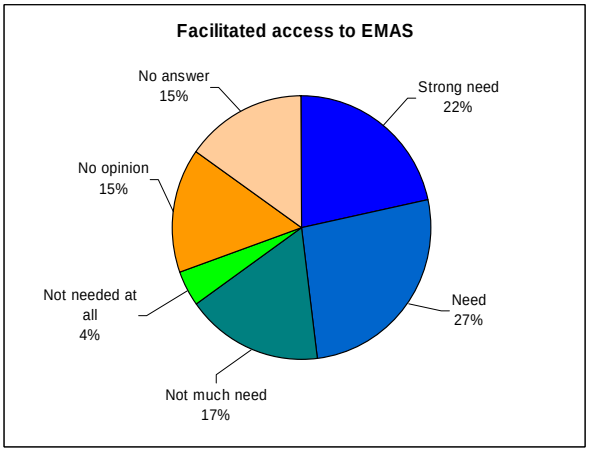
5. TURNING THE ENVIRONMENTAL CHALLENGE INTO OPPORTUNITIES FOR SMEs

Questions

- 5.1 How could SMEs best benefit from policy measures on a sustainable industrial policy such as voluntary standards for particularly environmentally friendly products?
- 5.2 Would Community support for energy audits in SMEs be useful?
- 5.3 Do you see the need for facilitated access to the European Environmental Management and Audit system (EMAS)?
- 5.4 Would you suggest any other obstacles or additional issues to address?

Half of the respondents found potentially useful both Community support for energy audits and facilitated access to European Environmental Management and Audit system. Simplified implementation and proof of compliance through self-certification without third party intervention would help in that respect. It was also suggested that EMAS should be better explained to entrepreneurs.





While some suggest that 'standards' are inherently not SME friendly or that voluntary standards could confuse and divide markets, others consider them useful to tackle the lack of clarity and legislative divergence of environmental legislation, provided they do not involve excessive costs and bureaucracy and that they create a competitive advantage. Hence, financial support or (tax) incentive schemes to help SMEs to adopt these standards are part of the proposals. In the same spirit, free education/information on voluntary standards addressing how to increase a product's environmental performance are considered useful.

In general it is stated that SMEs tend to be very innovative and can adapt to new needs for products and production methods. However, incentives (such as reduced interest rates for investment in green technology, tax reduction, VAT reduced rates etc.) for SMEs are needed since investments in energy saving and environmental protection have lower or zero return on investment compared to other investments.

Some see green public procurement as the ultimate solution and in particular the idea of local SMEs providing local products and services thus minimising GHG (greenhouse gas) emissions.

Furthermore, it is argued that labels should be practical and not administratively burdensome. The need for awareness raising activities and more and better communication is also stressed. Finally, understanding the functioning of SMEs and the necessity of including them – and their representative organisations - in policy debates and consultation on environmental problems have been highlighted as key elements since environment legislation in increasingly affecting SMEs' activities.

In general there is widespread support for rapid implementation of the Environmental Compliance Assistance Programme for SMEs.

6. ENHANCING THE IMPLEMENTATION OF EU SME POLICY PRINCIPLES

Questions

- 6.1 What is the right way to agree on principles of SME policy across the EU and to ensure their implementation at EU and Member States level? Is there still an untapped potential within the SME Charter Process?
- 6.2 Would a systematic application of the subsidiarity and proportionality principles at EU level help to further strengthen the application of the 'think small first' principle?
- 6.3 Would you suggest any other obstacles or additional issues to address?

The systematic application of the subsidiarity and proportionality principles (question 6.2) is considered helpful by 70% of the respondents.

A relatively limited number of contributions on the two other questions were received from individual companies or citizens, as most opinions come from organisations. There is an apparent clash between a number of opinions arguing for less EU-level action and those favouring more EU intervention and universality in the field of SME policy. However, the latter view seems to prevail as an overwhelming majority of business organisations argue for a legally binding SBA. The raison d'être of the SBA is considered to be primarily making the "think small first" principle effective at Community level and making Member States more proactive in the SME policy field.

Many consider that the adoption of the SBA would render the Charter process unnecessary, while others believe that the Charter could continue.

As in the part on Better Regulation, the importance of consultation with SME representatives is given special emphasis. Suggestions were made to have permanent consultations with national and European SME representatives (both private and public) on an annual basis followed by dissemination of the results and conclusions across EU States. Others argued for longer and sector-specific consultations. One interesting contribution suggests making consultation documents available through business organisations at one time every year. This way, SMEs would come to know that their input is required at a certain time each year. Direct consultations of SMEs on concrete legislative proposals are also mentioned as a good solution. Finally, the Enterprise Experience programme for EU officials is strongly encouraged (also for other DGs).

Overall there is strong support for the re-launch of the activities of the SME Observatory as a basis for developing SME policy. In addition, there are arguments that the implementation of the "think small first" principle needs to be monitored through a series of indicators and that the implementation of SME Policy should be based on annual priorities and improved reporting (e.g. via Lisbon or Competitiveness Council).

ANNEX III

Identification process of the remaining problems EU SMEs are facing, despite the existing policies

I. identification of the problem areas

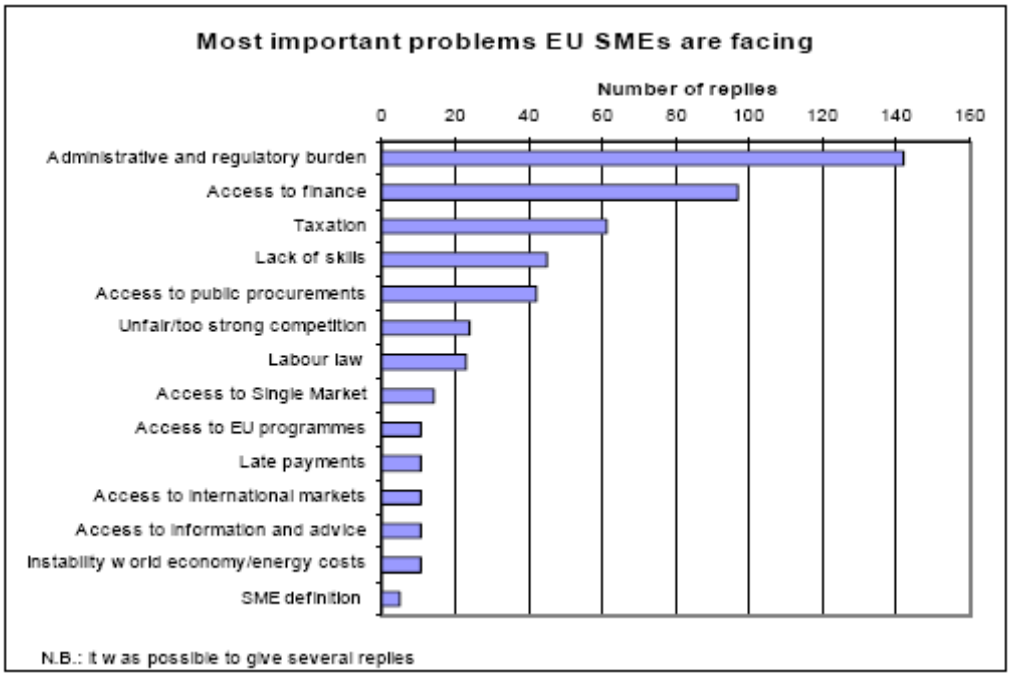
Step 1: Problem areas identified in the context of the Modern SME policy[115]

- Administrative and regulatory burden (red tape).
- Insufficient access to markets (Internal market, international markets and public procurement market)
- Lack entrepreneurship and skills issues:
  - negative effects of business failure on entrepreneurship;
  - shortcomings in bankruptcy procedures;
  - inadequate educational and training policies at Member States' as regards entrepreneurship;
  - needs of women entrepreneurs are still not being sufficiently met.
- Direct sustainable growth constraints :
  - insufficient access to finance;
  - insufficient innovation and R&D;
  - insufficient ICT uptake;
  - difficulty to turn environmental challenges into opportunities.
- Insufficient dialogue with and consultation of SME stakeholders

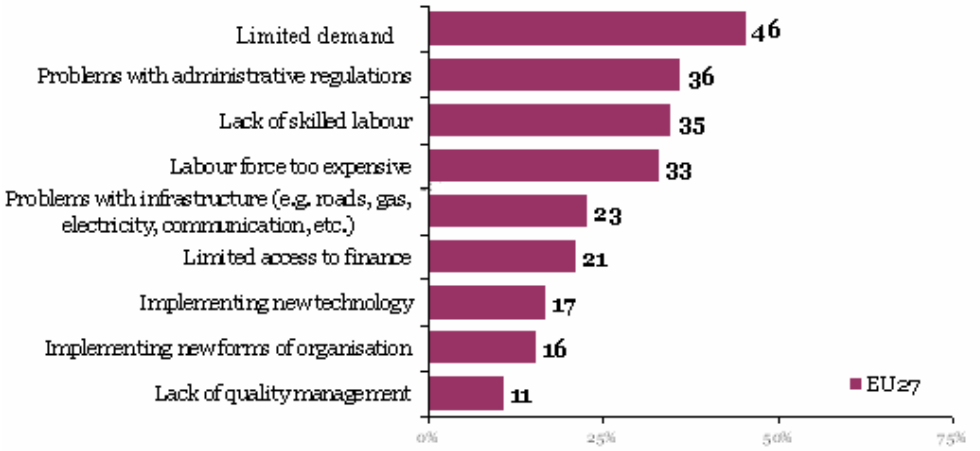
Step 2: New problem areas identified by recent surveys, including the public consultation on the SBA

- Main problems identified by the public consultation:
  - The results of the public consultation (for a complete analysis see Annex II) confirmed that the administrative burden, overregulation and bureaucracy are by far the main general concerns, followed by access to finance, taxation, lack of skills, access to public procurement, unfair competition and labour law. Excessive payment delays are also described by many respondents as an important problem for SMEs.
  - New problems in the context of globalisation: there is a feeling that the EU has a role to play in multilateral and bilateral negotiations in order to reduce trade barriers. Some respondents ask for more reciprocity in negotiations with third countries and propose that trade defence instruments should be better adapted to SMEs.

[115] Commission Communication, Implementing the Lisbon Programme. Modern SME Policy for Growth and Employment, (COM(2005)551)



- Main problem areas identified by the 2007 Observatory of EU SMEs[116]



- Reported problem areas in above surveys that are however clearly outside the EU's remit or not specific to SMEs
  - limited demand
  - labour force too expensive
  - problems of infrastructure
  - instability of world economy

116 The majority of the respondents are companies and in particular micro- and small enterprises. The respondents are based in 25 of the EU Member States with a large participation from France, Germany, UK and Italy. For more detailed analysis see annex II

Step 3: Synthesis

Table 1: Overview of the potential remaining problem areas to be compared with existing or planned policies	
• **Interests of SMEs not sufficiently taken into consideration in policy making (Think Small First Principle)**	
	Need to further simplify the business environment for SMEs
	Implementation of the Conclusions of the 2006 Spring European council at Member States' level
	Need for an enhanced dialogue and consultation with SME stakeholders
	Late payments
• **Lack of entrepreneurship and skills**	
	Educational and training policies
	Insufficient level of women entrepreneurship
	Lack of skilled labour and managerial skills
• **Direct sustainable growth constraints**	
	Lack of productivity growth correlated to a lower churning effect, due in particular to less exit in EU than in the US, including: – Start-ups (time + costs needed) – Stigma of failure + bankruptcy procedures.
	Insufficient access to finance
	Insufficient innovation and R&D
	Insufficient ICT uptake
	Insufficient access to markets: – Internal markets – Public procurement – Standardisation – Difficulties to access international markets and especially fast growing markets
• **New problems for EU SMEs arising in the context of globalisation**	
	Difficulty to use and defend Intellectual Property Rights (IPR) by SMEs
	Difficulty to take advantages from the opportunities linked to the environment

II. Comparison of the above detailed potential remaining problem areas with the existing or planned policies at EU and national level

Table 2: Implementation of the conclusions of the 2006 Spring European Council at Member States' level

Member States' level: **The conclusions of the 2006 Spring European Council** called on the Member States to unlock the EU's business potential by taking five priority actions:	Overall, the measures and initiatives in the area of SME policies undertaken by Member States since the re-launch of the Lisbon partnership for growth and jobs in 2005 are going in the right direction[117] Progress has been particularly visible in improving the start-up procedures but also in the integration of the "think small first" principle into the policy-making process. In the area of entrepreneurship education, SME access to public procurement and recruitment of the first employee, policy actions have been initiated in almost all Member States while their results have not yet materialised. Most of the priorities set at the Spring European Council 2006 – start-ups, recruiting the first employee, entrepreneurship education, think small first – need to be seen in a long term perspective, and related policy actions need to be intensified.
Establish a one-stop-shop for setting up a company in a quick and simple way and to reduce the average time for setting up a business to one week	• Average time and cost to start up a private limited company is 12 days and cost is € 485 (see following Table). This is substantially lower than the 24 days and € 830 for an equivalent company in 2002. Many Member States have established a one-stop-shop or equivalent arrangement even though in some cases they do not cover all types of companies: only 2 out of 3 one stop shop systems offer the possibility to register a private limited company. Member States that fully comply with all three objectives (one-stop-shop, time and cost) are BE, DK, EE, FR, HU, PT, RO, SI and UK. • In general registration times have improved and in 13 Member States, it is now possible to register a company within one week. It should be noted, however, that this analysis only looks at the steps to get a company registered. • In many countries there are further administrative steps and more time is required before a new SME can start its business operations[118].
Encourage entrepreneurship, including through entrepreneurship education and training	• Awareness of the need to enhance entrepreneurship education at school is constantly increasing in the Member States and in the last couple of years new plans and individual initiatives have been flourishing in this area. • However reforms planned in a number of countries are sometimes described in rather generic terms and their implementation in practice will have to be monitored. In a few Member States, entrepreneurship is already a recognised objective of the education systems and is embedded explicitly in national framework curricula (ES, FI, IE, CY, PL, UK) but implementing means (teacher training, teaching materials) still need to be stepped up. In some cases, elements of entrepreneurship are found horizontally throughout the curriculum, or entrepreneurship forms part of economic subjects (LV). Other Member States are starting to implement or are planning reforms in the same direction. However, Member States where entrepreneurship is well established in the curricula are still a small minority.
The recruitment of a first employee should not involve more than one public	• Since 2005, some limited progress has taken place in the simplification of procedures for recruiting a first employee. Overall, the average number of mandatory external contacts (social security organisations, tax offices, labour offices, etc.) has been reduced from 3 to 2.5 and the average number of procedures (filing forms, etc.) from 3.5 to 3.

[117] The analysis on the Member States' achievements come from the Communication from the Commission to the European Council: Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new cycle (2008-2010), COM(2007) 803 final, PART III, available at: http://ec.europa.eu/growthandjobs/pdf/european-dimension-200712-annual-progress-report/200712-annual-report-annex3_en.pdf

[118] In this context, the timely implementation of the points of single contact foreseen in the Services Directive, to be implemented by end 2009, will also be an important task for Member States.

administration point	• However, the target of having no more than one public administration point in that process is still far and the situation varies significantly from a Member State to another. Only three Member States (e.g. ES, MT, and PT) have a special one-stopshop system for recruitment of first employee or one-stop-shops for start-ups that can also take care of recruitment. Several other Member States have procedures that are so simple that only one contact with a public administration is required (e.g. BG, FR, IE, LV, LT, SE). In others, at least the social security registration is organised as a one-stop-shop or one-window-system, i.e. one branch of the social security collects the registration and distributes the information to the other branches (e.g. DE, SK or the UK). BE is a special case where "social secretariats" take care of all employment related procedures for businesses, including the registration of new employees etc. but have to be paid by businesses.
Make the 'Think Small First' principle a guiding principle in all relevant legislation and apply it systematically	• Member States are increasingly integrating the "think small first" principle into the policy-making process. While only few have set up a specific body to represent SMEs interests, almost all of them consult SMEs representatives. • A number of Member States (for example BE, DK, ET, MT, NL, SE, FI, UK) evaluates or is planning to evaluate the impact of new legislation on SMEs. Examples of specific provisions to alleviate the administrative burden on SMEs go from the simplified conditions for accessing subsidised finance (FR) to longer payment time for VAT (DK) or development of dedicated electronic services (FI). • However, further national efforts are needed in the application of this principle in order to meet the specific needs of micro and small enterprises but also to maximise its positive contribution to the target of reducing by 25%, at EU level, the administrative burden by 2012.
Facilitate SMEs' access to public procurement	• Almost all Member States have already taken or are currently introducing measures to raise SMEs' awareness on public tenders and to provide them with easy access to tender information (single electronic access points or electronic procurement, training and counselling, etc.). • However, only a handful of Member States report on more specific measures to help SMEs' to participate in public procurement (use of prior information notices, dividing contracts into small lots) and only very few have put in place a strategy or specific measures to help SMEs to participate in public procurement (e.g. UK, IT, FR). • A study published by the Commission in November 2007[119] showed that 42% of the value of public procurement contracts above the EU Directives' thresholds goes to SMEs. This share is smaller than the economic importance of SMEs in the EU, but above the SME quota for federal public procurement in the US (23%).

[119] Evaluation of SME Access to Public Procurement Markets in the EU, Final Report by GHK and Technopolis, available at: http://ec.europa.eu/enterprise/entrepreneurship/public_procurement.htm

Table 3: Existing SME policies at Community and National level, planned measures, remaining problems and potential new actions

Problems	• **Existing policies**	• **Measures already planned or in implementation phase**	• **Remaining problems**	• **Need for further public action?** • COM: Commission • MS: Member States
• **Lack of implementation of the "Think Small First Principle"**				
• Administrative burden	• EU better Regulation Agenda • The Commission regularly assesses the impact of a new piece of Community legislation • The Commission has started proposing specific rules for micro and small enterprises • A number of Member States (for example BE, DK, ET, MT, NL, SE, FI, UK) evaluates or is planning to evaluate the impact of new legislation on SMEs. Examples of specific provisions to alleviate the administrative burden on SMEs go from the simplified conditions for accessing subsidised finance (FR) to longer payment time for VAT (DK) or development of dedicated electronic services (FI).	• Administrative Burden Reduction programme: reducing the administrative burden arising from Community legislation by 25% by 2012 in a number of priority areas. • Commission Is proposing fast track administrative burden reductions in 2008 which will quickly simplify legislation hampering the success of business, notably in the areas of company law, accounting and statistical reporting • Conduct a more focused screening of EU legislation to identify possibilities for de-burdening SMEs from unnecessary requirements, in the framework of the Better Regulation	• The administrative burden created by public authorities is still a major concern for SMEs. • New legislations do not always take into account SMEs specificities • Heterogeneity of implementation of SME policy at national level • New EU legislation coming into force is introduced at many different dates along the year, depending on the negotiation process.	• Further guidance in IA guidelines to measure SME impacts (COM) • Guiding principles such as Common Commencement Dates, tacit approval, once for all, etc. (COM/MS)
• Implementation of the think small first principle in the framework of the Lisbon Partnership	• Conclusions of the 2006 Spring European Council set up five priority actions: • Establish a one-stop-shop for setting up a company in a quick and simple way and to reduce the average time for setting up a business to one week. • Encourage entrepreneurship, including through entrepreneurship education and training. • The recruitment of a first employee should not involve more than one public administration point.	• Monitoring in the framework of the Lisbon Partnership • Member States are increasingly integrating the "think small first" principle into the policy-making process. While only few have set up a specific body to represent SMEs interests, almost all of them consult SMEs representatives.	• Further national efforts are needed in the application of this principle in order to meet the specific needs of micro and small enterprises but also to maximise its positive contribution to the target of reducing by 25%, at EU level, the administrative burden by 2012	• Increase implementation and coordination between EU and Member States • Reinforced monitoring and governance of SME policy, trough SBA reporting (COM/MS)

Problems	• **Existing policies**	• **Measures already planned or in implementation phase**	• **Remaining problems**	• **Need for further public action?** • COM: Commission • MS: Member States
	• Make the 'Think Small First' principle a guiding principle in all relevant legislation and apply it systematically • Facilitate SMEs' access to public procurement			
• Need for an enhanced dialogue and consultation with SME stakeholders	• Regular information and discussion meetings with European business organisations chaired by the SME Envoy • Several high-level stakeholder conferences with a wide variety of representatives from the European Parliament, Member States and business community,	• On going activity		
• Late payments	• Directive 2000/35/EC		• Currently, one out of four insolvencies in Europe is due to late payment. This leads to the loss of 450,000 jobs each year, adding to the high unemployment level in Europe. In addition, outstanding debts worth 23.6 billion Euros are lost every year through insolvencies caused by late payment.	• Proposal to be made to fight late payments by simplifying the Directive 2000/35/EC. Impact Assessment to be carried out at later stage, if relevant (COM)
• **Lack of entrepreneurship and skills**				
			• Lack of entrepreneurship in Europe: The 2007 Flash Eurobarometer on entrepreneurial mindsets shows that 45 % of Europeans prefer to be self-employed whereas the entrepreneurial urge reaches 61 % in the US	• Increase entrepreneurship mindset in Europe (MS)
• Educational and training policies	• Entrepreneurship Action Plan (COM(2004) 70 final) • 2006 Communication on fostering entrepreneurial mindsets through education and learning, providing examples of good practices which were discussed at the Oslo conference on entrepreneurship education[120].	• Mobility scheme for young (would be) entrepreneurs • Mobility scheme for apprentices • EU SME week	• In only a few EU Member States, is entrepreneurship already a recognised objective of the education systems and is embedded explicitly in national framework curricula. Even in these Member States, implementing means (teacher training, teaching materials) still need to be stepped up • Young entrepreneurs and apprentices do not	• Promote teaching of entrepreneurship in national curricula and improve the image of entrepreneurs (MS) • Step up cooperation between different departments of the

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

Problems	• Existing policies	• Measures already planned or in implementation phase	• Remaining problems	• Need for further public action? • COM: Commission • MS: Member States
	• The Commission launched a pilot action for an ERASMUS-type exchange programme for apprentices to encourage them to get professional experience in another Member State		sufficiently use the possibilities offered by cross-border mobility to enhance their skills potential. According to a recent Eurobarometer survey on a planned pilot project "ERASMUS for young entrepreneurs"[121] 81% of young would-be entrepreneurs and 71% of those who are already entrepreneurs say that participation in such a mobility action for young entrepreneurs could be useful for them. These results were confirmed by the answers to the consultation on this initiative[122]	public administrations (MS) • Extend commission's mobility schemes (COM)
• Insufficient level of women entrepreneurship			• There is remaining a gap in terms of entrepreneurship between men and women.	• Establishing an EU network of female entrepreneur ambassadors and promoting mentoring schemes to inspire women to set up their own business (COM) • Promote entrepreneurship to women graduates (MS)
• Lack of skilled labour and basic skills	• At EU level, the importance of improving the competencies and skills (in particular ICT skills) of enterprises' human capital been recognised as a key element for Europe's future under the Lisbon Partnership and a comprehensive set of actions have already been developed[123]	• Develop on-line services to promote e-skills • Supporting the development by stakeholders of an online e-Skills and Career Portal in 2008 that will enable firms	• SMEs suffer in particular from the lack of skilled labour in the field of new technologies. A 2005 industry report predicted that there would be a shortage in 2008, across Europe, of up to half a million people with advanced networking technology skills[124] A sectoral survey on e-business in 2006 reported that	• Study in 2009 to identify the jobs and skills needs up to 2020 and paying particular to attention small businesses (COM)

121 Flash Eurobarometer 212, November 2007
http://ec.europa.eu/enterprise/entrepreneurship/support_measures/erasmus/eurobaro.htm

122 EU programmes for cross-border mobility and e-skills would be useful/very useful for the majority of respondents (66% and 61% respectively)

123 See: http://ec.europa.eu/enterprise/sme/competitive_en.htm

124 IDC White Paper, Networking Skills in Europe, September 2005

Problems	• Existing policies	• Measures already planned or in implementation phase	• Remaining problems	• Need for further public action? • COM: Commission • MS: Member States
	• To facilitate the take-up of e-skills, not least by SMEs the Commission has proposed a new e-skills policy agenda	to self-assess their e-skills needs and find out how to develop the careers and qualifications of their staff.	enterprises are anticipating skills shortfalls for ICT practitioners, particularly in ICT strategy, security and new business solutions[125]	
• Lack of managerial skills	• Mini-companies: secondary school students participate in a practically-oriented training scheme launched by the Commission,		• SMEs lack managerial skills. According to the 2007 Observatory on EU SMEs, 11% of EU SMEs reported that a lack of quality management had constrained their business activities over the past two years.	• Provide training and related tools (e.g. schoolbooks) reflecting correctly the role of entrepreneurship (MS)
• **SMEs' growth constraints**				
• Insufficient churning process, including:				
• Start-ups	• March 2006 Council Conclusions		• **Start up**: In general registration times have improved and in 13 Member States, it is now possible to register a company within one week. It should be noted, however, that this analysis only looks at the steps to get a company registered. In addition, in many countries there are further administrative steps and more time is required before a new SME can start its business operations[126].	• Increase implementation of the conclusions of the March 2006 Council in the framework of the Lisbon Partnership (MS)

125 E-Business Watch Survey 2006

126 In this context, the timely implementation of the points of single contact foreseen in the Services Directive, to be implemented by end 2009, will also be an important task for Member States.

Problems	• Existing policies	• Measures already planned or in implementation phase	• Remaining problems	• Need for further public action? • COM: Commission • MS: Member States
• Stigma of failure • Bankruptcy procedures	• Communication on Overcoming the stigma of business failure – for a second chance policy" where some areas of action for facilitating the fresh start of honestly failed entrepreneurs are put forward.[127] • In the context of the renewed Lisbon Strategy, around one third of Member States have already put forward plans to reform the national insolvency legislation in their National Reform Programmes[128]		• The 2007 Flash Eurobarometer on entrepreneurship shows that around 50% of EU citizens agree that "one should not start a business if there is a risk it might fail" compared to just 20% in the US. • Exit rates and hence gross turnover rates (the sum of entry[129] and exit rates) are higher in the U.S. than in the EU	• Improve bankruptcy procedures based on the implementation of the Communication (MS)

127 COM(2007) 584 final

128 Annex to the Communication from the Commission to the Spring European Council: Implementing the renewed Lisbon Strategy for Growth and Jobs - "A year of delivery". European Commission, COM(2006)816 final

129 Based on data for a sample of nine EU15 countries and the U.S. both entry and exit rates are lower in the EU than in the U.S. though the differences in exit rates are substantially larger. Exit rates in EU range between 1/10 and 1/3 of US rates, while EU entry rates represent between 0.4 and 0.8 of the U.S. entry rates. See Van Reenen, J. (2007): Economic Performance of the EU and the Structural Reforms Agenda: Firm Level Evidence, GEPA Meeting of 9th July. Cincera, M.,and O. Galgau (2005): "Impact of Market Entry and Exit on EU Productivity and Growth Performance," Economic Papers 222, European Commission

Problems	• Existing policies	• Measures already planned or in implementation phase	• Remaining problems	• Need for further public action? • COM: Commission • MS: Member States
• Transfer of business	• Further to a Commission Communication[130], a pilot action aims to promote mentoring schemes in EU Member States in order to enhance the knowledge and core competences that are essential for the successful transfer of business ownership		• SMEs still face the challenge of transfer from one generation to another represents a challenge for Europe. Some 700 000 SMEs are concerned on average every year, and some 2.8 million jobs are involved throughout Europe on an annual basis. "To obtain bank financing for the transfer is difficult since the appraisal is complex and does not allow for standardised procedures. Smaller transfers (most transferees need less than 120 000 EUR in total for their investment) often do not generate the fees necessary to cover the higher transaction costs incurred by the banks. Equity providers are only interested in high-yield cases which are not the majority"[131].	• Improve transfer of business following the Communication (MS)
• Insufficient access to finance				
• Access to finance	• To improve SMEs' access to finance, 1.1 billion has been earmarked for financial instruments within the Competitiveness and Innovation Framework Programme (CIP) for the period 2007-2013 • To allow efficient use of financial instruments at regional level, the Commission with the European Investment Bank (EIB) and the European Investment Fund (EIF) launched the JEREMIE initiative of the Structural Funds[132] • The European Agricultural Fund for Rural Development (EAFRD)[133] will spend up to €10 billion to support the creation and			• Member States should ensure that their legal and administrative frameworks favour the use of ERDF funding to support the starting and growing of businesses (MS)

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

131 European Investment Bank SME consultation 2007/2008, p.52

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

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

Problems	• Existing policies	• Measures already planned or in implementation phase	• Remaining problems	• Need for further public action? • COM: Commission • MS: Member States
	development of non-agricultural enterprises in rural areas, skills acquisition and training, as well as SMEs in agriculture, food industry and forestry			
• Mezzanine finance	• Guarantees under the Competitiveness and Innovation Framework Programme (CIP) can be used also for guaranteeing mezzanine finance		• Insufficient provision of mezzanine finance, (combining features of equity and debt), especially for High Growth SMEs and SMEs that want to internationalise	• Developing markets for mezzanine financing in cooperation with the EIB, including for High Growth SMEs or SMEs that wish to internationalise (European Investment Bank). • Member States should develop financing programmes that address the availability of mezzanine funding between €100 000 and €1 million (MS)
• Micro-credit	• The Commission has also promoted active dialogue and cooperation between bankers and SMEs which has lead to improved mutual understanding and more. The 5th Round Table of Bankers and SMEs[134] discussed transparency issues as well as innovative financing tools like mezzanine finance and SME securitisation • Micro-credit Communication		• Insufficient availability of micro-credit for SMEs prevents potential entrepreneurs and small businesses from achieving their goals and slows down the growth of the European economy	• Supporting microfinance institutions through a new "Microfund" providing additional support for non-bank microfinance institutions, with an initial capital of about €40 million (European Investment Bank/ COM/ MS) • Ensure that

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

Problems	• Existing policies	• Measures already planned or in implementation phase	• Remaining problems	• Need for further public action? • COM: Commission • MS: Member States
				accompanying business support services are available for entrepreneurs getting microcredit (MS) • Ensure that microfinance institutions benefit from appropriate regulation (MS)
• Venture capital	• The Commission has identified, in its recent Communication: Removing Obstacles to Cross-border Investments by Venture Capital Funds[135], together with Member States and industry, the main obstacles to the development of cross border capital markets in order to encourage the development of a truly European venture capital market		• Fragmentation of European venture capital market along national borders contributing to small funds, small invested amounts and low profitability	• Review tax systems so that private investors (like business angels) have incentives to invest in SMEs either directly or indirectly through investment funds (MS) • Define a set of benchmarks for the content of investment readiness programmes; and establish easily accessible quality criteria (COM) • Establish a standing network linking the Commission, the EIF and Member States and regions implementing JEREMIE ((European Investment Bank/

[135] COM(2007) 853 final, 21.12.2007

Problems	• **Existing policies**	• **Measures already planned or in implementation phase**	• **Remaining problems**	• **Need for further public action?** • COM: Commission • MS: Member States
				COM/ MS)
• State Aids	• Revision of the Community state aid rules has increased the *de minimis* threshold under which aid need not be reported to €200,000. • New Community framework for State aid for research and innovation (introduces more flexible rules for SMEs' costs related to Intellectual Property Rights (IPR), hiring highly qualified staff and accessing innovation support services) • Environmental State Aids Guidelines		• Various existing exemption regulations: • Lack of consistency • Need to update according to recent changes in Community Guidelines • Opportunity to increase aid intensity for SMEs	• General Block Exemption Regulation to be adopted the same day as the SBA. Proposal analysed separately by DG COMP services (COM)
• Innovation and R&D				

Problems	• Existing policies	• Measures already planned or in implementation phase	• Remaining problems	• Need for further public action? • COM: Commission • MS: Member States
• Innovation policy	• The launch of a new, broad-based Innovation Strategy with a ten-point action plan addresses several key issues for SMEs, including skills, standardisation and IPR • The Commission has also published a practical Guide on the promotion of innovation[136] • The Commission adopted in November 2006 a revised Community Framework for State aid for research, development and innovation[137] • The Commission is also actively promoting cluster policies in the Member States and ensures the co-ordination of clusters at EU level to help the emergence of world-class European clusters • Communication on clusters	• Implementation of the lead-markets initiative • Action plan to promote the use of interoperable electronic signatures and electronic authentication between Member States • Actions in the second quarter of 2009 to help SMEs participate in global supply chains by harmonising data exchange standards and e-business processes across Europe, both within and between particular industrial sectors • An online e-Business Guide, to be published by mid-2008, will help SMEs to self-diagnose their e-business needs and options and then locate local providers of e-business solutions	• SMEs are not sufficiently R&D intensive: According to the 2007 Observatory of European SMEs, only around 3 out of 10 SMEs in the EU indicated that they have new products or have income from new products. • Problems still hinder the use of electronic invoicing as a mean to transfer invoicing information (billing and payment) between business partners in the Single Market[138]. Currently, the proliferation of different standards, legal uncertainty, and operational constraints are the main barriers which prevent the take up of cross-border interoperable e-invoicing solutions, especially for SMEs, which face particular difficulties with the take up of ICT	• Encourage SMEs' participation in the lead market initiative (MS) • Implement the actions from the Communication on clusters (MS)
• Patent		• Pending proposal for a Community Patent and an EU-wide Patent Jurisdiction		• Adopt the Community Patent. (MS)

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

137 .See: http://ec.europa.eu/competition/state_aid/reform/rdi_en.pdf

138 The essential features of e-invoicing are the replacement of manual paper-based routines, with new integrated systems and processes to integrate supply chains and make them more cost effective and faster

Problems	• **Existing policies**	• **Measures already planned or in implementation phase**	• **Remaining problems**	• **Need for further public action?** • COM: Commission • MS: Member States
• Support programmes	• FP7 programme • A significant share of the Structural Funds (2007-2013) will be spent to support the creation and growth of SMEs, notably to improve their innovative capacity, their investment in RTD and skills	• EU's 7th Framework programme for research and development (FP7) established the target of allocating 15% of the budget of its Co-operation programme to SMEs. • The results[139] of the first calls for proposals show that the part allocated to SMEs in the main proposals listed (e.g. after evaluation) is just below 20%	• Access to finance for innovative companies especially for High Growth SMEs	• Continue efforts over time (COM) • Adapts FP7 participation rules to encourage the growth of SMEs, by ensuring that an SME participating in a FP7 project can keep the benefit of SME treatment for the whole duration of that project, even if it exceeds the SME ceilings during that period (COM)
• Insufficient access to markets				
• Access to the Internal Market	• An integrated business and innovation support network (the European Enterprise Network) was set up in 2007 and became fully operational in 2008 to assist SMEs in benefiting more from the opportunities of the Single Market • The Commission has tabled a proposal for a regulation which will require national authorities who deny market access to duly justify their decision[140]	• Full and timely implementation of the Services Directive[141] by end 2009 will help to remove legal and administrative barriers to the development of services activities, it will free up the establishment of businesses and the cross-border provision of services, in particular for SMEs	• The participation of SMEs in the Internal Market remains low. • SMEs face legal and administrative obstacles when creating and operating their business in the Single Market. • Difficulties and high costs of setting-up and operating business in another Member State due to differences of the national legal regimes and the national company legal forms.	• Proposal for a European Private Company Statute for SMEs. Proposal that has been subject to a separate Impact Assessment (COM)

139 1st progress report of the FP7 SME inter-services task force

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

141 Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on Services in the Internal Market, OJ L376 of 27.12.2006, p. 36

Problems	• **Existing policies**	• **Measures already planned or in implementation phase**	• **Remaining problems**	• **Need for further public action?** • COM: Commission • MS: Member States
• Standardisation	• The Commission is increasing its co-funding to support the participation of experts representing the SMEs' interests in the process that establishes European standards			• Increasing EU financial support to promote SMEs' access to standards and standardisation process (COM) • Promoting the publication of abstracts of European Standards without access restriction in all languages (COM ESOs) • A "SME Help Desk" in the ESOs (COM/ ESOs)
• Public Procurement	• The Public Procurement Directives provide a framework to foster competitive public procurement markets to the benefit of SMEs. In response to the 2006 Spring European Council, the Commission has also taken action in analysing how public procurement markets, which account for about 16% of EU GDP, could be better used to promote the growth and competitiveness of SMEs		• Remaining administrative burden • Culture of tendering authorities not always SME friendly	• Code of conduct for awarding authorities (COM) • Foster e-procurement (COM)
• **New problems for EU SMEs arising in the context of globalisation**				
• SMEs have difficulty to use and defend their Intellectual Property Rights in foreign markets		• Reduced fees for Community Trade Mark	• SMEs often do not have a representative in foreign markets and have difficulty to defend their intellectual property rights	• Develop IPR support services (MS)

Problems	• Existing policies	• Measures already planned or in implementation phase	• Remaining problems	• Need for further public action? • COM: Commission • MS: Member States
• Need to improve SMEs' growth potential in a sustainable way	• Environmental State Aids Guidelines (23 of January 2008). The various measures which can be adopted under these Guidelines provide for a bonus of 10% for medium and 20% for small enterprises in addition to the already high aid intensities allowed for the promotion of environmental policy measures[142] • Significant amount of the European Agricultural Fund for Rural Development 2007-2013, supplemented by additional national/regional and private co-financing, is devoted to business creation and development of SMEs in rural areas, improving the skills of their management and personnel as well as to the implementation of new and innovative practice	• The forthcoming Action Plans on Sustainable Industrial Policy and Sustainable Consumption and Production will contribute towards boosting the competitiveness and sustainability of SMEs	• SMEs lack of awareness and information	• Establish a network of environment and energy efficiency experts in the new enterprise Europe business and innovation support network, financed by the CIP programme (COM) • Provide incentives for eco-efficient businesses and products (e.g. tax incentive schemes and subsidies prioritisation to funding sustainable business) in line with the Community Guidelines on State Aid for Environment protection (MS)
• Difficulty to comply with environmental legislation	• ECAP Programme to help SMEs to integrate environmental concerns into production processes and products starting with a better compliance with environmental legislation[143]		• SMEs still report to have difficulty to comply with environmental legislation.	• Better examine existing environment-related subsidy structures to remove disadvantages to SMEs (MS)

[142] See: Community Guidelines on State Aid for Environmental Protection. The General Block Exemption Regulation (GBER) also contains different categories of environmental investment aid which could be used by eco-efficient business (see articles 16 – 20 GBER). Article 22 GBER concerning environmental tax reductions could also be used. Member States could also use general investment aid provisions, like article 12 GBER on SME investment aid, to promote environmental objectives

[143] http://ec.europa.eu/environment/sme/programme/programme_en.htm

	• **Existing policies**	• **Measures already planned or in implementation phase**	• **Remaining problems**	• **Need for further public action?** • COM: Commission • MS: Member States
• Difficulty to access international markets	• Development of trade facilitation provisions in future free-trade agreements (FTAs) and in the WTO and regulatory and industrial policy dialogues with third countries to tackle regulatory obstacles to trade**.** In addition, specific measures such as information and awareness-raising campaigns and match-making events to facilitate SMEs' access to third-country markets, such as AL-INVEST, MEDINVEST and PROINVEST have proven successful and will be continued	• Continue WTO negotiations on the Government Procurement Agreement (GPA) • Actively seek mutual and reciprocal opening up of third countries' procurement markets in its bilateral negotiations with fast growing third countries	• A certain number of SMEs have, at least by a restricted number of service providers, access to nearly all relevant services to go international and to make business in China • However, under the current situation, many other SMEs are excluded from services/ service providers • Service providers do not face serious competition and services are therefore suboptimal	• Establish European Business Centres in selected markets, starting with fast growing economies India and China (COM) • Launch in 2010 a 'Gateway to China' scheme, with particular focus on establishing an Executive Training Programme in China to promote European SMEs' access to the Chinese market (COM) • Encourage coaching from large companies to SMEs in order to bring them to international markets (MS)

ANNEX IV

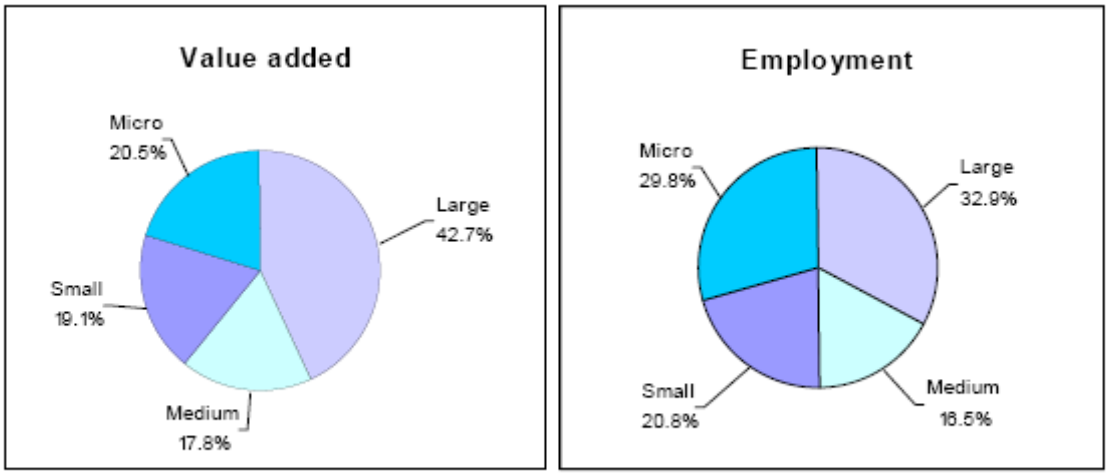
Fact and figures

Box 1: EU Definition of SMES

On 6 May 2003, the European Commission adopted a new Recommendation 2003/361/EC[144] regarding its definition of small and medium-sized enterprises (SMEs), which took effect in 1 January 2005. Under this recommendation, enterprises are classified as SMEs when they have fewer than 250 employees. Furthermore, the annual turnover of enterprises should not exceed EUR 50 million, or their annual balance sheet total should not exceed EUR 43 million[145] In order to provide a realistic picture of an enterprise's economic situation, a distinction has been introduced between the different categories of enterprises (autonomous, partner and linked), each of them corresponding to a type of relationship which an enterprise might have with another one. Depending on the category in which an enterprise fits it may then need to add some, or all, of the data from those enterprises to its own.

Enterprise category	Headcount	Turnover	or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

Figure 1: Breakdown of value added and number of persons employed by enterprise size-class, non-financial business economy (NACE Sections C to I and K), EU-25, 2003 (% share of total)[146]



Source: Eurostat SBS size class

144 Commission Recommendation of 6 May 2003, OJ L 124 of 20.5.2003, p. 36

145 More details can be found on the web-site for the Directorate-General for Enterprise and Industry, available at: http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm

146 Eurostat, European business, Facts and figures, 2007

Figure 2: SMEs' employment share: manufacturing and services, 2003

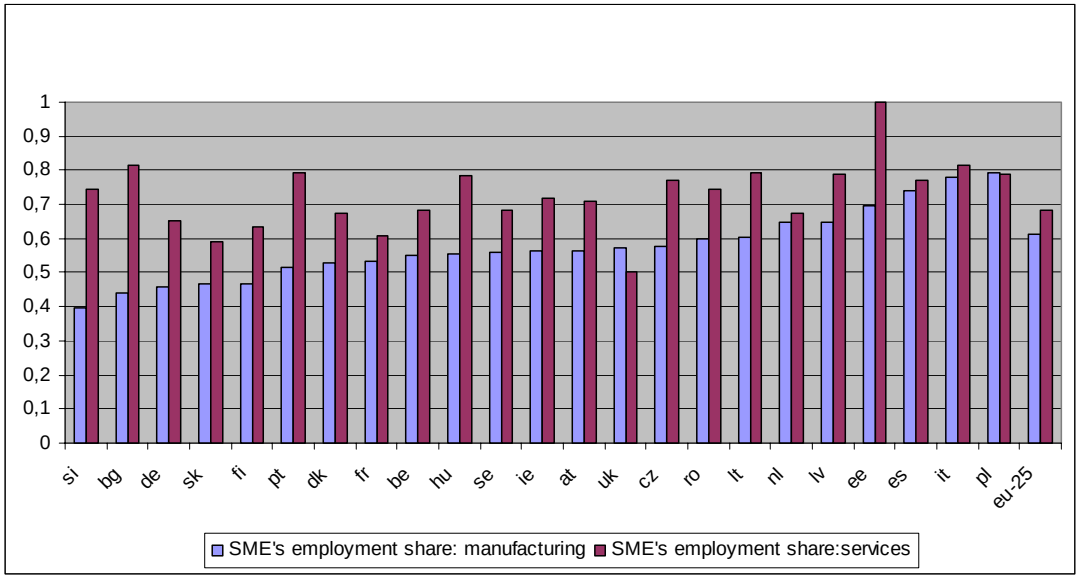
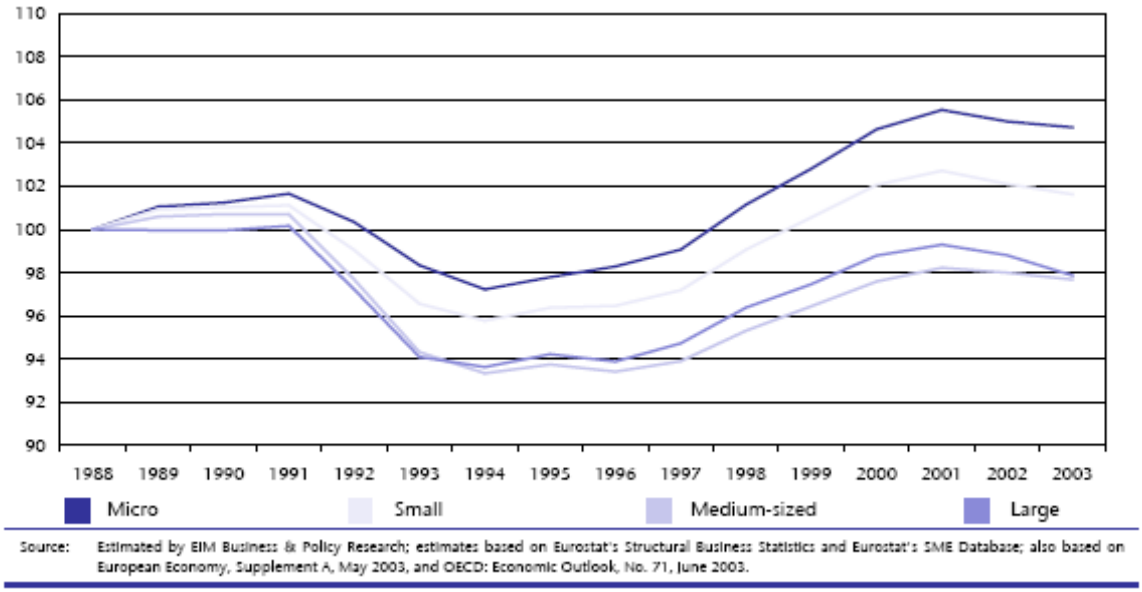


Figure 3: Development of employment by size-class, Europe-19 (index, 1988 = 100)



The figure 3 "depicts the size-class pattern of employment development in Europe-19. It can be clearly seen that employment growth is negatively related to enterprise size. In the 1991/1993 period of slow economic growth, employment decline is smallest in micro enterprises and largest in large enterprises. Also, during the recovery from 1994 onwards employment growth was strongest in micro enterprises"[147].

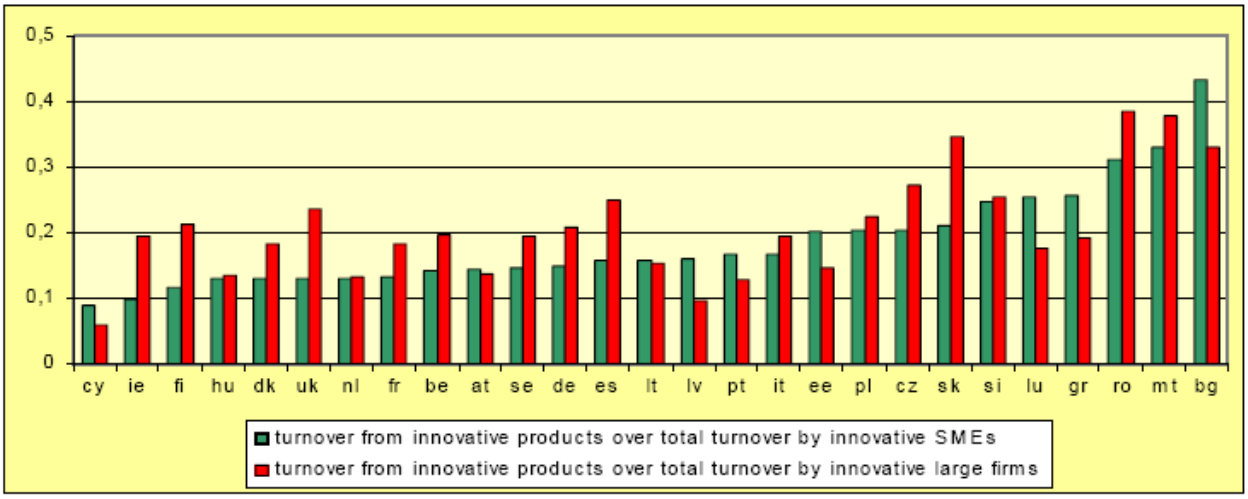
147 European Commission, Observatory on EU SMEs, SMEs in Europe 2003, http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes_observatory_2003_report7_en.pdf

Figure 4: listing breakthrough innovations made by small firms during the 20th century)[148].

Air Conditioning	Heart Valve	Portable Computer
Air Passenger Service	Heat Sensor	Prestressed Concrete
Airplane	Helicopter	Prefabricated Housing
Articulated Tractor Chassis	High Resolution CAT Scanner	Pressure Sensitive Tape
Artificial Skin	High Resolution Digital X-Ray	Human Growth Hormone
Assembly Line	High Resolution Microscope	Programmable Computer
Audio Tape Recorder	Microscope	Quick-Frozen Food
Biomagnetic Imaging	Hydraulic Brake	Rotary Oil Drilling Bit
Biosynthetic Insulin	Integrated Circuit Board	Safety Razor
Catalytic Petroleum Cracking	Kidney Stone Laser	Six-Axis Robot Arm
Polaroid Camera	Large Computer	Soft Contact Lens
Defibrillator	Microprocessor	Supercomputer
DNA Fingerprinting	Magnetic Resonance Scanner	Two-Armed Mobile Robot
Electronic Spreadsheet	Optical Scanner	Vacuum Tube
Freewing Aircraft	Outboard Engine	Variable Output Transformer
FM Radio	Pacemaker	Vascular Lesion Laser
Front-End Loader	Personal Computer	Xerography
Gyrocompass	Photo Typesetting	X-Ray Telescope

Source: US Small Business Administration (1994) / Baumol (2004)

Figure 5: Intensity of innovation per size class

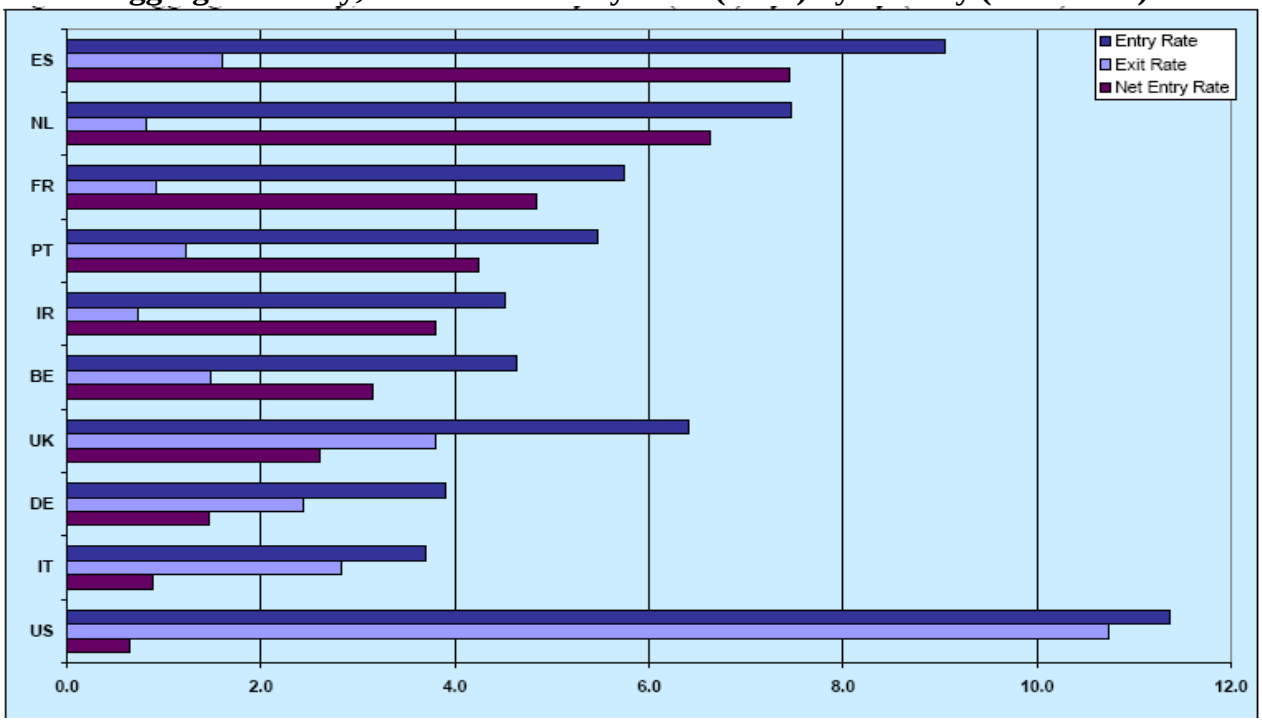


Source: Eurostat from CIS4

148 Other studies on the distribution of innovations certified as "significant" by industry experts, confirmed that small (as well as large) firms outperform medium-sized firms for the US (see OECD 2006 for an overview)

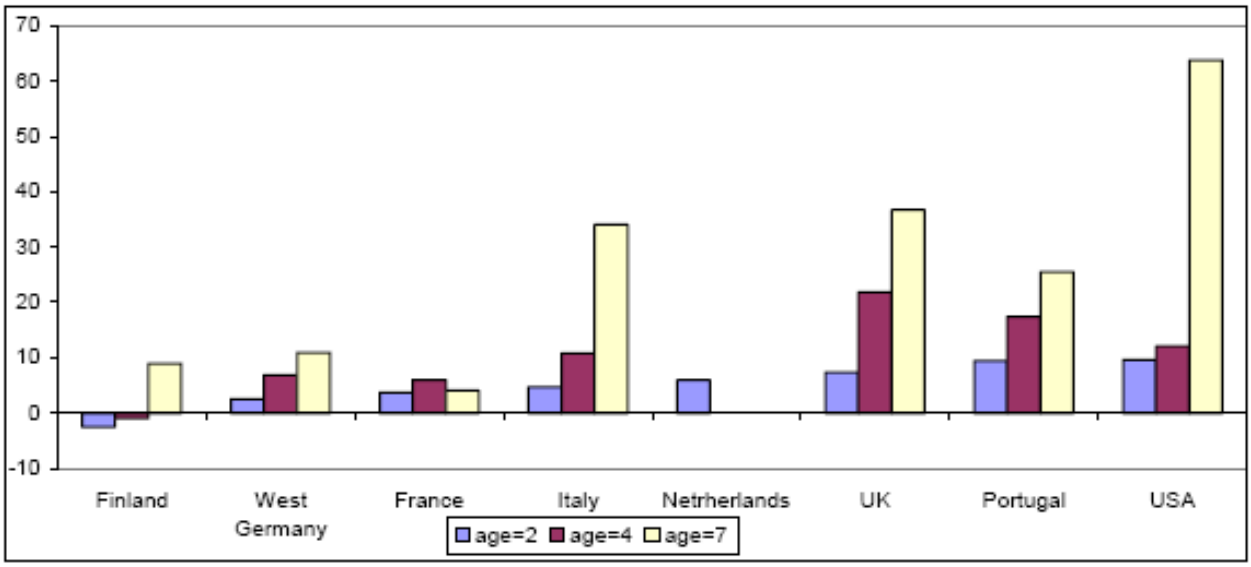
Figure6:

Aggregated entry, exit and net entry rates (in %) by country (1997-2003)



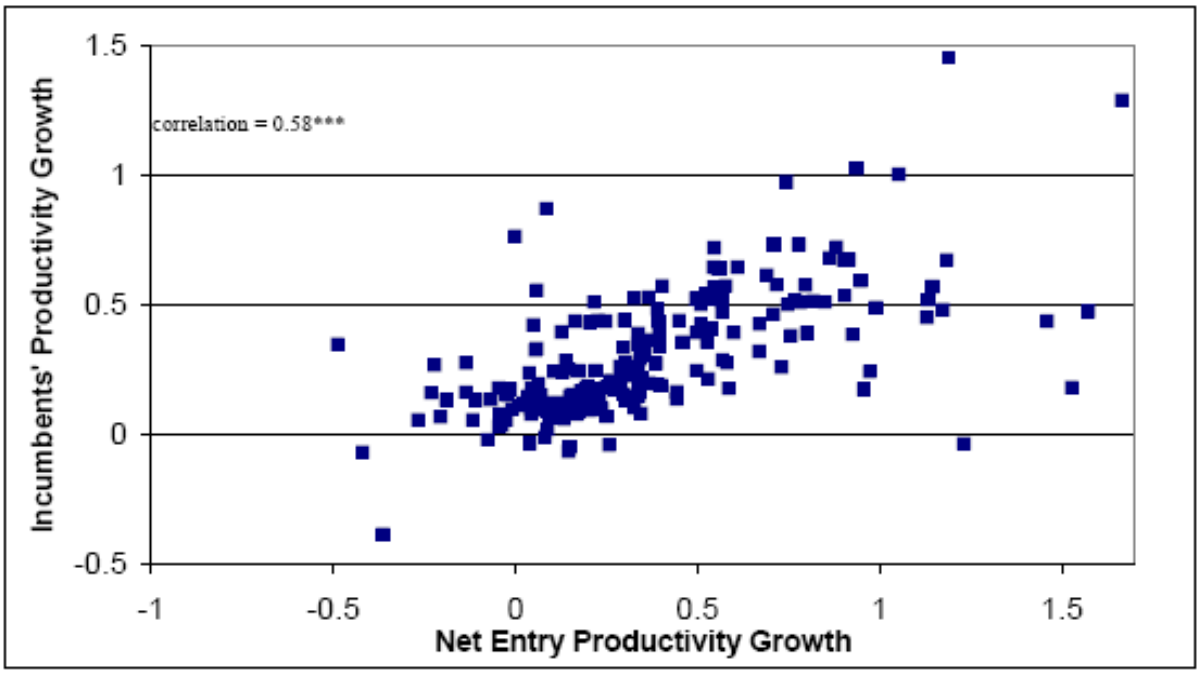
Source: "Impact of Market Entry and Exit on EU Productivity and Growth Performance", M. Cincera and O. Galgau (2005). EC Economic Papers 222.

Figure 7: Average firm size relative to entry, by age



Source: Bartelsman, Haltiwanger and Scarpetta, 2004.

Figure 8: complementarities between small and large innovative firms



Each dot represents a industry in a given country.
Source: Bartelsman, Haltiwanger and Scarpetta, 2004.