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**Report on the implementation of the European Charter for Small Enterprises in the
Member States of the European Union**

{COM(2005) 30 final}

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1. INTRODUCTION

This report is a supporting document to the fifth annual implementation report on the European Charter for Small Enterprises¹. It provides an overview of the main measures undertaken by the 25 Member States and Norway to implement the Charter in the past year. Norway accepted an invitation from the Commission to take part in the Charter process. The other members of the European Economic Area, Iceland and Liechtenstein, have not expressed a desire to participate. The progress made in implementing the Charter by the remaining three candidate countries and by Moldova and the countries of the Western Balkans is analysed in separate reports². The measures undertaken by the European Commission are also examined in a separate report³.

The current report seeks to identify strengths and weaknesses across the European Union, to highlight promising national measures and to point out areas where further action is needed. The report also seeks to stimulate the exchange of experiences and good practice in Europe. Various definitions exist of what a “good practice” is. For the purpose of this report, initiatives which seem to have been particularly beneficial in a national context and which could also be of interest to other countries have been highlighted. Naturally, this is just a selection and many other examples of good practice exist.

Nevertheless, for reasons related to its purpose and length, the report does not present an exhaustive or detailed list of measures. Detailed descriptions of national measures as well as contact details can be found in the national reports published on the Commission website⁴. In addition, the Joint Employment Report⁵ presents an overview, based on national reports, of Member States’ responses to the guideline on job creation and entrepreneurship.

The current overview represents the Commission’s understanding of the situation based on information communicated by the Member States via detailed national reports and at the bilateral meetings⁶ between the Commission and national authorities which took place in July-September 2004⁷. Following the example set in previous years, national business organisations actively participated and expressed their views at all bilateral meetings. An internet consultation on the national reports was open to all interested parties and was announced at a meeting with European business organisations in October 2004 and by an e-

¹ Report on the Implementation of the European Charter for Small Enterprises, COM(2005) 30 final.

² “Report on the Implementation of the European Charter for Small Enterprises in Candidate Countries”, SEC(32005)168, “Report on the Implementation of the European Charter for Small Enterprises in Moldova and the countries of the Western Balkans”, SEC(2005) 169.

³ ”The activities of the European Union for small and medium-sized enterprises (SMEs) – SME Envoy Report, SEC(2005) 170.

⁴ For the complete reports, see

http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter2005.htm.

⁵ COM(2005)13 final – 27.1.2005.

⁶ Unless otherwise stated, the source of the information on measures in the Member States and Norway contained in the present report is the national reports or information received at bilateral meetings.

⁷ Based on a joint agreement with the Member States, it was decided that only half of the countries would be visited each year. In 2004, a bilateral meeting was organised with the following countries: Belgium, the Czech Republic, Germany, Estonia, Greece, Spain, Italy, Cyprus, Latvia, Lithuania and Finland.

mail alert to some 5000 stakeholders⁸. In addition, the comments of several business organisations were integrated into some national reports submitted to the Commission⁹.

Many measures do not produce visible short-term results and progress in all areas cannot be fully assessed on a yearly basis. Nor should Member States strive to launch a great number of measures every year. Consolidation, evaluation and improvement of existing measures is equally important. Taking this into account, and following the invitation of the Competitiveness Council in March 2003 to strengthen the review of national developments, a selected number of Charter areas are prioritised each year based on discussions with the Member States. The current report examines in more detail progress in the following three areas:

- education for entrepreneurship, especially secondary education;
- better regulation, especially impact assessment and bankruptcy law; and
- skills shortages, especially measures to overcome lack of skilled technicians and engineers.

The present report does not aim at providing a comprehensive overview of all existing measures but mainly describes the measures taken in the period from autumn 2003 to autumn 2004. Given the long-term span of most measures, a certain overlap between annual reports is inevitable.

Since 2001, the Commission has launched several policy projects in the framework of the Best Procedure¹⁰. To ensure that the recommendations of concluded projects are taken up and actually reach further – to have a real impact on the business environment – an efficient follow-up structure is needed. Given that the Charter reports already provide an overview of the measures taken by the Member States, the Charter is an ideal place to follow-up the

⁸ See consultation at http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter2005.htm. The following business organisations provided comments, also published at this site: *Hospodářská komora České republiky* (Economic Chamber of the Czech Republic), *Zentralverband des Deutschen Handwerks*, *ZDH* (German Confederation of Skilled Crafts), *PME-Portugal* (a Portuguese SME Organisation) and *Företagarna* (Federation of Private Enterprises in Sweden). References to some of the specific comments are made in this report in connection with the description of the measures concerned. On a more general level, PME-Portugal considered the Portuguese Charter report to lack substance. Most of the measures reported were private initiatives and the measures taken by the public authorities were described in a very general way without any information on their impact. Overall, PME-Portugal was of the opinion that the current measures taken in Portugal are insufficient and that no national Charter implementation strategy exists.

⁹ UNIZO (Unie der Zelfstandige Ondernemers) and FEB (Fédération des Entreprises de Belgique) in the Belgian report, the Estonian Association of SMEs and the Estonian Taxpayers' Association's in the Estonian report, the Polish Crafts Association in the Polish report and the Slovak Craft Chamber (SŽK) in the Slovak report. When commenting on the Belgian national Charter report, FEB highlighted that having a divided policy – on the one hand the general economic policy for both big enterprises and SMEs and on the other hand the separate structures to defend SMEs interests and interests of big enterprises – presents a danger. This model of a divided policy can prevent a small company from growing as there are some benefits linked to the size of a company. There should be one uniform economic policy for all enterprises, despite their size, and one structure for representation of interests offered to all enterprises, including the specific needs of SMEs.

¹⁰ The Best Procedure, under the open method of coordination, provides a framework to support Member States' efforts to identify and exchange best practices in a limited number of specific areas of particular importance for enterprises.

projects. For this purpose, a questionnaire¹¹ was sent to the Member States in spring 2004. It included specific questions on the recommendations of concluded projects that fall under the three priority areas selected for this year: *the Best projects on “Education and training for entrepreneurship”*, *the Best project on “Restructuring, bankruptcy and fresh start”* and *the Best project on “Business Impact Assessment”*.

Considering the Charter’s commitment to using “effective indicators to assess progress over time” and the request of the Competitiveness Council to “continue the work on a voluntary basis on quantitative and qualitative targets with the aim of further integrating their use in the implementation of the European Charter for Small Enterprises”, this report attempts to describe quantitative progress on the basis of relevant indicators of the Enterprise Policy¹², Innovation¹³ and Internal Market¹⁴ Scoreboards. It also emphasises the relevant voluntary quantitative targets in enterprise policy declared by the Member States¹⁵. The voluntary national targets stem from Member States’ agreement on enterprise policy indicators closely linked to the Charter recommendations.

While this report clearly identifies measures targeted specifically at micro-enterprises or small enterprises, many of the initiatives analysed have been designed to support both small and medium-sized enterprises (SMEs). The Commission considers that, even if these measures do not exclusively target enterprises with fewer than fifty employees, this does not diminish their value or impact on small businesses. The Member States have therefore adopted the approach of including in the current report all initiatives with an impact on small and medium-sized enterprises, while highlighting those measures that seem to have the strongest impact on small enterprises.

2. JOINT SUCCESS THROUGH SHARED LEARNING

The open method of coordination yielding results...

The Charter process has proved very effective in identifying areas where Member States have made progress in promoting small businesses. It also provides valuable information on those areas where more needs to be done. Even though Member States have made efforts to implement actions under all the areas of the Charter, they have different priorities and areas of expertise.

For the third time, an increasing number of Member States have reported that they have drawn inspiration from measures developed in other Member States and recommendations of the Best Procedure projects, thus benefiting from one another’s strengths. The open method of coordination is continuing to yield good results on the basis of the work undertaken in the framework the Charter and the Best Procedure process.

¹¹ The questionnaire is available at http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter2005.htm.

¹² “Benchmarking Enterprise Policy: Results from the 2004 Scoreboard”, SEC(2004) 1427, 10.11.2004. Unless otherwise stated, the Enterprise Policy Scoreboard is the source of the data on indicators contained in the present report.

¹³ SEC(2004) 1475, 19.11.2004.

¹⁴ “Internal Market Scoreboard”, Edition 13, 13.7.2004, http://www.europa.eu.int/comm/internal_market/score/index_en.htm

¹⁵ The Enterprise Policy Scoreboard is the source of all information on targets declared by the Member States contained in the present report.

...as testified by a number of concrete examples

Many concrete examples bear witness to this success. For example, the contribution provided by the Best Procedure project on “Education for entrepreneurship” can be highlighted. In **Estonia**, the Best Procedure project has contributed to recent positive developments. In **Lithuania**, a change in approach was partly encouraged by the Best Procedure project and particularly by its definition of entrepreneurship education. In the preparations for the new enlarged entrepreneurship programme in **Sweden**, the Best Procedure project together with the Commission’s Action Plan on Entrepreneurship and the national Charter reports of other countries, in particular those of **Spain and Finland**, served as inspiration. In **Norway**, the Strategy for Entrepreneurship in Education promotes a number of initiatives that have been inspired by the Best Procedure project.

The Best Procedure project on “Restructuring, bankruptcy and a fresh start” has also been an inspiration to several countries. Countries including **Cyprus, Latvia, Hungary and Norway** state that they have taken the recommendations of the project into account when revising their legislation.

In **Spain**, before the new Agency in charge of regulatory impact assessment will start its operations, impact assessments are carried out based on the evaluation guidelines applied in other Member States with more experience. **Bulgaria** has elaborated a methodology for impact assessment taking into account the experience of the **Netherlands and Slovakia**.

Several Member States have set targets to reduce administrative burdens and are working together to develop methods to measure progress. **Denmark, the Netherlands, Sweden and Norway** are now working together on an improved method for measuring administrative burdens on the basis of the Dutch model and **Belgium, Estonia and Poland** are also expressing an interest in this work. In addition, **Luxembourg** has taken inspiration from **Belgium and the Netherlands** in appointing a “Commissioner for administrative simplification” within its Ministry in charge of SMEs.

In the **Czech Republic**, a system to monitor skills gaps and to anticipate long-term demand is under construction, building on experiences from **Ireland and the Netherlands**.

Estonia is cooperating closely with **Denmark** as well as with local partners from the industry and design sector to prepare the launch of the Estonian Design Info Centre, which will be a one-stop-shop for companies to obtain know-how on how to successfully benefit from the use of design in their business activities and company development.

Based on the **Austrian** example highlighted in the Best Procedure project on “The transfer of small and medium-sized enterprises”, the **Netherlands** has sent a letter to all entrepreneurs over 55 years with less than 20 employees to raise their awareness about the need to prepare for a transfer. Out of the 130 000 entrepreneurs contacted, as many as 31 000 have responded so far to get more information.

Some countries have taken particular care to make sure that the recommendations of the Charter and the results of the Best Procedure projects get a practical response. In **Malta**, as part of the implementation of the Charter, the Parliamentary Secretary for Small Enterprises publishes an annual action plan, outlining initiatives for each of the ten Charter areas and setting associated quantifiable targets which are monitored in an efficiency scoreboard at the end of the year. The initiatives are discussed at a national conference organised for all key

players. Furthermore, the results and the action plan for the following year are discussed over three Parliamentary sittings. This confirms the political consensus which guarantees that the Charter will continue to be exploited, as has been the case, for example, in the area of education for entrepreneurship, where a number of measures have been taken to implement the recommendations of the 2003 and 2004 Commission Charter reports.

Sweden has set up a Brussels branch of the Swedish Institute for Growth Policy Studies, keeping track of interesting measures taken by other Member States in the area of entrepreneurship and enterprise policy and reporting back to the Swedish authorities. This office has, for example, been involved in checking good practices in the area of transfer of business, also using the Best Procedure project report in this area. This served as a basis for the development of a national programme to simplify and stimulate transfer of business, elaborated in cooperation with national business organisations.

For other countries, such as **Denmark and France**, there still seems to be scope for improvement of the follow-up in order to benefit more from the whole process.

Charter conferences provide a successful forum for exchange of good practice

For its part, the Commission is continuing its efforts to improve the dissemination of the good practices identified. The Dublin Charter Conference in June 2004, jointly organised by the Commission and the Irish Presidency, successfully provided a forum for exchanging good practices identified in the latest Charter implementation reports. The next Charter conference, jointly organised by the Commission and the Luxembourgish Presidency, will take place in Luxembourg on 15-16 June 2005.

In addition, national conferences on the Charter, for example in Malta as described above, further contribute to keeping small businesses high on the agenda.

A lot of useful and efficient activities to implement the Charter take place at regional level and a number of good examples are highlighted in this report. Regions can thus also usefully take part in the exchange of good practices.

3. PROGRESS BY THE MEMBER STATES AND NORWAY IN THE SELECTED PRIORITY AREAS FOR THIS REPORTING PERIOD

3.1. Education and training for entrepreneurship

Charter commitment:

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

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

Recommendations of the 2003 Implementation Report on the Charter in the Member States:

Member States are urged to take further action to promote entrepreneurial skills in primary and secondary schools. The measures highlighted in this report and those analysed in the Best Procedure project on Education and Training for entrepreneurship should provide inspiration. Given the time lag for visible results to emerge, action is urgently needed.

Member States are encouraged to further consolidate and expand training strategies for small business managers.

Recommendations of the 2004 Implementation Report on the Charter in acceding and candidate countries:

Acceding and candidate countries should continue to encourage the incorporation of entrepreneurship into the basic curriculum. They should also continue to encourage universities to further step up their efforts to provide for specialised courses in entrepreneurship. Also the promotion of entrepreneurship outside of formal school activity remains important. At all levels in formal or informal school activities the gender dimension should be taken into account in the different curricula.

Europe needs to foster the entrepreneurial drive more effectively. It needs more new firms willing to embark on creative or innovative ventures. Raising educational levels and developing an adaptable and entrepreneurial workforce suited to the challenges of a knowledge-based economy should contribute to reach the Lisbon employment rate targets. Education can contribute to encouraging entrepreneurship, by fostering an entrepreneurial mindset in young people, by raising awareness of career opportunities as an entrepreneur or in self-employment, and by providing relevant business skills.

However, learning about how to run a business is only one aspect of it¹⁶. Entrepreneurship should be understood in its broader meaning. In fact, entrepreneurial skills and attitudes provide benefits to society even beyond their application to business activity. For instance, management competences and financial literacy are relevant in private life for managing one's household as well as for business activity, and also for participation in society. Other important aspects of entrepreneurship, which are relevant in all areas of life include, among others, identifying one's personal strengths and weaknesses, displaying proactive behaviour, being curious and creative, understanding risk, responding positively to changes and being disposed to show initiative.

This type of teaching can already take place in primary school, where some programmes successfully combine creativity, innovation and a simple concept of business. At secondary school level, it is important to raise the students' awareness of self-employment as a possible option for their career. Activities can be based on "learning by doing", for instance by means of students creating and running mini-companies or virtual firms. More specific training on how to start a business can be provided in technical and vocational schools of secondary level and at university, where teaching will include the ability to draft a business plan and to spot business opportunities.

¹⁶ Best Procedure" project on Education and Training for Entrepreneurship, Final Report of the Expert Group, November 2002,
http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/training_education/index.htm

Promoting entrepreneurship education is still a relatively new policy area in Europe. For this reason, exchanging information and learning from each other's experiences and good practice is crucial at this stage.

The *Best Procedure project "Education and Training for Entrepreneurship"* and its *follow-up*¹⁷ identified a number of issues that should be considered as crucial for achieving further progress, and proposed a **set of measures** that the relevant authorities, at all levels, could implement in order to set up a coherent framework for entrepreneurship education, to adopt a global strategy by involving all the actors concerned, and finally to monitor progress. These key issues have laid the basis for specific questions addressed to public authorities in the context of the current review of the implementation of the Charter.

The selected priority area for the current report is **"Education for entrepreneurship, especially secondary education"**. Nevertheless, all relevant measures which fall under the "Education and training for entrepreneurship" Charter area have been included in this section of the report.

3.1.1. *Indicators and targets*

As part of the quantitative targets declared in the framework of the Enterprise Policy Scoreboard, **Slovenia and the United Kingdom** have set the target of raising the number of people considering going into business.

The final report of the follow-up to the *Best Procedure project on education for entrepreneurship* coordinated by the Commission proposed a number of indicators suitable for targeting. Along those lines, national or regional targets have been established by the United Kingdom and also by Sweden, as highlighted in the national Charter reports. In the **United Kingdom**, from 2005/2006, all students aged 14 to 16 in **English** secondary schools will be entitled to five days of enterprise education. Also, it is intended that the proportion of **Scottish** schools involved in enterprise education will rise from 10% to 100% over the period 2003-2006. A number of quantitative targets concerning participation in entrepreneurship education have been set up in **Wales** as well¹⁸. In **Sweden**, the government has set quantitative targets for raising the number of people positive to the idea of running their own company, or who would prefer to run their own company¹⁹.

¹⁷ Making progress in promoting entrepreneurial attitudes and skills through Primary and Secondary education (follow-up of the Best Procedure project on "Education and Training for Entrepreneurship"), Final report of the Expert Group, March 2004,
http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/training_education/index.htm.

¹⁸ Targets in Wales include: distributing materials to 180 000 pupils annually; 150 000 pupils participating in entrepreneurial experiences over three years; 1 200 teachers, careers advisers and lecturers receiving training over three years; and 500 entrepreneurs contributing as role models over three years.

¹⁹ The Swedish Business Development Agency is responsible to follow up the following quantitative targets: 75% of the women and men in the age group of 18 to 30 are positive to the idea of running their own company; In the age group of 18 to 30, both women and men, at least 35% would prefer to run their own company.

3.1.2. Recent developments

Entrepreneurship in primary education

While the application of entrepreneurship related programmes in primary schools is still limited, even considering a broad definition of entrepreneurship, and is in many cases driven by organisations external to the education system, in **secondary schools** these programmes are becoming more frequent, and the effort devoted in this direction by different actors is more and more visible.

Luxembourg: Cartoon “Boule et Bill créent une entreprise” in primary education

In **Luxembourg**, the compulsory 6th-year French-language programme has an entire unit devoted to starting up a business, based on the comic strip cartoon “*Boule et Bill créent une entreprise*”, and this has been applied for several years by **all primary schools**. Exercises are developed by the students from the contents of the textbook. The methodology is well adapted to the needs and interests of the age group, as it bears resemblance to a world that the child knows already – the world of cartoons and comics.

Global strategies for entrepreneurship education

In a number of countries, global strategies have been adopted in order to promote entrepreneurship learning through education. In **Denmark**, the strategy for ‘*Innovation, Entrepreneurship and a Culture of Independence in the Danish Education System*’ has been launched. In **Latvia**, the SMEs programme for 2004-2006 sets general measures for the popularisation of entrepreneurship as a “life style”, based on good practice examples, and provides financing for promotion of business ideas, project competitions and business games.

Lithuania: Strategy for Economic Literacy and Entrepreneurship Education

In Lithuania, the *Strategy for Economic Literacy and Entrepreneurship Education* has been approved after taking into consideration recommendations made by the Commission, notably through the *Best Procedure project*. The main goal of the Strategy, to be implemented on the basis of an Action Plan, is to achieve that each graduate of a basic school should develop entrepreneurship skills and have the basic market economy knowledge.

In the implementation phase, the Ministry of Education and Science cooperates and coordinates joint steps with other ministries (notably, the Ministry of Social Affairs and Labour and the Ministry of Economy), as well as other interested institutions, non-governmental organisations (NGOs) and social partners.

Luxembourg has launched an *Action Plan on Entrepreneurship* to better coordinate initiatives developed by the different ministries. One of the main axes is promoting the enterprise spirit among young people, and a national Committee has been established for this specific purpose with the participation of various ministries and professional organisations. **Malta** has taken a number of measures to implement the recommendations of the 2003 and 2004 Charter reports. In the **Netherlands**, several action lines have been defined in a *joint Action Programme of the Ministry of Education and the Ministry of Economic Affairs*. The emphasis of most action lines is on vocational and higher education. Additional actions for primary and secondary education are being studied.

Finland: Creating a global framework

In Finland, entrepreneurship has been included in the new core curricula for primary, secondary and vocational education and provision of specific teachers' training has been increased. In 2002, the Ministry of Education set up an entrepreneurship steering group to operate until 2005. The group develops and coordinates entrepreneurship at different levels of education. It has 17 members representing different ministries, organisations and educational administrations and focuses on three themes: strengthening regional networks, producing entrepreneurship materials and enhancing information about entrepreneurship, especially by means of continuing education and training and contacts with business and industry. The Ministry of Education has also drawn up a concrete action plan on entrepreneurship education for each type of school.

In **Sweden**, the government bill for 2005 underlined the importance of education for entrepreneurship. Actions are taken to promote entrepreneurship in schools at different levels during 2005, and the government also aims to launch a new enlarged national entrepreneurship programme²⁰. In **Norway**, the government has launched a national *Strategy for Entrepreneurship in Education*, putting forward several new and concrete initiatives addressing the entire education system from primary school to university. At **regional level, in the United Kingdom**, the *Youth Enterprise and Entrepreneurship Strategy for Wales* is in the final development stage.

Entrepreneurship as part of the national curriculum

Revising the national curriculum to give entrepreneurship education a place as being recognised and encouraged is often a necessary first step. In this respect, progress in Europe is slow but encouraging.

As part of its reform of the national curriculum, the **Czech Republic** has approved 15 innovative syllabuses for selected areas of study, in which entrepreneurship is covered in greater detail in specialised subjects, such as economics, law, accounting and fictive companies²¹.

In **Denmark**, upper secondary general education is currently undergoing a reform process, due to be implemented in the course of 2005. **Malta** is currently holding consultation meetings with all stakeholders in order to amend the National Curriculum of Education to reflect the needs of the country, including entrepreneurship. At **regional level, in Germany** in the *Land* of **Baden-Württemberg**, "business" has been on offer as an optional extra subject for advanced-level pupils at secondary schools (*Gymnasien*), while standards are being drawn up for a subject combination of geography, politics and business.

²⁰ The Federation of Private Enterprises in Sweden considers that the measures taken so far are good but that more can be done, for example to improve cooperation between schools and the world of business from preschool and onwards.

²¹ The Economic Chamber of the Czech Republic is of the view that the reform encourages hard entrepreneurial skills but does not sufficiently encourage entrepreneurial spirit.

Poland: Entrepreneurship in the national curriculum

In Poland, a national framework for entrepreneurship education was established by the Ministry of Education in 2002. The basic curriculum for secondary level comprehensive and technical schools sets among the educational targets and tasks for schools offering students the possibility of acquiring entrepreneurial attitudes, knowledge and skills. On that basis, secondary schools are offering entrepreneurship courses (two hours per week in comprehensive and technical schools, one hour per week in initial vocational schools).

At the same time, the Ministry of Education set the introduction of the subject *Foundations of entrepreneurship* and the module *Education for active participation in business life* by the schools as one of the priorities for pedagogical supervision for the school year 2003/2004. School inspections have shown that these subjects are included in the school curriculum in different types of schools in accordance with the established regulations.

In the **United Kingdom**, developing national curriculum materials for enterprise education has been a priority in **Wales**, where a scheme for continued learning between ages 5 and 19 has been launched. In **Northern Ireland**, proposals to revise the curriculum in areas such as skills, enterprise, creativity and the importance of SMEs have been approved and enabling legislation should be in place by September 2006.

Training of teachers

Providing specific training to teachers is an important aspect. If teachers are not adequately trained and motivated, it will be unlikely to achieve much progress in this area. Unfortunately, measures in this area are still sporadic. In **Greece**, courses are being held for further training of teachers who will teach entrepreneurship in technical schools and institutions for vocational training. In **Lithuania**, the *Strategy for Economic Literacy and Entrepreneurship Education* foresees implementing programmes for teachers, so that a global strategy will be in place. In **Norway**, initiatives seeking to establish more entrepreneurship courses for teachers are highlighted in the *Strategy for Entrepreneurship in Education*. At **regional level, in the Walloon Region of Belgium** the “*FREE Foundation*”, recently created with the mission of promoting and coordinating initiatives for the development of entrepreneurship education, has set up specific modules for training secondary school teachers. In **Slovenia** the project “*Innovation Among Young People – Training for Teachers in Higher and Secondary Education*”, carried out by private and public partners, aims to train teachers in four regions in order to provide them with knowledge and skills for encouraging innovation among young people.

Entrepreneurship in vocational secondary education

Entrepreneurship education can be particularly effective when offered in vocational schools of secondary level (initial vocational training) as students are about to enter the labour market and self-employment could be a valuable option for their career. Actually, entrepreneurship education is more frequently included in the curriculum of vocational and technical schools than in comprehensive secondary education. In the **Czech Republic**, the *reform of the vocational training curriculum* is underway. In **Greece**, educational materials on entrepreneurship have been completed for technical schools and institutions for vocational training. In **Spain**, specific vocational training framework regulations have been laid down,

aiming at fostering entrepreneurship and training young people to be self-employed and to start their own company.

In **France**, a national competition called “*Initiatives Jeunes*” is being launched, for the best pedagogical projects about creating an enterprise in technical and professional education of secondary level. In **Hungary**, the *Vocational Education Act* gives priority to student contracts, as a possibility of practice for students within companies. In the **Netherlands**, as from 2006, the government will fund the set-up of business incubators at vocational education schools. In **Austria**, after a pilot phase run in many secondary commercial schools (*Handelsakademien*), entrepreneurship education is fully incorporated into public education. Thus, all commercial schools can now offer tested curricula. In **Slovakia**, the Junior Achievement programme “*Doing business in tourism*” has been officially registered as an optional subject for the 1st and 2nd classes of hotel academies, secondary grammar schools as well as secondary vocational and professional schools.

Incentives and support to schools

Measures to encourage and support schools in offering entrepreneurship programmes are necessary, given the relatively high degree of autonomy that schools and teachers have in most countries in deciding which programmes and courses will be implemented, and the still limited exposure of the education systems to the entrepreneurship approach and ideas. Also, most of the existing programmes are either optional or take place out of the curriculum, as out-of-school activities. In **Austria**, the Federal Ministry of Economic Affairs and Labour provided all general and vocational high schools with an “entrepreneurship education” package, with detailed material ready for use by teachers and applicable to a wide range of topics. In **Poland**, the introduction of entrepreneurship subjects and modules has been set as one of the priorities for pedagogical supervision. Setting these priorities is a form of active promotion, as the inspection also has a support function, for example through the promotion of good practice.

United Kingdom – England: Enterprise experience for 14-16-year-old students

In the United Kingdom, England has accepted the recommendations of the Davies Review on “*Enterprise and Economy in Education*”, and the White Paper on 14-19 age Education makes an explicit commitment that all pupils aged 14-16 will in the future learn about work and enterprise across the curriculum. The Department for Education and Skills invited English secondary schools to bid to become Enterprise Education Pathfinders and obtain funding to test different ways of delivering enterprise education. These are introduced through pilot projects during 2003-2005, and will be implemented in every secondary school by 2005/2006. Since 2003, 171 bids were launched. Many of the existing Enterprise Education Pathfinders include mini-enterprises or other entrepreneurial activity performed by students. Good, relevant examples will help best practice guidance to be disseminated.

www.14-19reform.gov.uk

Cooperation between schools and the world of business

Entrepreneurship related programmes can greatly benefit from increased cooperation between schools and the world of business²². Numerous examples exist of this approach. Following a recent federal decision in **Germany** business representatives are to participate in the process of shaping the structure and contents of economical education at school. In **Hungary**, thanks to cooperation agreements (student contracts) foreseen by a recent law, in the year 2003-2004 15 628 students (+11%) had the possibility of being employed and receiving training within a company. In **Finland**, the Federation of Finnish Enterprises and the Ministry of Education are promoting networks of local and regional actors aiming to support the implementation of the new curricula basics on entrepreneurship. The action includes the production of teaching material and cooperation between teachers and entrepreneurs. At **regional level, the Flemish Community in Belgium** has launched a measure to support projects that introduce partnerships between educational institutions and enterprises, from primary school to university, in order to stimulate the enterprise spirit of pupils and students.

Programmes based on students running a mini-company

Mini-company programmes, where students experience entrepreneurship in practice by creating a real or a virtual company during the school year, was identified by the *Best Procedure project* as an effective methodology of delivering entrepreneurship education²³. At **regional level, in the Flemish Community in Belgium** an agreement has been put in place between the government and “*Vlaamse Jonge Ondernemingen*”, an NGO promoting student company programmes, that supports programmes using this methodology.

Norway: Strategy for Entrepreneurship Education and student companies

In Norway, Young Enterprise Norway is an important partner for the government in implementing many of the actions outlined in the government’s *Strategy for Entrepreneurship Education*. During the school year 2003/2004, 8 000 students formed and managed 1 280 mini-enterprises in upper secondary school students as part of the Student Company Programme of Young Enterprise Norway, with an increase of 1 000 students compared with the previous year. In total, 14% of all students leaving upper secondary school took part in the *Company Programme*. An evaluation survey carried out by a Norwegian research institute shows that 20.5% of the respondents that took part in the programme have established their own company between the age of 25 and 34 (comparable rate on national level is 4%).

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Dissemination of good practice

Disseminating examples of good practice and concrete experiences to the schools can be a realistic way of promoting entrepreneurship and of achieving progress in this area, building on the autonomy of educational institutions. **Spain** has made an inventory of business creation initiatives for schools organised by autonomous communities, local councils, NGOs, educational establishments, etc., in order to identify good practices to be disseminated to

²² The Economic Chamber of the Czech Republic considers that cooperation between schools and businesses is not systematically encouraged in the Czech Republic.

²³ The Economic Chamber of the Czech Republic is of the opinion that the current education system in the Czech Republic does not motivate learning by doing.

teachers, students and training centres. In the **Netherlands**, the strategy for the years 2004-2007 focuses on the organisation of regional road shows, to present different good practices to school management, teachers and students.

Entrepreneurship in higher education

In tertiary education, initiatives are in most cases taken independently by individual universities, rather than at central level. In most cases, tertiary education is highly decentralised, and universities are free to establish their own courses. Therefore, central administrations cannot impose in this area, but rather support and facilitate. In **France**, a selection of projects has been made in order to create “*Maisons de l’Entrepreneuriat*”. The objective is to favour the exchange of good practice between higher education institutions, and to disseminate information about existing activities. In **Cyprus**, the University of Cyprus has recently added a new course on “*Entrepreneurship Management*” in its curriculum. The **United Kingdom**, is establishing the *National Council for Graduate Entrepreneurship (NCGE)* with the objective of increasing the number of graduates who consider starting their own businesses. In **Norway**, the University of Oslo is running a new master programme in innovation and entrepreneurship, aiming at providing graduate students with advanced knowledge, skills and experiences necessary to manage or participate in research and technology-based ventures. At **regional level, in the Walloon Region of Belgium** the “*FREE Foundation*” has launched a programme aiming at raising awareness about entrepreneurship within faculties of all areas of study. Educational institutions can integrate this course as elective in their programmes.

Training for entrepreneurs and managers

Finally, as regards training for entrepreneurs and managers, **Greece** provides training to young entrepreneurs whose businesses are in the first two years of operation. In **Hungary**, the tender “Support for training improving entrepreneurial skills” provides support for training of entrepreneurs in order to improve their adaptability. In **Portugal**, the *Empreender* training programme of the Advanced Entrepreneurial Training Institute (IFEA), a public/private partnership, has attracted some 1400 participants in 2003²⁴. The **United Kingdom** has developed the *Leadership and Management Programme* to encourage managing directors of companies with between 20 and 250 employees to undertake personal development.

3.1.3. Conclusions and recommendations

The 2003 Charter report concluded that Member States were increasingly aware of the need to promote entrepreneurship in education and had launched a considerable number of initiatives in this area. The report suggested however that the real impact of these measures was difficult to assess. The 2004 Charter report on acceding and candidate countries concluded that entrepreneurship was widely recognised as an important issue to be taught in all these countries, both through the traditional approach and the introduction of e-learning, and that there was a rich variety of practices. However, it stressed that there was still a strong need for further improvement and consolidation and that practices should be included within a coherent structure.

²⁴ The Portuguese SME organisation, PME-Portugal, considers that the actions of the programme are isolated and not available for businesses throughout the country. The initiatives only take place in Lisbon although most SMEs are situated in the north of the country.

National reports received under the current Charter review, and other enquiries previously coordinated by the Commission in this area, show a **dynamic picture**. New initiatives are launched on a continuous basis, although the pace of reforms and the implementation of new measures in a number of countries should clearly be accelerated. In this context, it should not be forgotten that consolidation, evaluation and improvement of existing measures is equally important. There is a rapidly growing awareness of the importance of introducing a taste of entrepreneurship in school programmes and activities, and of nurturing the relevant attitudes and skills in young people.

In this respect, the contribution provided by the **Best Procedure project on education for entrepreneurship** coordinated by the Commission, and more generally by the exchange of experiences and good practice between Member States and other participating countries, can be highlighted, and is evident in a number of cases. The national report from **Estonia** states that the Best Procedure project has contributed to recent positive developments in that country. In **Lithuania**, a change in approach was partly encouraged by the Best Procedure project and particularly by the definition of entrepreneurship education provided in the final report, which became a basis for the national definition of entrepreneurship in the education system. In the preparations for the new enlarged entrepreneurship programme in **Sweden**, the Best Procedure project together with the Commission's Action Plan on Entrepreneurship and the national Charter reports of other countries, in particular those of Spain and Finland, served as inspiration. In **Norway**, the Strategy for Entrepreneurship in Education promotes a number of initiatives that have been inspired by the Best Procedure project.

An overview of measures taken by public authorities in order to promote entrepreneurship education, especially in secondary schools, can be found in Table 1.

An aspect which emerges is that entrepreneurship is still in some cases understood in a narrow way, limited to creating and running of businesses; whereas the general approach at European level is to also include other competences under the concept of entrepreneurship, like the propensity to induce changes in oneself, the ability to welcome and support innovation, to have the motivation to succeed, etc. Schools should be empowered to create a learning environment that supports the acquisition of cross curricular competences such as an entrepreneurial mindset. Learning positive attitudes and skills requires that the whole school as a learning environment is taken into account, and that the school works in an innovative and encouraging way with its pupils, parents and local actors.

– *The wider benefits to society – even beyond creating new businesses – provided by entrepreneurial attitudes and skills should be emphasised by national and regional education policies.*

As entrepreneurship education has clearly a horizontal dimension, a necessary first step at national or regional level is **establishing regular formal links between different sectors of the public administration**, notably, Ministries of Economy and Education, but also other departments and agencies. Various good examples can currently be found of this type of cooperation, which allowed in some cases to adopt ambitious initiatives that will hopefully have an important impact. However, as shown in Table 1, only in less than half of Member States this form of cooperation can be said to be fully in place, for instance in **France, the Netherlands, Finland and Norway**. Recent steps in this direction have also been taken by some of the new Member States, in particular **Lithuania**.

Revising the national curriculum for comprehensive and vocational secondary school, and have the development of entrepreneurial skills and attitudes explicitly recognised as one objective, would be the following step. As regards comprehensive education, countries having already included entrepreneurship explicitly in the curriculum are so far a minority, as shown in Table 1. Positive examples come from the **Czech Republic, Spain, Ireland, Poland, Finland and Norway**.

– *National curricula for comprehensive and vocational secondary education should include explicit objectives as regards entrepreneurship education, accompanied by practical implementation guidelines.*

Support measures to promote entrepreneurship education will also be needed, as schools and teachers have a large degree of autonomy. In this respect, active promotion has so far been carried out on a limited basis only. Interesting developments can be highlighted, for instance in the **Netherlands**, where the government is supporting pilot projects in schools and disseminating good practice, and in the **United Kingdom**, where current “Enterprise Education Pathfinders“ will lead to this type of education being implemented in every secondary school by 2005/2006.

One major problem is still represented by the insufficient provision of **training to the teachers** on how to bring the concept of entrepreneurship into the classroom. As highlighted in Table 1, there is a lack of systematic plans to address the existing gap and this risks being a major obstacle to the increase in the application of programmes, at least in the short term.

– *Teachers and heads of schools should be supported by training, incentives and resources. In particular, support should be given to create learning environments that encourage cooperation within the school and between the school and local community, especially businesses.*

Programmes based on **student companies** or **virtual firms** should be recognised and supported by the educational authorities, and be better embedded into the curricula as they provide well experimented methodologies that can be adapted to the local context. Table 1 shows that in more than half of the monitored countries these programmes, in most cases driven by external actors, notably NGOs²⁵, receive significant support from the public authorities. Interesting examples of this approach can be found in **Ireland**, where mini-company programmes are embedded in the curriculum, in **Austria**, where the government supports the systematic application of practice firms in vocational secondary education, and in **Norway**, where “*Young Enterprise Norway*”, the organisation promoting mini-companies throughout the country, is a partner of the government in developing the national strategy for entrepreneurship education.

Private-public partnerships are crucial to the development of entrepreneurship education. Since entrepreneurship education is a cross-curricular objective, schools should be encouraged to engage with the local community in order to also provide out-of-school learning opportunities. In some countries, links between businesses and education establishments are fostered for entrepreneurship education, for training activities to upgrade

²⁵ At all levels of education, national organisations are promoting programmes based on students running a mini-company or a virtual firm, in many cases under the umbrella of networks such as *Junior Achievement-Young Enterprise (JA-YE)*, *EUROPEN (Practice Firms)*, *The European Confederation of Junior Enterprises (JADE)*.

managerial skills or to further the innovative capacity of businesses. Good examples of public policy going in this direction can be found in **Germany**, where business representatives participate in shaping the contents of economic education at school, and in the **United Kingdom**, notably through the Education Business Links.

In some countries general awareness still needs to be increased of the importance of entrepreneurship teaching and learning in secondary education. In **Portugal**, there are no public initiatives to strengthen entrepreneurship in secondary schools. The few initiatives associated with education for entrepreneurship are rather focused on higher education. More efforts should be made by **Greece**, where initiatives from the government in this area are currently limited to technical secondary education. In general, the new Member States need more than the others to improve their performances, with **some already having made remarkable progress**, notably the **Czech Republic, Lithuania and Poland**. Further policy developments, and support to entrepreneurship education in secondary school, are particularly needed in **Cyprus, Hungary and Slovakia**. In these and in other countries as well, although in varying degrees, there is still **an important gap** in public policy in this field, while private actors are taking some interesting initiatives.

In **tertiary education**, initiatives are in most cases taken independently by individual universities, as this type of education is normally highly decentralised. Entrepreneurship teaching currently addresses mostly students following economics and business courses, while it should also be available to those studying different subjects. Europe needs more programmes and faculties focused on entrepreneurship.

– *The teaching of entrepreneurship within higher education should be increased in particular outside economic and business courses, notably at scientific and technical faculties and universities.*

While this section focuses in particular on how entrepreneurship education and learning could be better embedded in secondary school education, it is important to recall, once again, that a general effort should be deployed at all levels aiming to promote a more **entrepreneurial culture** in our societies. This effort should include improving the image of entrepreneurship *vis-à-vis* the public at large, for instance, by means of entrepreneurship campaigns; introducing learning about entrepreneurship in the school at all levels; providing specific training and support for starting a real company, with a particular emphasis on the SME dimension and on the growth-phase, especially in tertiary and vocational education; increasing the offer and accessibility of management training for enterprise owners and directors.

Table 1 – Overview of measures taken by public authorities to promote entrepreneurship education, especially in secondary schools

	Cooperation between departments	Entrepreneurship in curriculum	Support measures to schools	Training of teachers	Support to mini-companies	Collection of data	Targets	Total Y+(Y)
Belgium	N	N	(Y)	(Y)	Y	(Y) ²⁶	N	4
Czech Republic	(Y)	Y	N	N	N	N	N	2
Denmark	Y	(Y) ²⁷	(Y)	(Y)	Y	(Y)	N	6
Germany ²⁸	Y ²⁸	Y ²⁸	Y ²⁸	Y ²⁸	Y ²⁸	N ²⁸	N ²⁸	5 ²⁸
Estonia	(Y)	(Y) ²⁹	N	N	(Y)	N	N	3
Greece	N	N	(Y) ³⁰	(Y) ³¹	N	N	N	2
Spain	Y	Y	(Y)	(Y)	Y ³²	(Y)	N	6
France	Y	N	N	N	(Y) ³³	Y	N	3
Ireland	N	Y	Y	N	Y	N	N	3
Italy	(Y)	N	(Y) ³⁴	N	Y	N	N	3
Cyprus	N	N	N	N	N	N	N	0
Latvia	(Y)	N	N	N	N	N	N	1
Lithuania	(Y)	(Y) ²⁷	N	(Y)	Y	N	N	4
Luxembourg	Y	N	N	(Y)	Y	(Y) ³³	N	4
Hungary	N	N	N	N	N	N	N	0
Malta	N	N	Y	N	Y	N	N	2
Netherlands	Y	N	Y	(Y)	N	(Y)	N	4
Austria	(Y)	N	(Y) ³⁵	N	Y	(Y)	N	4
Poland	(Y)	Y	(Y)	(Y)	Y	N	N	5
Portugal	N	N	N	N	N	N	N	0
Slovenia	(Y)	(Y)	Y	(Y)	N	N	N	4
Slovakia	N	N	N	N	N	N	N	0
Finland	Y	Y	(Y)	(Y)	N	N	N	4
Sweden	Y	(Y)	Y	N	Y	(Y)	Y	6
United Kingdom	Y	Y	Y	Y	Y	Y	Y	7
Norway	Y	Y	Y	(Y)	Y	(Y)	(Y)	7
Total Y+(Y)	18	12	16	12	16	10	3	

²⁶ Only in the Walloon region/French Community.

²⁷ Reform under way.

²⁸ Data covers examples of the *Länder* of Baden-Württemberg and Rheinland-Pfalz. Similar measures exist in all German *Länder* due to a decision of the “Conference of the Ministers of Education”.

²⁹ Measure planned, changes to national curriculum to enter into force from school year 2007/2008.

³⁰ Measures planned for technical and vocational schools of secondary level.

³¹ Limited to technical and vocational schools of secondary level.

³² Initiatives to promote mini-companies are taken by some regional authorities.

³³ In course of implementation.

³⁴ Limited to the “virtual training firms” programme

³⁵ Measures in place in vocational and commercial schools of secondary level.

Legend

Y	Measures exist	(Y)	Measures are planned/Available partially	N	No measures exist
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EXPLANATIONS TO THE COLUMNS OF TABLE 1

The results in the table are extracted from the Member States' answers to a questionnaire containing the following questions based on the main recommendations of the *Best Procedure project "Education and Training for Entrepreneurship"* and its *follow-up*:

Cooperation between departments

Is a regular and well structured cooperation in place between different departments of the national/regional administration (notably, Ministry of Economy/Industry, Ministry of Education, and other interested departments or agencies) in order to take joint action or to adopt a coherent strategy in promoting entrepreneurship education?

Entrepreneurship in curriculum

Is the promotion of the enterprise spirit, or entrepreneurship, explicitly recognised as an objective by the national curriculum for comprehensive secondary education, either as a horizontal aspect of teaching or as a specific subject?

Support measures to schools

Have measures of support and active promotion been adopted - on the initiative of national or regional authorities - in order to motivate and convince schools and teachers about embarking concretely in entrepreneurship related programmes and activities?

Training of teachers

Is a global strategy in place for training the teachers on how to bring the concept of entrepreneurship into the classroom, including providing them with opportunities to gain practical experience through direct relations with businesses?

Support to mini-companies

Is the application of programmes based on the concept of "learning by doing" by means of students running mini-companies or virtual firms supported and/or promoted by public authorities? Is some agreement in place between public authorities and networks and NGOs currently disseminating these programmes across Europe?

Collection of data

Is a permanent function or structure or method in place at national level that is responsible for monitoring existing initiatives, gathering information and data on entrepreneurship education, and disseminating good practice?

Targets

Has any qualitative or quantitative target been fixed at national or at regional level in order to achieve and to monitor progress in this area?

3.2. Better legislation and regulation

Charter commitment:

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

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

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

Recommendations of the 2003 Implementation Report on the Charter in the Member States:

Member States are invited to adopt provisions facilitating a second start after bankruptcy. Member States – in particular those currently revising their insolvency laws - are encouraged to exchange experience and good practices in the framework of the Best Procedure project on bankruptcy and a fresh start.

Member States are urged to introduce systematic regulatory impact assessment systems and to involve small businesses in the drafting of legislation from an early stage. Regular systems to consult small businesses prior to the adoption of relevant legislation should be created.

Efforts to repeal redundant legislation and to consolidate legislation should be continued.

Recommendations of the 2004 Implementation Report on the Charter in acceding and candidate countries:

Acceding and candidate countries should continue their efforts to improve the legislative environment for business. They should further consider the introduction of exemptions for small businesses from certain legal obligations which may weigh heavily on small companies in particular. The business impact assessment should be strengthened and further efforts should be made to involve the business community in the legislative process.

Better regulation, especially impact assessment

With regard to better regulation in general and simplification in particular, the attention on them has strongly increased since early 2004. This is reflected in the Joint Initiative on Regulatory Reform of January 2004 launched by the four Council Presidencies in 2004 and 2005 and now also supported in the extended Joint Statement presented in December 2004, including the upcoming 2006 Council Presidencies. These issues are also dealt with in the conclusions of the Spring European Council and in the on-going work of the Council³⁶.

³⁶ The Council committed itself to consider priority areas for simplification and to examine options for future priorities in September 2004, drawing on all policy areas and building on work already under

Impact assessment is an important tool to help promote better regulation and improve the effectiveness and efficiency of new political initiatives. It consists of a systematic assessment of the problem at stake, the objectives pursued, the available policy options and their likely impacts. Whenever a new policy initiative is likely to have important impacts on SMEs, these should be identified and analysed in an impact assessment. This can help identify the most cost-effective and least burdensome way to reach the set objectives. It can also help identify possible mitigating measures to reduce any disproportionate burdens imposed on SMEs.

The definition, scope and application of impact assessments vary from Member State to Member State. Some countries use it in the ex-ante context and others as an ex-post evaluation tool. While certain of the elements of an ex-ante impact assessment and an ex-post evaluation are the same, this is not true across the board.

The consultation of stakeholders represents the second pillar of transparent, effective law-making procedures. It should leave sufficient time for relevant stakeholders to participate in the consultation so that their positions may have some incidence in the legislative process.

Bankruptcy law

The European Charter for Small Enterprises considers that “some failure is concomitant with responsible initiative and risk-taking and must be mainly envisaged as a learning opportunity”. Yet the fear of going bankrupt is a key obstacle to entrepreneurship and business creation in the EU³⁷.

Bankruptcy law is a complex set of rules which is influenced by and has influences on many disciplines and policies, such as company law, taxation, employment, access to finance and administrative procedures. Excessively severe legal consequences of bankruptcy can obstruct entrepreneurship in two ways: on the one hand, they can deter entrepreneurs from starting afresh and contribute to the negative image of bankruptcy; on the other hand, they can become a deterrent to market exit.

Better economic performance is interconnected with the balance of risks and rewards linked to starting and running a business. Bankruptcy law has to take into consideration that there are some 23 million small enterprises in the enlarged Europe and Europe’s economic growth depends on them to a large extent. Their needs have to be met also when they are in trouble.

The aim of liquidation procedures is to protect the creditors while restructuring procedures allow debtors to get over their financial difficulties, aiming at ensuring the survival and continuity of a viable enterprise. However, liquidation procedures do not necessarily entail the cessation of all business activities; they can also result in transferring the viable parts of a company to another one or in a fresh start under a new name.

The financial difficulties of an enterprise can be devastating for other businesses interacting with it. A balance should be struck between the interests of the enterprise in difficulty and those of its business partners. A policy on bankruptcy in favour of enterprises might protect them from pressure by creditors. The review of the rules placing the creditors in an order of preference can result in a real benefit to small businesses, which are often unsecured creditors.

way in Member States and EU level, in particular in the Commissions’ rolling programme for up-date and simplification.

³⁷ Flash Eurobarometer No 160 on Entrepreneurship, June 2004.

Yet, a system in which debts are postponed or not returned at all could decrease the investors' readiness to invest in more risky ventures.

The *Best Procedure project on "Business Impact Assessment"*³⁸ and the *Best Procedure project on "Restructuring, bankruptcy and a fresh start"*³⁹ have made a number of recommendations that are important for achieving further progress in the Charter area of better regulation. These recommendations form the basis of the specific questions addressed to the Member States in the current review of the implementation of the Charter. The answers of the Member States to these questions are summarised in the tables in section 2.2.3. of this report.

The selected priority area for the current report is "**Better regulation, especially impact assessment and bankruptcy law**". Nevertheless, all relevant measures which fall under the Charter area "Better legislation and regulation" have been included in this section of the report.

3.2.1. *Indicators and targets*

Sweden and the United Kingdom have declared the target of applying impact assessment in all their proposed laws, **Ireland** has set the target of applying it for all primary legislation and **Slovakia** for all new legislation affecting the business environment⁴⁰.

Belgium, Denmark and the Netherlands have all set the target of reducing administrative burdens on businesses by 25%, by 2010 in the case of Denmark, and by 2007 in the Netherlands^{41, 42}.

The 2004 Enterprise Policy Scoreboard concluded that there has been an increasing focus on the regulatory and administrative environment and that various policy strategies and measures have been launched. In spite of these efforts, little or no evidence of any concrete results in terms of reductions of actual burdens can be found as yet, due to sparse data. Based on the information available, **Sweden** would already have reached its target in this field by July 2004 and the **United Kingdom** is very close, applying impact assessment to 96% of its legislation for the period so far. For the targets on reducing the overall administrative burdens for businesses, the information is still too sparse to assess whether they are being achieved.

³⁸ Recommendations of the Best Procedure Workshop on Business Impact Assessment in Member States, Brussels, 26 June 2001,

http://europa.eu.int/comm/enterprise/regulation/bia/best_procedure/conclusions.pdf

³⁹ Final report of the Expert Group of the Best Procedure project on "Restructuring, bankruptcy and a fresh start", September 2003,

http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/failure_bankruptcy/index.htm

⁴⁰ Sweden, 100% for the whole period 2001-2010; United Kingdom 100% by 2005; Ireland, from 0% in 2001 and 2002 to 100% for all primary legislation by 2006; Slovakia from 0% in 2003 to 100% in 2006.

⁴¹ Year not specified in the case of Belgium.

⁴² The Federation of Private Enterprises in Sweden regrets that the Swedish Government has not set any targets for its work to simplify legislation. The Federation is of the view that the administrative burden should be reduced by half.

3.2.2. Recent developments

Better regulation

Many new measures have been taken in the area of better regulation. **Estonia** has introduced the system of eLaw “*eÕigus*” which coordinates legislative drafting electronically. All documents at the various stages of the legislative process, including the comments received in consultation, are entered into the system and available for the public. **Greece** is developing a legal framework for better legislation and is implementing a broader programme of administrative reform called “*GOVERNMENT*”. Greece is also training its civil servants to be more responsive to the needs of small businesses.

Ireland has published a government *White Paper on regulation, “Regulating Better”*, which establishes an overall programme for improving the regulatory environment for businesses. It also provides for Departments and Offices to improve service delivery to their customers. This reflects a wider customer-focused agenda which is an integral part of the Irish government’s public service modernisation programme. An *Action Plan* to give effect to the principles set out in the White Paper will form the basis for the regulatory reform agenda.

Lithuania examined the functions carried out by all institutions having an impact on business development and business environment. As a result, many improvements have been made and further improvements are in the pipeline.

Reducing the administrative burden

Denmark has introduced an action plan, “*A More Business-Friendly Public Sector*”, which aims at further easing the administrative burdens for SMEs. As part of the action plan, Denmark is measuring the weight of the administrative burdens imposed by the different ministries responsible for the initiatives contained in the action plan. An improved method to measure administrative burdens, the “*Standard Cost Model*”, is being developed on the basis of the Dutch model. Denmark, the **Netherlands**, **Sweden** and **Norway** are working together on the method for measuring administrative burdens. **Belgium** is also planning a pilot project on measuring administrative burdens based on the Dutch model.

The **Hungarian Annual Deregulation Programme** aims at breaking down administrative obstacles, decreasing overregulation and repealing outdated and conflicting legislation. According to the programme, every law or regulation which is going to be amended needs to be examined to see if it could be simplified. **Malta** has set up a working group consisting of representatives of both businesses and public authorities to exchange experiences and discuss any problems that SMEs have encountered, as well as to seek the best solutions. **Poland** has decided to review legislation which has a direct or indirect impact on businesses. The aim of the review is to simplify legislation, eliminate redundant legislation and replace existing legislation with alternative solutions. **Sweden** has launched an *Action Plan for reducing administrative burdens on businesses*. As a result, 46 agencies and all ministries have delivered over 300 proposals to reduce administrative burdens. “*Regulatory Reform - The Government’s Action Plan*” in the **United Kingdom** outlined 650 deregulatory measures in December 2003. Up to September 2004, over 300 measures had been delivered. The “*Government action plan for small business*” sets out some 20 regulatory-related actions, along with yardsticks for measuring success. **Norway** has launched a new *Action Plan for Simplifying Norway “Streamlining and Facilitation for Trade and Industry – Status Report 2003”*. The Action Plan contains 108 initiatives.

At regional level, the Flemish Community in Belgium has introduced a rule on the compensation of administrative burdens. Under the rule, any increase in administrative costs due to a government decision (decree) must be counterbalanced by a proportional reduction in other administrative costs.

Simplification of legislation

Belgium has launched a simplification project on legislative evaluation, “*Evaluation legislative*”, aiming at creating a parliamentary ex-post evaluation system. **Denmark** has started to simplify the most onerous acts and rules. Improvements are also being made to facilitate hiring employees, especially the first employee. **Greece** is implementing a simplification programme and is, among others, reducing the number of procedures, simplifying legislation and reducing the number of documents required. The 850 administrative procedures offered by the Citizens’ Service Centres have already been simplified. 30% of the simplified procedures concern small businesses. Greece has also introduced the concept of tacit approval for citizens’ applications once a fixed period has expired.

A programme of *Statute Law Revision* has commenced in **Ireland**. It aims at streamlining the overall statute book by repealing obsolete acts and re-enacting those that are still relevant into a modern format.

Italy is drafting a Code of Incentives which aims at the rationalisation, reduction and harmonisation of the many measures currently in force. The Code sets out guidelines for simplified procedures and provides greater benefits for smaller enterprises. Once the Code is implemented, the measures that remain in force will be consolidated into the *Integrated Incentive Systems* (Sistemi Integrati Di Agevolazioni) for each area of support, including one for SMEs. Italy has also adopted a law to improve the quality of legislation. It includes a clause on business start-up declarations stating that the absence of reply from the administration is now to be taken as consent rather than refusal. **Latvia** is developing proposals to simplify the tax reporting of SMEs, introduce automatic tax incentives and perfect the tax system. **Luxembourg** has appointed a “Commissioner for administrative simplification” within its SME Ministry.

Finland is developing a new Companies Act which aims at easing or removing a number of current restrictions and requirements, for example concerning the auditors’ statement and the formalities for summoning meetings. Two independent reports on how to improve regulation for businesses/entrepreneurs have been finalised in **Norway**. The first report looks into whether there are obstacles in the Norwegian regulations for innovation and growth. The latter is a result of the Norwegian participation in the *Best Procedure Project on “Restructuring, bankruptcy and a fresh start”*.

Impact assessment

Since the previous report, progress has also been made in the use of impact assessments.

Belgium: The “Kafka” test

Belgium has introduced the “*Kafka*” test which aims at cutting red tape by verifying whether new measures introduce unnecessary formalities. The test applies to all proposed legislation that has an impact on the administrative burden of citizens and/or enterprises. It consists of a

brief questionnaire which is attached to the papers addressed to the Council of Ministers. This test will permit a brief description of the consequences of new legislation and will force an explanation of why it is essential to draw up new rules. In this way, the Federal Government will be able to combat red tape before a proposal enters into force.

The quality of the content of the “Kafka” test will be monitored mainly by the members of the inter-cabinet working groups responsible for ensuring that the tests are completed correctly and for returning the proposal to the administration or the competent strategic unit if necessary.

A more detailed version of the “Kafka” test, including socio-economic impact and cost-benefit analysis, is planned for 2006. The introduction of the extended version of the “Kafka” test (as for the “light” version) will be accompanied by communication campaigns and necessary guidance measures for the public services.

<http://vereenvoudiging.fgov.be/>

Greece has set up a *Central Procedure Simplification Committee* whose main priority is to adopt a framework for regulatory business impact assessment.

In **Estonia**, better legislation and regulation as well as regulatory impact assessments are gaining more and more attention. Different ministries are developing methods to assess the impacts of legislation⁴³. Estonia has also published a handbook for legislative drafting called “*Normitehnika käsiraamat*” which includes a section on impact assessments and takes into account alternative regulatory instruments as well as the option of not regulating at all. The **Spanish** lawmaking process now includes an analysis of the cost-effectiveness of all new provisions and their possible regulatory and non-regulatory alternatives. A new state agency in charge of regulatory impact assessments is to start operations in 2005.

Ireland is starting to run a series of pilots to introduce formal regulatory impact assessment procedures. These require regulators to also assess alternative policy instruments when preparing legislation. The **Latvian Programme for the Development of SMEs** provides funds for carrying out research on the impact of legislation on SMEs. In addition to the existing basic impact assessment, **Lithuania** introduced an extended impact assessment at the beginning of 2004. In **Hungary**, there is an obligation to carry out a preliminary analysis of the impact of new and modified legislation on SMEs. Every second year, the government submits a report to the Hungarian Parliament on the state of the SME sector, including the impact of particular decisions and measures.

Malta has set up the *Financial Services Consultation Council (FSCC)* to represent the financial services industry. The Council meets regularly and is given the possibility to review proposals of new laws. It regularly provides feedback on the impact of these laws on the industry as well as proposals for the improvement of these drafts. All financial services associations are represented in the Council.

⁴³ The Estonian Association of SMEs and the Estonian Taxpayers’ Association are concerned about the current impact assessment system in Estonia. The Estonian Association of SMEs hopes for a framework for improving the regulatory environment for businesses and requests exemptions or transitional periods for SMEs when new measures are introduced. It regrets the abolition of an exemption in the transport sector for self-employed entrepreneurs.

Netherlands: Impact Assessment

The Dutch impact assessment procedure consists of two phases: Phase 1 is called the Quick scan and concentrates on the validation of the choice of instruments and whether substantial consequences are likely for the business community, the environment or practicability and enforceability.

In Phase 2 the various assessments are actually performed. In both phases, the ministry responsible for the legislative proposal carries out the test. The test is to be validated by the so-called Proposed Legislation Desk which is operated jointly by the Ministry of Economic Affairs, The Ministry of The Environment and the Ministry of Justice.

If proposed legislation has impact on administrative burdens, it must also be submitted to Actal, the independent advisory council that examines administrative burdens.

Poland: Regulatory Impact Assessment

In Poland, all new legislation prepared by the organs of government administration is subject to impact assessment. The Minister proposing the legislation is responsible for the impact assessment, while the Government Centre of Legislation is responsible for the control of how this obligation is fulfilled. Among other things, draft legislation is assessed in terms of its impact on the public finances sector, the labour market, the competitiveness of the economy and of its impact on the regions and their development. It is foreseen that for legislation having an impact on business, one criterion may be the enterprise size. Moreover, a more in-depth assessment of the social and economic impact of draft legislation may be prepared by the Government Centre of Strategic Studies in respect of drafts which foresee significant long-term impact on social and economic development.

There is a requirement for organs proposing the introduction of new regulatory measures to assess alternative solutions. In line with this requirement, it is necessary to assess all legal and extralegal methods to be used to achieve the intended goals, and after the decision to prepare a draft regulatory measure has been taken, it is necessary to assess all legal alternatives.

Finland has launched a three-year project to promote the use of business impact assessment in legislative drafting. Among others, it aims to organise regular contacts between businesses and ministries on impact assessment issues. A project to develop impact assessment models and a group to develop legislative drafting have been set up. Finland has also introduced revised guidelines for drafting government proposals. In particular, they pay attention to regulatory impact assessments, the increased use of alternative policy instruments and to the development of hearing procedures.

Sweden has appointed NUTEK, the Swedish Business Development Agency, to coordinate better regulation at the level of regulatory agencies which issue most of the regulations concerning small businesses. The new tasks of NUTEK include reviewing all small business impact assessments of the agencies and providing advice to the agencies; proposing simplifications to existing regulations and measuring administrative burdens on businesses caused by regulations from all levels⁴⁴.

⁴⁴ The Federation of Private Enterprises in Sweden points out that the impact assessments in practice often are of low quality and that the quality control is not working satisfactorily. According to the Federation,

The **United Kingdom** has revised its *Code of Practice on Consultation* for government departments to follow. The Code will make the process of consultation less burdensome and reiterates the importance of providing feedback. In the future, any regulatory proposal likely to impose a major new burden on businesses will require clearance from the Panel of Regulatory Accountability. The United Kingdom has also published guidance including alternatives to regulation.

United Kingdom: Regulatory Impact Assessment

The United Kingdom has performed systematic regulatory impact assessments since 1998, covering all relevant impacts. A regulatory impact assessment must be carried out on all proposals that have an impact on business, charities or voluntary bodies and must assess the costs and benefits of a range of options, including alternatives to legislation. The impact assessment process includes a Competition Assessment to identify any likely adverse or beneficial effects on competition, and a Small Firms' Impact Test, which triggers early consultation with small businesses and their representative organisations to identify any effects on small businesses.

If a policy is not likely to have an impact on small business, the Small Business Service must attest to that. If the policy is likely to have an impact on small business, the relevant Department must consult the main small firms' representative organisations, relevant sector-specific trade associations, and a number of small businesses directly. If the impact on small business seems significant and/or complex, a more thorough consultation is necessary. These tests ensure that the potential effects on business are considered early on.

"Better Policy-Making: A Guide to Regulatory Impact Assessment" is available online at www.cabinetoffice.gov.uk/regulation/

At **regional level, the Walloon region in Belgium** is developing a regulatory impact assessment system for administrative simplification. A global regulatory impact assessment system will be set up to assess the budgetary impact of proposals. The **Flemish Community** in Belgium is introducing a light version of the global regulatory impact assessment.

Other better regulation initiatives

France has set up a free service called *Enterprise job pass* (le titre emploi entreprise, TEE) aimed at micro enterprises and enterprises that employ casual workers. It relieves the companies of all their social security formalities, which are carried out on their behalf by the relevant national centre for issuing job passes (*Centre National du Titre Emploi Service*). **Cyprus** has prepared a draft bill governing the setting up and the operation of the *Office of the Financial Ombudsman*. This Office will, inter alia, have the competence to receive and examine complaints of a financial nature involving small enterprises, with a view to resolving the dispute quickly and with minimum formality. **Luxembourg** has introduced a law which will accelerate the payments made by public authorities.

the simplification unit within the Ministry of Industry, Employment and Communications, SimpLex, has not had sufficient resources to stop proposals with bad impact assessments and make sure that relevant facts are included. However, the Federation notes a positive trend of more and better impact assessments and also stresses that the Swedish Government have taken a number of good initiatives during the last few years, even if those have not yet led to small businesses perceiving any simplification or less burdens.

Austria has embarked on a comprehensive programme of administrative reform and is currently implementing projects under the “*Innovation of the Administration*” Programme (VerwaltungsInnovationsProgramm, VIP). At **regional level**, the **Walloon region** in Belgium has established a good practice guide which identifies good practices in the area of e-government and administrative simplification. More good practices can also be found at <http://egov.wallonie.be/bonnespratiques>.

Competition legislation

Denmark is improving its *Competition Act* in order to secure more effective **competition rules**. Smaller undertakings in particular will benefit from the exemptions in the new notification system. The amendment to the **Slovak Economic Competition Act** reduces the administrative burden on entrepreneurs and introduces higher flexibility to the conclusion of business agreements. The amendment provides for entrepreneurs to determine whether conditions established by law for economic competition are met and whether an agreement is exempt by law rather than being obliged to inform competent authorities and wait for their decision on the exemption. In the **United Kingdom**, significant changes to the competition regime have also been introduced, including a legal exception regime under which agreements that meet the relevant criteria for being exempt from prohibition need not be notified to the relevant competition authority.

Rescue, restructuring and bankruptcy

Several countries report on new developments in their legislation on bankruptcy and restructuring. The **Czech Republic** is drafting a new *Insolvency Bill*. The Bill will offer more solutions for cases of insolvency or impending insolvency, for example, by means of bankruptcy proceedings, reorganisation and composition. It will also strengthen the position of the creditors. In addition, an *Insolvency Practitioners’ Bill*, covering the organisation of insolvency practitioners, their expertise, qualifications, and the keeping of the central register of practitioners, is under preparation. **Denmark** is preparing a reform of its *Bankruptcy Act* in order to make it easier for non-fraudulent entrepreneurs to get a fresh start after bankruptcy. The draft provides for a faster start for restructuring after an honest bankruptcy and a faster repayment of debt. **Germany** is in the process of reforming its *Insolvency Ordinance* in order to enhance the scope for the restructuring of companies. In **Greece**, a Committee has been set up to review bankruptcy legislation.

Estonia: Reform of bankruptcy law

In Estonia, a new *Bankruptcy Act* has entered into force. Among other things, it allows the option to either liquidate or restructure the company at any stage of the procedure after a petition for insolvency. It has also annulled many formalities with a view to decreasing the duration of restructuring or liquidation proceedings.

Spain: New insolvency law

A new insolvency law entered into force in Spain in September 2004. It opts for a single framework for all insolvency cases. The law focuses on restructuring rather than on liquidation and favours agreement between creditors and debtors. A particularly interesting feature of the law is “*la propuesta de convenio anticipada*” (proposal of early agreement): when supported by a sufficient number of creditors, proceedings will last a maximum of 72 days. The claims of traditionally secured creditors (mostly banks) are now subject to the general rules. In the case of honest insolvency, formal rehabilitation (via Courts) is no longer necessary to start a new business.

France: Bill for rescuing enterprises

France has presented a proposal for a new bill for rescuing enterprises. It aims at early detection of financial difficulties and authorises entrepreneurs to negotiate their debts with their main creditors out of court in a secure legal framework even before the suspension of payment. It includes a simplified liquidation procedure in clear cases where no rescue is possible and reduces sanctions with a view to promoting a second chance for honest bankrupts. The bill gives tax authorities the power to acquit the debtor of direct and indirect tax debts due (with the exception of VAT). The law is applicable to enterprises, liberal professions and the self-employed.

The new **Italian** bankruptcy law is going through the formal adoption process and a full reform of bankruptcy proceedings is under development. The reform is intended to introduce, among others, early-warning instruments and procedures to prevent bankruptcy or even rescue insolvent businesses. **Cyprus** is planning on reviewing the bankruptcy and winding up procedures in 2005 taking into account the experiences in other countries and the *Best Procedure Project on “Restructuring, bankruptcy and a fresh start”*. Some changes have already been introduced to the bankruptcy law governing cooperative societies. Among the new measures are the establishment of a *Solidarity Fund* for the support and development of the co-operative credit institutions and the additional authority given to the commissioner to secure and recover the financial position of the cooperative in order to avoid insolvency.

Taking into account the results of the *Best Procedure Project on “Restructuring, bankruptcy and a fresh start”*, **Latvia** has initiated the review of its Bankruptcy Law with the view of making it more SME-friendly. The changes introduced aim at improving the insolvency administration process, in particular the selection of the administrator, and at protecting the rights of creditors. The time needed for insolvency proceedings has also been reduced. A working group is drafting a new Insolvency Law which, among others, would introduce legal protection for SMEs and allow them to avoid initiating insolvency procedures for short-term financial difficulties.

Lithuania has developed an automated methodology for training and examination of the bankruptcy administrators of enterprises. It is also conducting a study which aims at identifying factors that hinder restructuring of enterprises and looks at the experiences of other countries. Based on the recommendations of the study, amendments to the Law on Restructuring of Enterprises will be introduced. **Hungary** is preparing a new *Insolvency Law* which places an emphasis on prevention of insolvency, solving financial problems and reorganisation of enterprises. During the preparation of the new law, the conclusions of the *Best Procedure Project on “Restructuring, bankruptcy and a fresh start”* were used for codification work. In its work on devising new proceedings that help the rescue and

restructuring of enterprises in financial difficulties Hungary has used the experiences of Germany, the United States and Japan.

The **Netherlands** is reviewing its *Insolvency Law* and developing instruments that would help differentiate between fraud and a simple business failure. If this can be successfully achieved, the non-fraudulent bankrupts will gradually be freed from the damage to their reputation they now suffer unjustifiably. The Netherlands has also launched a project *Debt restructuring for entrepreneurs* (Schuldhulpverlening voor Ondernemers) which aims at streamlining the process of extrajudicial debt restructuring for entrepreneurs.

The new *Bankruptcy and Reorganisation Law* has entered into force in **Poland**. It aims at more rapid and flexible bankruptcy proceedings. The new **Portuguese Insolvency and Business Recovery Code** (CIRE) has entered into force. The law should speed up the procedures and promote fresh start by granting qualifying debtors a waiver of debts which were not paid either during the insolvency process or the five years after its completion. The law stipulates that the creditors will be able to decide on the total liquidation of the debtor's assets or the continued restructuring of the enterprise⁴⁵.

Finland is currently assessing the functioning of the *Act on the Restructuring of Companies* and developing a comprehensive *insolvency action plan* to prevent over-indebtedness and to administer insolvency situations in a flexible manner. A revision of the legislation on recovery proceedings is pending. The legislation aims at improving the minimum financial protection of debtors with low income and the conditions for continuing the business activity. In addition, Finland has mapped out the advisory services available to companies with financial problems. The resulting report proposes new, more detailed measures for instance on how firms can be prevented from falling into financial difficulties at an earlier stage. The report also describes the advisory and rehabilitation modes in use in other EU countries and in the United States.

At **regional level in the United Kingdom, Scotland** has drafted a *Bankruptcy and Diligence Bill*. The proposed reforms would affect individuals and partnerships, though not companies or limited liability partnerships to which UK law applies. The reforms in relation to personal and partnership bankruptcy match those introduced for **England** and **Wales** by the 2002 Enterprise Act.

Advice for businesses in financial difficulties

Netherlands: Entrepreneurs' sounding board – Foundation Ondernemersklankbord

The foundation Ondernemersklankbord (entrepreneurs' sounding board) is an organisation of retired entrepreneurs, general managers with entrepreneurial experience and experts providing free counselling to SMEs on a voluntary basis. Advice on business failure is an important part of the activities of the Ondernemersklankbord, whose popularity has increased notably through consistent publicity. The number of its clients has grown as well as the number of volunteers offering their services.

⁴⁵ The Portuguese SME Organisation, PME-Portugal, considers the new legislation as a positive step to clarify the processes. It argues that the rapidity of these processes will enable not just to recover enterprises but to recover credits in time, making the economy healthier. It notes that this code doesn't foresee any special measures for small enterprises.

Belgium: Centre for the self-employed and small enterprises in difficulties (Centre pour indépendents et petites entreprises en difficultés)

At regional level, the Brussels-Capital region in Belgium has set up a *Centre for the self-employed and small enterprises in difficulties* (Centre pour indépendents et petites entreprises en difficultés) which offers low or no-cost advice. Services range from analysing financial problems to helping to choose the right way out. The roles of the *Centre* include making Brussels-Capital Region aware about the need for new preventive measures or acting as an interface with business support services.

www.500.be/site/fr/maison_des_entreprises/page

Other measures for businesses in financial difficulties

The Banque de **France** uses a special rating for entrepreneurs whose company has been wound up. Such bank ratings are particularly detrimental for entrepreneurs wishing to restart. As from 2005, the Banque de France has agreed to reduce the duration of the special rating from five to three years for an SME entrepreneur and from ten to five years for a sole trader. In addition, to make entrepreneurs aware of the measures to prevent business difficulties sufficiently early, the French Directorate-General for Taxation has introduced a formal notice procedure for businesses unable to pay their VAT. Specific mention now appears on formal notices addressed to failing businesses informing them of the existence of the prevention scheme on a dedicated website for businesses (www.entreprises.minefi.gouv.fr).

To reduce the administrative burden and to help businesses in financial difficulties, it is possible in **Italy** to be exempted from the procedure relating to the failure to pay taxes, provided that the failure is due to temporary financial difficulties.

3.2.3. Conclusions and recommendations

Better regulation, especially impact assessment

The 2003 Charter report concluded that all Member States are committed to improving and simplifying regulation and that the progress achieved is encouraging. With regard to using impact assessment, the report showed a mixed picture and urged the Member States to introduce systematic regulatory impact assessment systems and to involve small businesses in the drafting of legislation from an early stage. The report also asked for the creation of regular systems to consult small businesses prior to the adoption of relevant legislation. The 2004 Charter report on acceding and candidate countries concluded that reform remains a high priority in the area of better regulation and recommended the acceding and candidate countries to continue their efforts to improve the legislative environment for business, to consider the introduction of exemptions for small businesses from certain legal obligations which may weigh heavily on small companies in particular, to strengthen the business impact assessment and to make further efforts to involve the business community in the legislative process.

A general overview of the measures available in the area of better regulation and impact assessment can be found in Table 2.

Since the previous Charter implementation reports, several new measures have been taken in the area of **better regulation**. Most recently, **Denmark, Greece, Ireland, Hungary, Sweden and the United Kingdom** have launched extensive programmes to improve the regulatory environment for businesses (see Table 2 for a complete list of countries that have an overall better regulation programme).

Progress has also been made in the use of **impact assessment**. In nearly all Member States impact assessments are high on the political agenda and in a significant number of Member States impact assessments are part and parcel of the preparation of new legislation. In practice, however, there are difficulties in ensuring that the results lead to improved proposals, with the consequent risk that the assessment becomes a mere formality.

The over-proportional negative effects on small businesses are hardly ever assessed. Only seven countries carry out tests on impact on small enterprises. Exempting small enterprises from certain regulatory obligations, as proposed by the Charter, can also be useful in alleviating the burden on small enterprises. However, only five countries allow exemptions for SMEs (for details, see Table 2).

The **Netherlands and the United Kingdom** are among the leading countries in the use of impact assessment, the United Kingdom including also an assessment of the impact on small businesses. Good progress in this area has also been made in **Poland**. In some Member States, for example in **Ireland and Italy**, pilot projects are carried out to introduce impact assessment. This activity should be pursued in order to formalise the use of the impact assessment. Some Member States have created, or have had for some time already, specific units for impact assessments as shown in Table 2. Some Member States also require mandatory impact assessment for all new legislation (for details, see Table 2). The introduction of e-governmental procedures for example in **Estonia and Latvia** has helped stakeholder consultation in the early stages of drafting legislative proposals and carrying out impact assessments. This approach – allowing the public at large to comment on-line on draft legislation – is certainly recommendable.

In **Denmark, the Netherlands, Sweden and the United Kingdom**, impact assessments are being used to identify obstacles to SMEs. In these countries, governments are looking for ways to reduce the administrative costs of current legislation and to make the existing legislation much simpler. The **Dutch** Standard Cost Model is often mentioned as a method of calculating these costs. Ambitious goals to reduce the administrative burden of existing legislation have been set in the **Netherlands and Denmark** and these programmes have also triggered interest from other Member States.

Whereas good progress has been made in the use of impact assessment in many countries, **France, Portugal, Slovenia and Slovakia** need to **step up their efforts** in this area.

- *Impact assessment should be used as a systematic tool to improve regulatory quality.*
- *The likely effects on SMEs, where relevant, should be assessed in the impact assessment procedure.*
- *Stakeholders need to be consulted to gather information and opinions.*
- *Cooperation and drawing on the expertise of various government departments is encouraged.*
- *A horizontal unit within the government, with central overview, appears to help the quality and independence of impact assessment work and monitoring.*

Bankruptcy law

The 2003 Charter report showed that some Member States were in the process of revising their bankruptcy laws. The report invited the Member States to adopt provisions facilitating a second start after bankruptcy, to exchange experience and good practices in the framework of the Best Procedure project on bankruptcy and a fresh start and to continue efforts to repeal redundant legislation and to consolidate legislation. The 2004 Charter report on acceding and candidate countries concluded that these countries had introduced modern bankruptcy rules.

An overview of the measures available in the area of restructuring, bankruptcy and a fresh start can be found in Table 3.

Excessively severe legal consequences of bankruptcy and complex **bankruptcy procedures** can obstruct entrepreneurship. It should not be the fear of being confronted with bankruptcy procedures that deters potential entrepreneurs from putting their ideas into practice. For this reason, time- and money-consuming **bankruptcy procedures** need to be revised or give ground to new laws aimed at quick, low cost, accessible, streamlined and predictable procedures. Summary proceedings can be a positive step forward. During the past year, **half of the Member States** have either reviewed their national bankruptcy laws or are in the process of doing so. An interesting recent example is **Spain** which has substantially improved its insolvency law.

– *Time- and money-consuming bankruptcy procedures need to be revised or give ground to new laws aimed at quick, low cost, accessible, streamlined and predictable procedures. Summary proceedings can be a positive step forward.*

Although **rescue and restructuring** proceedings do exist in many Member States, some are either not used in practice, because they are not convenient for the interest of the parties involved, or fail in their aim to keep the business afloat, as shown in Table 3. They need revision. The option to either liquidate or restructure should exist at any phase of the procedure. An interesting example is the new **French** bill for rescuing enterprises aiming at early detection of financial difficulties and promoting a second chance. It is also worth mentioning the **Dutch** project *Debt restructuring for entrepreneurs* which aims at streamlining the process of extrajudicial debt restructuring for entrepreneurs. The **Best Procedure Project on “Restructuring, bankruptcy and a fresh start”** has been an inspiration to some countries as **Cyprus, Latvia, Hungary and Norway** state that they have taken the recommendations of the project into account when revising their legislation.

– *Rescue and restructuring proceedings should be improved to keep businesses afloat. The option to either liquidate or restructure should exist at any phase of the procedure.*

Taking action in a timely manner may substantially increase the chances of rescuing an enterprise in financial difficulties. **Low cost advice** is what entrepreneurs in trouble can afford. Consequently, government departments, the internet, insolvency practitioners, Chambers of Commerce and many others have a role to play as suppliers of specialist advice to small and medium-sized enterprises (see Table 3 for the countries providing such advice). The *Centre for the self-employed and small enterprises in difficulties* in **Belgium**, and the **Dutch Entrepreneurs’ sounding board** are can be highlighted as good examples in this area.

- *Low cost advice to entrepreneurs in financial difficulty should be made easily accessible in order to increase the chances of rescue.*

As identified by the *Best Procedure Project on “Restructuring, bankruptcy and a fresh start”*, **continued support** from business partners, financiers, creditors and other stakeholders can help an entrepreneur in trouble to avoid unnecessary market exit. That is why measures such as provisions to prevent business partners from stopping deliveries can be central to boosting entrepreneurial dynamism. That can also be the case for allowing preferential recovery to those business partners that have continued doing business with the company in financial difficulties (see Table 3 for the countries providing measures to encourage continued support). Fiscal or social security authorities should be able to allow companies in difficulty to make deferred payments or payments in instalments.

In a dynamic entrepreneurial economy consisting of high entry and exit rates, it is clear that some companies will evidently close down. This is a sign of the capacity of the economy to transform and adjust itself to new market opportunities. However, to reduce the stigma of failure, a **proactive approach** to bankruptcy is needed in order to ensure the continuity of viable enterprises. It would imply the cooperation between ministries as well as information and education programmes. The legal approach is often “negative”: rather than encouraging debtor’s early action in initiating proceedings, bankruptcy legislation usually tries to discourage late action by means of penalties.

Usually, failed entrepreneurs learn from their mistakes and are more successful at the next attempt. Since encouraging bankrupts to try again would contribute positively to economic growth, no hindrances should impede non-fraudulent bankrupts to **start afresh** and no restrictions, disqualifications, prohibitions or sanctions should be imposed in case of misfortune. For this reason, some Member States allow for discharge of remaining debts, subject to certain criteria, and/or debt relief procedures for non-corporate businesses (see Table 3 for the countries providing such measures). Insolvent entrepreneurs’ savings or insurances aimed at securing retirement should not be seized.

- *To better face financial difficulties, entrepreneurs need continued support from their business partners.*
- *To reduce the stigma of failure, a proactive approach to bankruptcy should be promoted for example by cooperation between ministries and information programmes.*
- *Making a fresh start needs to be made easier for non-fraudulent entrepreneurs.*

Although several new measures have been taken to improve bankruptcy and restructuring procedures and to promote making a fresh start, more action is needed in some countries. For example, there is **no progress** in **Greece** in this area and there are no early warning mechanisms in **Luxembourg**. Furthermore, bankruptcy procedures focusing on liquidation in **Slovakia** and restructuring procedures in **Poland** are still expensive and complicated. While progress has been made, sometimes the focus of the measures taken is not in line with the recommendations of the *Best Project*. Such examples include the **Czech Republic and Portugal**, where the revised Insolvency Bills will strengthen the position of the creditors, thereby endangering the new features introduced to promote the continuity of viable enterprises.

Table 2 – Overview of measures in the area of better regulation and impact assessment

	Better regulation programme	Specific IA policy	Obligatory IA	Alternative instruments considered	Guidelines on IA	Coordinating body for IA	Consultation part of IA	Formal consultation procedures	Direct stakeholder consultation	Tests of impact on small enterprises	Exemptions for SMEs	Total Y+(Y)
Belgium	(Y) ⁴⁶	N.A.	(Y) ⁴⁶	N.A.	(Y) ⁴⁷	(Y) ⁴⁶	N	(Y) ⁴⁶	(Y) ⁴⁸	(Y) ⁴⁶	N	7
Czech Republic	Y	N.A.	N	Y	N.A.	N.A.	N.A.	N.A.	N.A.	(Y) ⁴⁹	N	3
Denmark	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	10
Germany	Y	N.A.	N.A.	N.A.	Y	Y	Y	Y	N.A.	N.A.	N.A.	5
Estonia	N	N	Y	Y	Y	N.A.	N.A.	N	N	N.A.	Y	4
Greece	(Y)	(Y)	N	N	N	N	Y	N	N	N	N.A.	3
Spain	Y	(Y)	Y	Y	(Y)	(Y)	N	N	N	N	N.A.	6
France	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0
Ireland	Y	N	N	(Y)	(Y)	N	(Y)	(Y)	N	N	N	5
Italy	(Y)	Y	N	(Y)	Y	(Y)	(Y)	N	Y	(Y)	N	8
Cyprus	N	N	N	N	N	N	N	N	N	N	N.A.	0
Latvia	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	9
Lithuania	N.A.	Y	Y	Y	Y	N.A.	N.A.	N.A.	N	N.A.	N.A.	4
Luxembourg	Y	N.A.	Y	Y	N.A.	Y	Y	Y	N	N	Y	7
Hungary	Y	(Y)	Y	N	N	Y	(Y)	(Y)	N	N	N	6
Malta	Y	N.A.	N.A.	N	N.A.	(Y)	N	N	Y	N	Y	4
Netherlands	Y	Y	N.A.	Y	Y	Y	N	N	Y	(Y)	Y	8
Austria	Y	Y	Y	Y	Y	N	Y	Y	Y	N.A.	N	8
Poland	Y	Y	Y	Y	Y	Y	Y	Y	(Y)	N	Y	10
Portugal	N	N	N	N	N	N	N	N	N	N	N	0
Slovenia	Y	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1
Slovakia	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	(Y)	N.A.	N	1
Finland	Y	Y	Y	Y	Y	(Y)	Y	Y	Y	N.A.	N.A.	9
Sweden	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N ⁵⁰	9
United Kingdom	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N ⁵⁰	10
Norway	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N ⁵⁰	9
Total Y+(Y)	20	14	14	16	16	15	14	13	12	7	5	

Legend

Y	Measures exist	(Y)	Measures planned/ Available partially	N	No measures exist	N.A.	Information not available
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⁴⁶ In the Walloon region, the Flemish Community and at federal level.

⁴⁷ In the Flemish Community and at federal level.

⁴⁸ In the Walloon region and in the Flemish Community. This is also planned at federal level.

⁴⁹ Ad hoc tests are carried out.

⁵⁰ In principle no but if so, this is decided on a case-by-case basis.

EXPLANATIONS TO THE COLUMNS OF TABLE 2

The results in the table are extracted from the Member States' answers to a questionnaire containing the following questions based on the main recommendations of the *Best Procedure project on "Business Impact Assessment"*:

Better regulation programme

Does an overall programme or framework for improving the regulatory environment for business exist?

Specific IA policy (*IA stands for impact assessment*)

Did you publish an explicit policy to carry out impact analysis?

Obligatory IA

Is there an obligation to subject all new legislation, as well as other regulatory measures to impact assessment? How is this obligation enforced?

Alternative instruments considered

Are regulators required to assess alternative policy instruments when preparing new legislation?

Guidelines on IA

Did you publish any common guidelines to ensure a minimum level of harmonisation of analytical methods and practices?

Coordinating body for IA

Did you establish a dedicated body (or bodies) responsible for co-ordination and monitoring impact assessments in the national or regional administration?

Consultation part of IA

Did you place public consultation in an overall strategy for impact assessment so as to improve data collection and validation of results?

Formal consultation procedures

Did you formalize the consultation procedures to ensure the effective participation of all interested parties? If so, did you establish minimum periods of consultation?

Direct stakeholder consultation

Did you develop specific procedures for direct consultation with stakeholders (i.e. test panels, polls, etc.)?

Tests of impact on small enterprises

Are there specific tests or screenings of the impact of regulation on Small Businesses?

Exemptions for SMEs

Are specific exemptions or transitional periods granted to SMEs when new regulatory measures are introduced?

Table 3 – Overview of measures for restructuring, bankruptcy and a fresh start

	Generally successful restructuring procedures	Measures for continued support by partners	Low cost specialist external advice	Benefits for debtor's early action	Easy access to rescue proceedings ⁵¹	Short discharge period and/or debt relief	Better legal treatment for honest bankrupts	Other measures for fresh start	Total Y+(Y)
Belgium	N.A.	Y	Y ⁵²	Y	(Y)	Y	Y	N	6
Czech Republic	N	N	(Y) ⁵³	N	N.A.	N.A.	N	N.A.	1
Denmark	(Y)	N	N	N.A.	(Y)	(Y)	(Y)	(Y)	5
Germany	(Y)	N.A.	N.A.	N.A.	(Y)	N.A.	N.A.	(Y)	3
Estonia	(Y) ⁵⁴	N.A.	N.A.	N	N.A.	N.A.	N.A.	N.A.	1
Greece	N.A.	N.A.	N.A.	N.A.	N.A.	N	N.A.	N.A.	0
Spain	(Y) ⁵⁴	(Y)	N	(Y)	Y	Y	Y	N.A.	6
France	(Y) ⁵⁴	Y	Y	N.A.	(Y)	N.A.	(Y)	(Y)	6
Ireland	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0
Italy ⁵⁵	(Y)	(Y)	(Y)	(Y)	(Y)	(Y)	(Y)	(Y)	8
Cyprus	N	N.A.	N.A.	Y	N.A.	(Y)	Y ⁵⁶	N.A.	3
Latvia	N	N	N	N.A.	N.A.	N	N	N	0
Lithuania	N.A.	N.A.	N	Y	Y	N.A.	N	N	2
Luxembourg	N.A.	(Y)	(Y)	(Y)	(Y)	N.A.	(Y)	N	5
Hungary	N	N	N	(Y)	N	N.A.	N.A.	N.A.	1
Malta	(Y) ⁵⁴	N	N	(Y)	(Y)	N.A.	(Y)	N	4
Netherlands	N	(Y)	Y	(Y)	Y	(Y) ⁵⁷	(Y)	N	6
Austria	Y	(Y)	(Y)	N	Y	N	N	(Y)	5
Poland	N.A.	(Y)	N	(Y)	N	N	N	N	2
Portugal	(Y) ⁵⁴	N.A.	N.A.	N.A.	(Y) ⁵⁴	N.A.	N.A.	N.A.	2
Slovenia	N.A.	(Y)	N	N	N	(Y) ⁵⁷	N	N	2
Slovakia	N	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0
Finland	Y	(Y)	N	Y	Y	(Y) ⁵⁸	N	N	5
Sweden	N ⁵⁹	Y	Y ⁵³	Y	(Y)	(Y) ⁵⁸	Y	N	6
United Kingdom	Y	(Y)	Y ⁵³	Y	Y	Y	Y	N.A.	7
Norway	N.A.	N	N	(Y)	N	Y	Y	N	3
Total Y+(Y)	11	12	9	14	15	11	12	5	

⁵¹ Less than five years. Discharge is usually subject to conditions.

⁵² Only in Brussels region

⁵³ Mainly private advice

⁵⁴ New law

⁵⁵ The reform in Italy is in its first steps.

⁵⁶ In case of misfortune, Courts can remove some disqualifications

⁵⁷ Only applicable to natural persons.

⁵⁸ A debt relief procedure exists for natural persons.

⁵⁹ Successful restructuring within the bankruptcy procedure is more common than under the business restructuring procedure.

Legend

Y	Measures exist	(Y)	Measures planned/ Available partially	N	No measures exist	N.A.	Information not available
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EXPLANATIONS TO THE COLUMNS OF TABLE 3

The results in the table are extracted from the Member States' answers to a questionnaire containing the following questions based on the main recommendations of the *Best Procedure project on "Restructuring, bankruptcy and a fresh start"*:

Generally successful restructuring procedures

How many restructuring proceedings fail and become liquidation proceedings? In restructuring proceedings, which measures, if any, aim at contributing to the survival of the business (termination of certain contracts, suspension of executive actions, etc)?

Measures for continued support by partners

Which measures in your country, if any, aim at ensuring continued support from business partners, financiers, creditors and other stakeholders to businesses in financial difficulties?

Low cost specialist external advice

What kind of external advice is offered to entrepreneurs to enable earlier recognition of financial difficulties? Is clear information regarding the availability of possible solutions readily accessible?

Benefits for debtor's early action

How does your legislation on bankruptcy encourage debtors' early action in initiating proceedings? If a debtor reasonably foresees that it will no longer be able to pay debts and initiates insolvency procedures, what kind of benefits could he/she benefit from (easier settlement, less penalties, etc)?

Easy access to rescue proceedings

Does practice in your country show that rescue and restructuring proceedings are cheap, simple, easily accessible and thresholds for entry low? What is the role of creditors in restructuring proceedings?

Short discharge period and/or debt relief

What requirements have to be fulfilled to allow discharge of remaining debts? Is discharge counterbalanced by other measures (e.g. loss of the status of trader)? Do you foresee to modify the discharge period?

Better treatment of honest bankrupts

Are restrictions, disqualifications or prohibitions on those who are subject to bankruptcy proceedings imposed both to fraudulent and non-fraudulent bankruptcies? Are they updated? Please indicate any other differences of legal treatment of honest and dishonest bankrupts.

Other measures for fresh start

How is fresh start for entrepreneurs who have failed through no fault of their own promoted in your country?

3.3. Availability of skills

Charter commitment:

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

Recommendations of the 2003 Implementation Report on the Charter in the Member States:

All Member States are invited to step up efforts to systematically identify and address skills gaps.

New initiatives to develop links between universities and businesses are welcome and should be continued.

Recommendations of the 2004 Implementation Report on the Charter in acceding and candidate countries:

Acceding and candidate countries should continue to promote training subsidies, e-learning techniques, clustering and awareness raising activities.

The availability of skills varies considerably across Europe both at national and sub-national level. Nevertheless, there is a perceived skills gap, particularly acute in technological sectors, which holds back the capacity of businesses not only to expand but also to operate effectively in an increasingly competitive globalised environment. Small businesses in particular cite the “lack of skilled labour” consistently as a greater constraint than “access to finance” or “administrative burdens”⁶⁰. The paradox of persistently high unemployment and skills shortages suggests a mismatch between labour market requirements and educational output. While shortages may be to a large extent cyclical, it is crucial that these gaps are addressed in time and effectively by investing in human capital to improve the employability of the people and the competitiveness of businesses.

Any changes in the educational system to improve its articulation with the new skills needed in the market will produce their effects only after a number of years. Anticipating the future of industry is particularly difficult when looking at the medium or long term. Cooperation and interaction between the different actors is therefore crucial, and that is why last year’s report recommended the continuation of new initiatives to develop links between universities and businesses.

The selected priority area for the current report is “**Skills shortages, especially measures to overcome lack of skilled technicians and engineers**”. Nevertheless, all relevant measures which fall under the “Availability of skills” Charter area have been included in this section of the report.

This year’s focus on the engineering and technical sectors is a result of particularly evident skills shortage and mismatch in a number of European countries. The reasons for the shortage are twofold: on the one hand, increased demand for engineers and other skilled staff due to

⁶⁰ 8th Observatory of European SMEs, August 2003.

advanced technologies and, on the other hand, a reduction in the number of engineering and technical graduates. A study by the German Engineering Federation⁶¹ showed that although the number of jobs in the engineering sector declined over the period of 1982-2004, the share of engineers in the labour force went up from 7% to 16% and this increase was predominantly among SMEs. This is due to the fact that engineers are increasingly employed in non-technical areas such as marketing and sales due to the technical complexity of the products sold. While the demand for engineers is rising, the attractiveness of engineering studies is declining as these subjects are often associated with a negative image of old-fashioned professions. This is why awareness raising is needed to redress the image of the engineering profession and to highlight the importance of technology in society.

The shortage of engineers can be compounded by the mismatch between the skills of older engineers or engineers trained in some parts of Eastern Europe, and the current needs of industry. Several thousand European engineers are working in data processing or administrative jobs. But even when engineers have the required skills they are not usually sufficiently mobile not only because of salary differentials but also because of different educational requirements for engineers and technical specialisations.

The comparability and transferability of national engineering degrees is being improved by the Bologna process, aiming to create a “European higher education area” by 2010⁶², and the enhanced importance of the National Academic Recognition Information Centres (NARIC/ENIC). The professional title of Euro Engineer established by the European Federation of National Engineering Federations (FEANI) guarantees the professional competencies and free movement of engineers in Europe.

3.3.1. *Indicators and targets*

Several Member States have declared quantitative targets related to skills availability. **Latvia**’s target of increasing its number of tertiary science and technology graduates to 8 per one thousand 20-29-year-olds by 2010 was achieved already in 2002 reaching 8.1. In addition, Latvia aims to increase the share of adult population participating in education and training to 9% in 2004 and 10% in 2010. **Malta** wants 80% of its population to have basic information and communication technology (ICT) literacy skills in 2007 and also wants 75% of secondary school leavers to sit for ICT certifications by the same year.

The **Netherlands** wants to be among the top 5 in 2010 when it comes to the share of knowledge workers⁶³ and also to be in the leading group in 2010 as to participation in education and training of 24-64-year-olds consolidating its 5th position in Europe. **Sweden** targeted for the years 2001-2004 a cumulative number of 16 500 graduates in engineering and architecture. Sweden also aims to increase the number of new research graduates, reaching a cumulative number of 9 170 for the period 2001-2004. The **United Kingdom** wants to reduce by at least 40% the number of adults in the labour force lacking NVQ2 or equivalent qualifications by 2010.

⁶¹ VDMA Engineering Survey 2004.

⁶² See http://europa.eu.int/comm/education/policies/educ/bologna/bologna_en.html for further information.

⁶³ As a percentage of population above 15 years.

The number of science and technology graduates⁶⁴ in the Member States in general follows a positive trend. Increases were reported, for example, in **Sweden, Spain, Belgium, Slovenia, Poland and Slovakia**, while the rate stagnated in **Germany** and decreased in **Ireland**, in 2002. Several Member States – **Ireland, France, the United Kingdom, Finland and Lithuania** – outperform the United States and even Japan according to this indicator.

By 2002, 47 % of the **Swedish** target for graduates in engineering and architecture had been reached and the annual number has been increasing since 2001⁶⁵.

Developments regarding participation in lifelong learning activities are unclear due to a statistical discontinuity between 2002 and 2003. In 2003, six Member States – **Sweden, the United Kingdom, Denmark, Finland, the Netherlands and Slovenia** – surpassed the European benchmark of 12.5 % participation in lifelong learning. But while some countries have made considerable progress, such as **Sweden and Greece**, lifelong learning participation rates have remained unchanged or decreased in many others. In the EU-25, 9% of the working age population (25-64 years) had participated in some form of training in the four weeks prior to the Eurostat Labour Force Survey in 2004.

Even though there was a small decrease between 2002 and 2003, with 8.1% in 2003 **Latvia's** targets of 9% for 2004 and 10% for 2010 as to adult population participating in education and training should be within reach. The **Netherlands**, with 16.5% in 2003, is already in the leading group, with only four Member States ahead.

3.3.2. *Recent developments*

General and vocational education

Several countries are in the process of overhauling their education and vocational education systems to make them more responsive to the labour market⁶⁶. **Germany** is modernising its vocational training to promote internationalisation, regional responsibility and cooperation, as well as a simplification of training regulations. **Slovenia** is continuing to revamp its vocational education programme, *Starting Points*, and some of these activities are undertaken in cooperation with the Dutch government under the *MATRA pre-accession programme*. In **Finland**, the government intends to shorten the studying period and offer student allowances for further studies. In the **United Kingdom**, a new network of *Sector Skills Councils (SSCs)* are licensed to improve skills and productivity in industry and businesses and support higher education institutions to address national occupational standards and sector skills needs. **Norway** has published a White Paper on the content, quality, and organisation of primary and secondary education in a life-long perspective while continuing reforms in the quality of higher education and life-long learning.

⁶⁴ Relative to 20-29 year olds.

⁶⁵ Sweden's target is based on data from the National Agency for Higher Education.

⁶⁶ In this context, it can be mentioned that the Federation of Private Enterprises in Sweden considers that the good results of the qualified vocational training in Sweden partly are due to the cooperation between the schools and the employers, under which part of the education takes place in the companies.

France: Apprenticeship reform

The French government has focused on apprenticeship reform with a new four-step plan.

Step 1: Improve young people's image of apprenticeships and trades and provide better information on the possibilities of training and jobs offered by craft SMEs: annual promotion gathering, apprenticeship month, internet portal, awareness-raising in larger businesses.

Step 2: Revamp the apprenticeship system to make it more flexible and attractive: introduction of national apprenticeship card, €300 allowance for the apprentice's first piece of equipment.

Step 3: Facilitate the arrival of young apprentices: improve the matching of apprenticeships to business needs, institute an apprenticeship mediator.

Step 4: Increase apprenticeship guidance and financing: greater collaboration among all players, transparency in tax collection.

Italy: Work-study schemes

Italy has introduced work-study schemes to provide training during upper secondary education either in secondary schools or as a component of the vocational training system. The work-study schemes change traditional teaching methods by enabling close cooperation between the world of education and training and enterprises, fostering problem-solving skills, developing self-diagnosis and self-development abilities and improving the ability to understand and analyse complex situations. This contributes to matching the skills training with the needs of local enterprises.

In **Malta**, the Employment and Training Corporation ensures the availability of skills requested by enterprises and is planning to introduce a new apprenticeship framework.

Austria: New apprenticeship types

In reaction to structural changes in industry, Austria has introduced a number of new measures to update its apprenticeship system. 20 new apprenticed professions (*Lehrberufe*) have recently been created in growing service branches and particularly the electronic data processing and ICT sectors. The new apprentice types have been established based on research of many industry sectors for their skills shortages. 20% of apprentices already follow the new apprentice types.

In addition, **Austria** has appointed a government commissioner for youth employment and apprenticeship education. Apprenticeship recruiters have also been introduced to encourage firms to train apprentices and the apprenticeship and school-certificate (*Lehre und Matura*) has been created to complement new regulations in engineering and plant electronics professions.

Training

The **Dutch** government is strengthening the responsiveness of the training market by supporting innovative private sector initiatives that have born interesting results. First, the "*Training Impulse Subsidy Scheme*" has developed a number of innovative training projects

in all major sectors and in the future will focus on disseminating the best practices. Second, a system for the formal recognition (EVC) of informally acquired skills, such as learning through work, has bridged the gap between working and learning and facilitated employment. In the **United Kingdom**, an evaluation of the *Employer Training Pilots* programme showed high levels of satisfaction with this free or heavily subsidised and flexibly delivered training. The *Skillseekers programme* is being re-engineered to achieve improved progression from school to further learning opportunities such as modern apprenticeships. In an effort to recognise informal, on-the-job training which is the norm in SMEs, the government has developed the *Skills Passport* to identify skills needed and record acquired skills in a particular area, for instance the e-skills passport for information technology skills.

Greece ensures that almost 25% of the European Social Fund co-funded training for unemployed is in technical areas while almost 70% of long-term apprenticeships are also in technical professions. The pilot project “*Work-Practice*” in **Estonia** has given unemployed people the opportunity to work and get training in a company for four months. Due to the success of this project (70% of the unemployed got a job) it has now been incorporated into the employment services. At **regional level, in the United Kingdom** the *learn direct Scotland* business helpline and website has supported more than 23 000 learners. Training liaison officers work with business to identify training requirements and *Training Access Points* are allocated to individual businesses to give free access to online learning in the workplace.

Monitoring mechanisms

Most countries have or are planning mechanisms to monitor skills gaps in different sectors on a regular basis so as to anticipate industry’s long term skills. Usually monitoring is undertaken by public bodies and complemented by surveys done by chambers of commerce, trade associations and employers federations. In **Ireland**, the Training Employment Authority produces annual profiles of current and future supply/demand skills balance and recommends how imbalances can be corrected. This is complemented by monthly surveys of the construction, manufacturing and service sectors to identify difficult-to-fill vacancies. While these skills monitoring reports are an effective way of tracking skill shortages in mature sectors, this methodology is not appropriate in sectors undergoing structural change. To address this, in-depth business strategy surveys are conducted, and currently one of these studies is for the engineering and metals fabrication industry. Ireland also maintains a *national skills database* with information that may assist in the identification of skills shortages such as information on immigration, on overtime and on earnings.

The **Italian** Union of Chambers of Commerce has a database, *Excelsior*, on the supply and demand for qualified technicians and engineers. **Lithuania** has an online pilot database, *AIKOS – Open Information, Counselling and Guidance System* (www.mokykla.smm.lt), available in Lithuanian and English. The website provides integrated information on education and the labour market. **Estonia, Cyprus and Latvia** made their first annual Long Term Employment Forecasts in 2003 to complement non-regular sector-specific surveys on skills needs. In the **Czech Republic and Poland**, systems are under construction, in the case of the Czech Republic partly based on experiences from **Ireland and the Netherlands**.

Promotion of links and cooperation between universities and enterprises

Many interesting measures are reported to increase links and cooperation between educational institutions and enterprises in order to match education to business needs. In the **Czech Republic**, a working group under the newly established *Council for the Development of the*

Entrepreneurial Environment deals with the promotion of cooperation between universities, vocational colleges and enterprises in human resource development. **Denmark** has set up a *Fund for Development and Experiments with Educational Networks* that helps unskilled workers get technical training that fits company needs. The **German** government and the business community have signed a three-year national training pact in which businesses undertakes to create 30 000 new training places and 25 000 schemes for in-company skills upgrading leading to job-entry qualifications. Under **Estonia's** apprentice training that requires 2/3 of vocational study to be spent in a company, some schools have binding contracts with enterprises to enable their students' apprenticeship.

In **Hungary**, the *Human Resource Development programme* aims at strengthening the adult education system through cooperation between educational institutions and companies. Enterprises and schools in **Slovenia** have launched a programme for updating vocational and professional education and training in the tourism sector. In **Slovakia** a new employment consulting programme will help orient students towards professions that are needed in the job market. In **Sweden**, a special project to promote and improve engineering education in light of the Bologna process has produced a number of recommendations directed to government, higher education institutions and enterprises. In **the United Kingdom**, the *Higher Education Business and Community Interaction survey* monitors links between universities and business. Moreover, the recently published "*Science and Innovation: working towards a ten-year investment framework*" sets out the government's commitment to ensure that the educational system produces the excellent skilled scientists and engineers needed by the economy.

Engineering and technical skills

Several countries report on skills shortages for technicians and engineers. In **Germany, Greece, France and Norway**, the demand for engineers, scientific executives and information and communication technology specialists is expected to rise significantly in the next five years. The **Czech Republic**⁶⁷, **Estonia, Latvia, Lithuania and Slovakia** report a lack of qualified employees on the labour market especially in some industrial fields. This is attributed to the high expectations by graduates of vocational schools and universities with regard to their positions and salaries, the low popularity of technical education and the insufficient generation of skilled technicians. Engineers and technical specialists can also be unemployed if they lack foreign language, computer skills or necessary specific qualifications. In **Lithuania**, one fourth of the unemployed engineers are over 50 years old because their qualifications and practical skills do not respond to market requirements. This is partly due to Soviet era oversupply of specialists in collective farms, but unemployment among older generation skilled professionals is occurring all over Europe.

In **Sweden**, labour shortages have decreased due to the weak economy. Remaining shortages are reported for experienced individuals and new graduates in higher education fields. Employment among technicians has decreased but shortages for technicians with university degree are expected to start in 2005 and reach 57 000 by 2015. In **the United Kingdom**, although there are regional differences, research shows a mismatch in the supply and demand of engineering and technical skills. The reasons are the perceived inferior status of vocational training, the length of training and the tendency of some firms to 'make do' with their

⁶⁷ The Economic Chamber of the Czech Republic considers that the impact of the measures taken to address the availability of skills has been limited as the measures have not been accompanied with sufficient financial means.

workforce's existing skills or short-term courses rather than invest in apprentice training. At **regional level, in the Flemish Community in Belgium**, the annual study on vacancies in critical professions by the Flemish Service for Employment and Professional Training shows that a continued shortage of qualified engineers and technicians.

In **Denmark** there is no shortage of engineers or skilled technicians; in fact newly graduated engineers and technicians face unemployment. In **France**, there is no shortage either but there is a small drop in students entering engineering programmes in the 2003/2004 academic year. A more dramatic drop of 25%, however, is reported in students undertaking science courses in the last six years. In **Luxembourg**, there is no apparent shortage of engineers as it can draw from a wide pool in neighbouring countries, despite potential linguistic problems. **Austria** actually reports an increase in graduates at technical universities. **Poland** reports increased interest among young people in the engineering profession especially new specialisations such as optoelectronics. Any shortages in the labour market for engineers in that country are regional and due to low labour mobility. In **Finland**, where technical education was replaced by engineering studies five years ago there is now a shortage of skilled blue-collar workers. In **Norway**, the ratio of unemployed technicians and engineers per vacancy is 7.7 and for civil engineers and architects 5.1. While for the time being there is a skills surplus in this area, this is lower than the average and considering the decrease of students in technical and engineering fields, a shortage is expected to appear by 2010.

Promotion of the image of technical and engineering jobs

There is a wide array of innovative measures to promote the image of technical and engineering jobs and studies among young people. The **Czech Republic** funds programmes to promote vocational training and meetings between younger generations and technicians (Ge-Te).

Germany: Year of Technology

In Germany, the national engineering federation (*VDMA*) declared 2004 the Year of Technology and staged numerous activities to raise public awareness about technology using information material, television broadcasts, trade fairs, events, member companies open days and training for teachers.

France is launching an initiative in partnership with trade federations to promote trades and careers in industry among young people. A national television programme "*SCOPE*" in **Ireland** aims to increase awareness of science fields among teenagers and encourage the take-up of science courses.

Ireland: The Continuing Professional Development Programme (CPD)

The Institute of Engineers receives government funding for its programme to stimulate lifelong learning among engineers in Ireland. *The Continuing Professional Development Programme (CPD)* works at the level of individual engineers helping them keep their competencies up to date in a rapidly changing market. It also provides a support mechanism for employers to facilitate the professional development of their engineers. Apart from training programmes, the CPD offers an Accreditation Scheme for Engineering Employers and a Register of Training Providers.

In **Latvia**, the annual “*Career Days*” brings together enterprises and technical universities to inform schools about studies and careers in technical and engineering fields. **Lithuania** has set up *Youth Labour Centres* to disseminate information on professions in demand through films and presentations on professions. The 2004 “*Student job fair*” in **Luxembourg** focused on industrial professions and particularly engineering. In **Austria**, an internet site (www.frag-jimmy.at) provides information for youngsters on apprenticed trades and professions. In **Portugal**, a recent initiative to create links between higher and secondary education, the *Modern Education Community* (Comunidade Educativa Moderna, CEM) involves, among others, setting up science clubs for students and organising science trips⁶⁸.

In **Sweden**, an inventory by the *Royal Academy for Engineering Sciences* found 59 projects aimed at stimulating young people’s interest in natural sciences and technology. **Norway** has launched a plan “*Science subjects, of course*” to strengthen science education through internet based training programmes and teacher grants for training. This includes a *National Centre for Contact between the Business Community and Science, Mathematics and Technology, RENATE*, to promote science-oriented interaction with working life.

Comparability and transferability of degrees and vocational qualifications

French and Dutch experts recently studied the feasibility of a joint project on the mutual recognition of engineering diplomas on the basis of a joint evaluation for particular disciplines or professions. The approach will be extended to **Italy and the Flemish Community in Belgium**. In **Norway**, a new degree structure will facilitate comparison of Norwegian degrees with foreign ones to ensure better integration of studies completed abroad.

General vocational qualifications are being brought in line with EU standards where necessary. **Greece** is creating a single certification system for structures, teachers and programmes in vocational training. **Italy** has consolidated its national system of standards of competence approving national standards for 37 technical and vocational skills. In the **Czech Republic and Slovakia**, new laws regulate the recognition of vocational qualification of other EU and EEA nationals in addition to the harmonisation of the content of vocational training in technical fields and replacement of national standards with European and ISO standards. **Latvia, Lithuania and Slovenia** have also set new standards for vocational qualifications to ensure their comparability and improved correspondence between education and the labour market. A partnership project between **Poland, Portugal and the United Kingdom** is aimed at improving the English language skills of construction engineers to allow a higher level of mutual recognition of their qualifications.

Public support for training of employees

Public funding for companies to train their engineers and technicians is only specifically provided for in **France and Ireland** and, at **regional level, in Scotland and Wales in the United Kingdom**. The *Irish Competency Development Programme* provides training subsidies to targeted employees within specific sectors including engineering and other technical areas. The Irish government also supports a continuing professional development programme for engineers run by the Institute of Engineers. In **France**, the “*executive*

⁶⁸ On a more general level, the Portuguese SME Organisation, PME-Portugal, considers that the Portuguese education system does not give priority to the Charter commitment on the availability of skills.

objectives” (*objectifs cadres*) scheme offers funding for high-level technicians and middle management in firms to receive training that leads to an engineering diploma.

Several Member States report on incentives to training. In **Greece**, the Athens Chamber of SMEs provided free training for safety engineers. **Spain** has increased the corporate tax deduction on the cost of training staff in new technologies from 10% to 20% over the average outlay of the two preceding years. In **Italy**, training for SME employees is supported both at national level and regionally, where for instance the province of Trento awards benefits to businesses for training and updating the skills of their employees. **Estonia, Greece and Italy** all provide special training support to businesses for information and communication technology skills. **Estonia and Cyprus** subsidise training in SMEs and provide grants for doctoral studies and technical training abroad.

Under the **Lithuanian** programme for life long learning, SMEs will be able to establish *training consortia* to enable them to train their employees. In addition, the new legal status of its vocational education and training institutions will allow employers to participate directly in the management of these institutions and to influence their curriculum to reflect business needs. **Malta** provides grants for training and retraining. Training expenditures are 100% tax deductible in **Sweden**. In the **United Kingdom**, expenditure on employee training is allowable in computing profits for tax purposes. **Norwegian** employers can receive tax deduction for up to 20 months of full-time study as well as other training costs. At **regional level, the Flemish Community of Belgium** subsidises training in critical professions where there are employment vacancies.

3.3.3. *Conclusions and recommendations*

The 2003 Charter report cautioned that Europe was still failing to address its skills gap and that only a few Member States were aware of this gap. This year’s Charter report shows an increased awareness of the importance of a qualified and skilled labour force in order to better match the needs of businesses. However, the degree of reforms undertaken by Member States to improve their education and training systems varies widely making it difficult to draw general conclusions. An overview of measures taken by public authorities in the area of skills shortages can be found in Table 4.

Most countries monitor current and future skills needs in increasingly systematic processes and in collaboration with other stakeholders such as business, social partners, regional and sectoral organisations. Some countries with traditional links between universities and enterprises have set an institutional framework for this cooperation; in **Sweden**, it has been a legal requirement since 1997. Other countries are facilitating these links through funding, surveys, sectoral initiatives or work-study schemes as in **Italy**. Overall, it seems that almost all Member States recognise the importance of involving the business world in the design of educational curricula so as to make training and education more demand driven.

As a result of the regular skills monitoring, Member States are gradually reviewing their educational and training policies and making them more responsive to current and anticipated structural changes in the labour market. Vocational education is receiving more attention. Apprenticeship systems are being updated and made more attractive, for example in **France**, and also made more responsive to market needs, as in **Austria**. Moreover, technical education is strengthened and informal education is increasingly being formally recognised. More and more countries facilitate training of employees by co-funding it or offering tax incentives, for example 100% of training is tax deductible in **Sweden** and 20% in **Spain**. Training subsidies

on the other hand are being used more and more to promote training of employees and make it flexible and demand-driven. Even though the importance of life-long learning is often underlined, few countries outline a comprehensive system to promote it. Moreover, new learning possibilities, for example e-learning and clustering, are only being explored in a few countries, such as **Ireland, Slovenia and the United Kingdom**. Further areas for improvement include skills monitoring at federal and regional level in **Belgium** to ensure greater mobility among the country's regions. The **Czech Republic, Greece and Slovakia** need to develop links between universities and business while **Italy** could step up its efforts in supporting specialised training in enterprises.

- *The involvement of all partners and particularly enterprises in the development and definition of educational and vocational training courses should be continued and stepped up.*
- *Public and private investment in the development of key competencies of people throughout life should be increased.*

On the issue of the present and future skills gap, it appears to affect some countries more than others. However, monitoring mechanisms and cooperation with business provides more and more data and input to address skills shortages and skills mismatch when necessary. It is important however, that these shortages especially in areas such as engineering where studies take several years to complete, anticipatory initiatives are taken early. Such forward thinking is evident in the awareness raising activities that are taking place in some countries to promote the sciences and the technical sectors. The engineering organisations' initiatives in **Germany and Ireland** can provide good practices for other Member States. Also, the issue of mobility could be explored in more detail to provide further options in the context of Europe's increasingly aging population and decreasing birth-rate.

Member States are also increasingly tackling the issue of the low attractiveness of engineering and technical studies. Different measures from information and career guidance to television programmes and science clubs aim to improve the image of technical and engineering careers and encourage more young people to take them up. On the other side of the equation, it is up to companies to offer engineers higher salaries and better overall career prospects.

In the area of vocational and educational training (VET) systems development, there are a number of European instruments and reference frameworks that can guide and support Member States in the fields of transparency of qualifications (such as Europass), quality assurance and validation of non-formal and informal learning and vocational guidance. These instruments can help recognition and comparison of skills in different education and training systems facilitating mobility of students and workers in the Single Market.

- *Early identification of skills needs and planning of vocational and educational training (VET) provision is crucial, particularly for small enterprises which normally do not have such mechanisms for anticipating training needs.*
- *Guidance and awareness-raising can help improve the image of certain professions and attract young people towards careers with potentially strong future prospects, such as engineering.*

Table 4 – Overview of measures in the area of skills shortages

	Skills shortage/ mismatch	Skills monitoring mechanism	Links between business and universities	Promoting image of technical profession	Comparability transferability of national engineering degrees	Public funding /tax for com- pany training	Total Y+(Y)
Belgium	Yes	Y ⁶⁹	Y	Y ⁶⁹	N.A.	Y	4
Czech Republic	Yes	(Y)	N	Y	Y	Y	4
Denmark	Yes ⁷⁰	Y	Y	Y	Y	Y	5
Germany	Yes	Y	Y	Y	N.A.	Y	4
Estonia	Yes	Y	Y	N	N.A.	Y	3
Greece	Yes	Y	N	N	(Y)	Y	3
Spain	-	N.A.	N.A.	N.A.	(Y)	Y	2
France	No	Y	N.A.	(Y)	Y	Y	4
Ireland	-	Y	Y	Y	Y	Y	5
Italy	-	Y ⁷¹	Y	Y ⁷²	Y	Y	5
Cyprus	-	Y	Y	N	N.A.	Y	3
Latvia	Yes ⁷³	Y	N.A.	Y	Y	(Y)	4
Lithuania	Yes	Y	Y	Y	N.A.	Y	4
Luxembourg	Yes	Y ⁷⁴	Y	Y	Y	N	4
Hungary	-	N.A.	(Y)	N	Y	Y	3
Malta	Yes	N	Y	Y	N	Y	3
Netherlands	No	N.A.	Y	N	N	Y	2
Austria	No	N.A.	Y	Y	N	Y	3
Poland	Yes ⁷⁵	Y	Y	Y	Y	Y	5
Portugal	-	N.A.	Y	Y	N.A.	N.A.	2
Slovenia	No	N.A.	Y	N	Y	Y	3
Slovakia	Yes	N	N	N	(Y)	Y	2
Finland	No	Y	Y	Y	N	Y	4
Sweden	Yes	Y	Y	Y	Y	Y	5
United Kingdom	Yes	Y	Y	Y	Y	Y	5
Norway	No	Y	Y	Y	Y	Y	5
Total Y+(Y)	-	18	20	18	16	24	

Legend

Y	Measures exist	(Y)	Measures planned	N	No measures exist	N.A.	Information not available
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⁶⁹ In Belgium, at regional level only.

⁷⁰ Projected shortages which are preemptively addressed.

⁷¹ In Italy, skills monitoring is managed by the Chambers of Commerce (Unioncamere).

⁷² Some initiatives at local level.

⁷³ In Latvia, skills shortages were forecasted for 2003/2004.

⁷⁴ In Luxembourg, skills availability surveys are conducted by the Chamber of Crafts.

⁷⁵ In Poland, the engineering shortage is regional.

EXPLANATIONS TO THE COLUMNS OF TABLE 4

The results in the table are based on the Member States' answers to a questionnaire containing the following questions:

Skills shortage/mismatch

How big is the shortage or, alternatively, the mismatch between supply and demand of skilled technicians and engineers in your country? What are the reasons for this?

Skills monitoring mechanism

Is some mechanism in place at national level in order to monitor skills gaps in different sectors on a regular basis, and to anticipate industry's long term skill requirements?

Links between business and universities

Which measures have been adopted - at national or regional level - aiming to increase links and cooperation between educational institutions and enterprises, in order to match the capacity and curricula of (a) schools, (b) universities and (c) training centres with the needs of EU industry for skilled staff?

Promoting image of technical profession

Is any measure ongoing in order to promote the image of technical and engineering jobs/studies among young people, for instance by means of providing information and career guidance in secondary schools, in cooperation with the relevant sectors of industry?

Comparability/transferability of national engineering degrees

Has any initiative been taken in order to ensure comparability and transferability of national engineering degrees with regard to those of the other EU Member States?

Public funding/tax for company training

Are public funding schemes (or other facilities, like tax deductions) available in order to integrate or support training provided by private enterprises, and particularly by SMEs, to their engineers and technicians?

4. SUMMARY OF NATIONAL REPORTS IN THE OTHER CHARTER AREAS

4.1. Cheaper and faster start-up

Charter commitment:

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

Indicators and targets

Spain, Ireland, Portugal and Slovenia have set quantitative targets to decrease the time needed to set up a company. **Spain** set the target to reduce start-up time by 50% by 2006 to 42 days. **Ireland** aimed for 3 days by mid 2003 and **Portugal** for a 50% reduction by 2003. **Slovenia**’s target of 3 days is set for 2007. **Portugal** also aimed to decrease the time needed to obtain an industry license by 50%, to 75 days, by 2004.

Spain has already achieved its target ahead of schedule, with 40 days via the manual procedure and 12.4 days using the online procedure in 2004. Neither Ireland nor Portugal has reached their targets. In **Ireland**, it still took some 5 days in 2003. **Portugal** reported 13-17 days in 2004 as time requirements to set up a company and some 150 days to obtain an industry license.

Recent developments

More and more countries are establishing, expanding or improving their **one-stop-shops for business registration**. In **Denmark**, the registration authority (*Danish Commerce and Companies Agency, DCCA*) has become the single entry point for registration and information for all companies regardless of their legal form. VAT related data is also reported to the DCCA and is then forwarded via the Agency to the tax authorities. **Spain** is expanding its regional network of one-stop-shops. **Poland** has introduced one-stop-shops for registration both at local and national level. The new *Law of Freedom of Business Activity* expands the services offered at the one-stop-shops to include tax and, as of 2007, social insurance registration. The information generated by these business registrars will be fed into a central database on natural persons conducting business activity to facilitate easy retrieval by all concerned agencies.

In **Italy**, public authorities have worked together with business associations to improve the services offered in one-stop-shops and have added an electronic register of administrative requirements. Moreover, local authorities and trade associations have linked up their computer and management systems to help each other support SMEs more efficiently. Various **Dutch** government agencies have combined their services in a new **digital one-stop-shop** (*Virtual Business Desk*) that provides administrative information to businesses. The desk provides information from Chambers of Commerce and tax authorities but it is gradually expected to include information from municipal authorities and other organisations. **Slovenia** is in the process of establishing a one-stop-shop system (*VEM*) for information, support and registration (*e-VEM points*).

The **Czech Republic**⁷⁶, **Hungary and Latvia** are introducing **online registration** on a pilot basis or in stages and in **Germany** it is being set up for introduction in 2007. In **Estonia**, the E-notary project will elaborate software for electronic exchange of documents between notaries and registries. In **Spain**, the online registration system put in place in 2003 has decreased the administrative process for setting up a business even further bringing it down to 12.4 days. This *Nueva Empresa* system has received a number of awards from both governmental and private bodies including a financial magazine that named it one of the “100 best ideas of 2003.” **Ireland** continues to use *CRODisk*, a hybrid paper and electronic system for company incorporation but is planning to move to a fully online system in 2006. Online registration has also now been introduced in **Poland**. In **Sweden**, where companies could register online since 2003, they can also apply for changes to their company data online. In the **United Kingdom**, electronic company registrations have risen to 75% and the turnaround time of 24 hours from full receipt continues to be almost always achieved.

Several countries have introduced measures to **speed up registration procedures**. In **Germany**, 70% of commercial registry entries were taking longer than two months, that is, double the European benchmark time of one month. A new amendment to the *Commercial Register Ordinance* (Handelsregisterverordnung) obliges courts to give notification to applicants within one month in order to advance proceedings. This change in legislation should ensure that registration is completed within one month. **Lithuania** has set up a new Registry of Legal Entities to centralise company registration and introduce new procedures and standard fees.

The **Malta** Financial Services Association has improved its new company registry process to make it faster and more streamlined. **Slovenia** is preparing an *Action Plan for the Establishment of a Central Registration Point* that includes the following elements: separate information systems of individual institutions, electronic communication, uniform application document, central database and a system for corresponding registration numbers in the different registers. In **Slovakia**, the *New Company Register Act* accelerates and simplifies registration procedures by introducing standardised forms and a 5-day deadline for registering and publishing related data.

The **cost of registration** has been reduced in **Hungary** and, at **regional level, the Flemish community in Belgium** offers, via the internet, “starter-checks” for up to €300 to cover registration costs of new entrepreneurs.

In **Greece**, a draft law undergoing stakeholder consultation aims to simplify the **licensing procedures** for the processing industry decreasing the time for obtaining such a permit from an average of seven months to 10 days. **Poland** has already revised its licensing procedures. Licenses required previously for many business activities will be replaced by a declaration by the entrepreneur to an appropriate register that he or she has fulfilled all legal requirements in respect to the particular activities.

Germany has undertaken extensive reform to **legislation governing its crafts sector** (*Handwerksordnung*) with a view to offer new prospects for people starting their own

⁷⁶ The Economic Chamber of the Czech Republic strongly supports the creation of a single contact point for entrepreneurs. It is ready to offer its regional network of Information Points for Entrepreneurs for this purpose.

business⁷⁷. The law also makes company succession easier and facilitates admission to the examination for the master craftsman's certificate ending the requirement for a certain number of years as a journeyman (*Geselle*). In addition, a new regulation exempts new craft businesses with trading profit under €25 000 from subscription to chambers of commerce and industry. **Luxembourg** has simplified the law on business start-ups by easing the criteria required in the past for becoming an entrepreneur.

In **Germany**, the “*business founder service*” (GründerService Deutschland) has been launched to improve the external provision of **information and advice for SME start-ups**. The project encompasses a business-founder portal (www.existenzgruender.de), a nationwide information hotline, business-founder days and founder coaching. A “*Business Founders Scheme*” is also run in **Austria** offering for a limited time a second advisory session to new entrepreneurs. In addition, until the end of 2004 there was a 50% reduction in the notary fees for registering in the Business Register.

Start-up kits have been developed by the **Denmark, the Netherlands and, at regional level in Belgium, the Brussels-Capital Region** to provide essential information for starting a company. In the case of **Denmark**, the *Central Customs and Tax Administration, ToldSkat* has developed a homepage, a booklet and a CD-Rom, which is available in several languages for entrepreneurs from ethnic minorities. The kit also includes a postcard with an invitation to a personalised meeting with a business advisor.

At **regional level, in the United Kingdom**, the regional administrations have achieved their goals to increase their support to new business development: the **Scottish** Enterprise Network has assisted 9 700 start-ups in 2003/2004, the **Welsh** New Business Starts Programme has helped over 4 800 new businesses to start up by mid-2004 and in **Northern Ireland**, 2 500 new business starts were supported under the *Start a Business programme*. In **Wales**, two new programmes have been set up: “*Because you can*” is targeted at under-represented groups such as women, and “*Taste of Enterprise*” encourages individuals receiving social security benefits to test-trade in a protected environment.

4.2. Improving online access

Charter commitment:

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

Indicators and targets

A number of countries have announced quantitative targets in the area of public services online. In **Germany, Ireland, Portugal and the United Kingdom**, the share of government services⁷⁸ online should reach 100% in 2005. **Slovakia** has set the target of having 50% of government services online in 2006 and **Slovenia** 100% in 2007. In addition, **Portugal** aims to ensure access to broadband internet for 100% of public services by 2005 and Norway

⁷⁷ The German Confederation of Skilled Crafts (Zentralverband des Deutschen Handwerks, ZDH) still expresses concerns over the reform. While it admits that there is an increase in the number of companies, it still has doubts especially since several of the companies are subsidised.

⁷⁸ Federal government services in the case of Germany.

aimed to have 100% of the government bodies able to receive trade and industry reports online by 2004.

The Enterprise Policy Scoreboard concluded that progress has been made in improving e-government, with **Denmark, Austria, Sweden and Finland** in a leading position, and suggested that further tangible improvements in transparency, communication, costs and speed can be expected over the coming years.

Recent developments

Several new **web portals** have been introduced or are being developed since the previous report. **Germany** is building a nationwide *eGovernment network* and regional eGovernment networks are being set in motion or reinforced. **Estonia** is developing an *eBusiness portal* aiming at providing services to entrepreneurs via a single entry point. **Greece** has introduced electronic administration by making 850 forms user-friendly and available on-line. **Ireland** has launched its gateway to public sector services, the “*Public Service Broker*”, at www.reachservices.ie and **Italy** is developing an enterprise portal, “*Portale delle imprese*”, which will enable companies to enter and modify their information in the business register electronically. The development of an internet portal, “Government Electronic Gate” has started in **Lithuania**.

As part of its e-government programme, **Luxembourg** is developing a portal for enterprises. The new website of the Luxembourgish Ministère des Classes Moyennes at www.mcm.public.lu already offers information and various forms for the registration of SMEs. The **Hungarian** Ministry of Informatics and Communication has created a website specifically addressed to SMEs (www.ihm.hu). The site provides software tools useful for the operation of SMEs. SMEs could use and download them for free from July 2003 until July 2004.

Poland is developing a portal for public services called *Gateway to Poland*. The portal will cover, among others, online business registration, tax and customs declarations, collection of statistical data and participation in public procurement. Similar portals are also planned at regional level. Poland has also created *Gateway of Poland to Europe*, which is a portal providing information and advice on European funding programmes and other EU activities. **Finland** has set up a wide-scope market place for businesses, an SME Exchange, at www.yrittajat.fi/yritysporssi as a joint effort by 23 partners from both the public and the private sector. The market place also offers information and advice on company acquisition.

Sweden: The Entrepreneurs' Guide (Företagarguiden)

The Entrepreneurs Guide is an effective and important tool to make it easier for small businesses to obtain the necessary information and contacts with local authorities and actors. This Guide is cooperation between NUTEK and about 30 government agencies and other public organisations in Sweden and that is what makes it successful. A small business does not need to know to whom it should turn to for information, but have on single entry. All participating parties are committed to the Guide and providing SMEs with information. The guide is available at www.nutek.se/foretagarguiden.

The **United Kingdom** is developing a cross-public sector advertising portal for government contract opportunities. This service is to be aimed at lower value contracts that might not otherwise be advertised widely.

At regional level, the **Brussels-Capital region in Belgium** has taken the first step towards e-government by launching a public administration portal at www.mrbc.irisnet.be. The **Walloon region in Belgium** has launched a new improved portal at www.wallonie.be which contains a separate section for enterprises. In **Austria**, the **Styrian Business Promotion Agency** has revised its website enabling business founders to submit applications for support online. In the **United Kingdom**, the **Scottish Executive Website** (www.scotland.gov.uk/spd) provides information on tendering procedures and advertises contracts over the Official Journal of the European Union threshold. In **Wales**, the *Business Eye* is a free service providing business support information (www.busesseye.org.uk). **Northern Ireland** is currently developing the *Government Gateway* portal.

The online submission of **tax declarations** in **Belgium**, the *Tax-On-Web*, has become available for the self-employed, liberal professions and company owners under certain conditions. It is also possible to submit an online tax declaration via an intermediary, such as an accountant, who has been given a mandate to carry out the task. In the **Czech Republic**, it is possible to submit pension insurance information to the public authorities via the *Public Administration Portal*. As a pilot, small enterprises can also submit their monthly employee statements via the portal. The **Irish Revenue On-Line Service** has further improved its services, including among others web-connected services for income tax and corporate tax.

Cyprus has launched an online service to registered taxpayers for submitting their income tax revenues (<http://taxisnet.mof.gov.cy/>). **Lithuania** has improved its tax related services on the web and more and more information can be submitted online. **Malta** has introduced online facilities for VAT: SMEs can now register online, submit VAT returns and find information about the application of VAT legislation. The **Austrian** tax reform has introduced the possibility of submitting tax declarations online. **Poland** now offers the possibility of obtaining and submitting information on social contributions online and the **Slovenian** tax authorities offer services online through the state portal.

Other developments include **Estonia's digital signature** for companies. Estonia is currently issuing company certificates stating the person authorised to use the signature. The **Estonian Centre of Registers** has developed an online facility for land register inquiries. The system is widely used by small enterprises in real estate brokering and legal activities. The **Irish Patents Office** has improved its facilities by making available on its website (www.patentsoffice.ie) an online register and database search system which allows free and unlimited access.

Luxembourg is developing the online facilities of its *Register of Commerce and Enterprises*. The existing Luxembourgish legislation is available online at www.legilux.lu. The *eGovernment Act* has entered into force in **Austria** creating a legal basis for valid electronic communication. To boost confidence in online legal transactions, far-reaching data protection provisions were also adopted. **Poland** has created a portal on environment for entrepreneurs. It allows them, among other things, to calculate fees for the use of the environment and to send in quarterly statements to competent authorities.⁷⁹

⁷⁹ The Federation of Private Enterprises in Sweden points out that the Swedish authorities are introducing more and more services online. The Federation stresses, however, that there are some remaining problems for businesses, especially for companies where several persons have a common right to sign for the company and different forms of electronic signatures therefore do not work satisfactorily.

4.3. More out of the Single Market

Charter commitment:

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

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

Indicators and targets

Correct and timely transposition of Internal Market directives into national law is a legal obligation for all Member States. The Commission, through the Internal Market Scoreboard, examines the record of the Member States. The July 2004 Scoreboard⁸⁰ showed that the transposition deficit for Internal Market directives is 2.2%. This means that as many as 134 Internal Market directives have not been transposed into national law in all EU-15 MS, despite the deadline for transposition having passed, representing almost 9% of all Internal Market directives.

Member States are still failing to implement many Internal Market Directives, which means that the Internal Market is not working as well as it should. **Denmark, Spain, the United Kingdom, Ireland and Finland** are the only Member States to meet the Stockholm European Council’s target of keeping implementation deficits for Internal Market directives below 1.5%. **France, Greece, Germany, Italy, the Netherlands and Belgium** all have bad records well above the 1.5% target. First indications show big differences among the new EU-10 Member States. Some, such as **Lithuania and Slovenia**, are performing well, while others, such as **Malta, Slovakia and the Czech Republic**, still have much to do.

On infringements, little has changed in a year. The Member States with most infringement cases against them, **Italy and France**, now have even more cases against them than a year ago. Together they account for almost 30% of all infringement cases.

This lack of action by Member States means that businesses are deprived of their rights to benefit from the Internal Market.

Recent developments

Several Member States, including **the Czech Republic, Ireland, Italy and Sweden**, are organising **consultations and discussions with business organisations and other stakeholders** concerning the 2004 Commission proposal for a Directive on **services in the Internal Market**⁸¹. **Poland** has published a Guide for entrepreneurs *“Providing services in*

Possibilities to submit for example the monthly tax declaration through a proxy would make it easier for these businesses.

⁸⁰ “Internal Market Scoreboard”, Edition 13, 13.7.2004,

http://www.europa.eu.int/comm/internal_market/score/index_en.htm

⁸¹ COM(2004) 2 final/3, 5.3.2004, 2004/001 (COD).

the European Union”, to familiarise the reader with basic terms governing the provision of services and to provide answers to questions most frequently asked by entrepreneurs.

Latvia is consulting SMEs concerning the application of the **mutual recognition** principle in the other Member States as regards products of Latvian origin. Depending on the outcome of these consultations, Latvia might invite the Commission to launch consultations with the Member States, industry and other interested parties on different options to ensure that the mutual recognition principle is observed.

Sweden has conducted an investigation on **market surveillance**. The resulting proposals to the Swedish Parliament are expected to lead to strengthened market surveillance, which should in turn lead to improved competitive conditions for SMEs.

In the field of **standardisation**, **Belgium** has improved its operational and consultative structures. A new law encourages the actors concerned to take a more active part in the elaboration of standards and in the related discussions at European and international level.

A number of Member States have already opened their **electricity and gas markets**, partly or fully. **Ireland, Cyprus and Hungary** report on developments in this area. **Cyprus and Lithuania** also report on their work to develop a competitive environment in the **telecommunications** sector.

Several countries report on changes of the legal framework and other improvements as regards **public procurement**. **Ireland** has established a *National Public Procurement Policy Unit* to initiate public procurement reform and a new online booklet “*Public Sector eProcurement: Advice for Suppliers*” has been published to inform suppliers about eProcurement and its planned growth in the public sector. The new **Hungarian** Act on Public Procurement, through its openness, contributes to the winning of public contracts by SMEs, and its principles and rules provide equal chances in procedures and the possibility to appeal to a competent review body. Hungary is also making use of the experience gained by other Member States to facilitate the successful participation of SMEs in public tenders.

In **Austria**, the Federal e-Procurement Regulation has come into force, governing the electronic creation and transmission of tenders for public contracts. The Regulation devotes particular attention to the security of the electronic signature in public tender procedures. In **Slovakia**, the system of submission and reception of bids has been simplified as well as the process of contract conclusion. Furthermore, procedures related to the conclusion of licence contracts have been modified as has the procedure of an entity publishing regular notifications of tenders.

Finland is revising its legislation on public procurement, covering both the requirements of the new Directives on public procurement and implementation of national revision needs, with the aim of enhancing the functioning and transparency of the procurement market. The needs of SMEs will be taken into account, e.g. by increasing the notification obligations and improving SMEs’ access to information on public procurements. The working group drafting the legislative proposal also includes representatives of the business community. Moreover, a consultancy unit for public procurement has been established, which gives free advice to businesses as well as local authorities and other procurement entities, disseminates information and draws up guidebooks on matters related to public procurement.

Several Member States report on efforts in the area of **information and training on issues related to the Internal Market**⁸². In **Poland**, a series of regional conferences for SMEs on the theme “*Europe in your Firm*” has been organised under the auspices of the Office of the Committee for European Integration. Non-governmental organisations (NGOs) also carry out training and advisory projects aimed at providing support to craft firms in their activities in the framework of the Internal Market. In **Slovenia**, the Chamber of Commerce and Industry has stepped up information and education activities. A business week was organised on the theme of “*The European Union – New Business Realities for Slovenian Enterprises*”. In addition, a number of free seminars especially for SMEs on EU topics relating to the legal and economic regulations, “*European Discussions*”, take place once a month at regional chambers. The Chamber publishes a weekly column “*Halo Evropa*” in the *Finance* newspaper, with replies to EU-related questions posed by entrepreneurs. Advice is also given by telephone and electronically as well as in advisory sessions on the economic effects of the EU membership and the Internal Market and on changes to European law. Finally, detailed information on the workings of the Internal Market and EU legislation has been collected by the Slovenian Chamber in the business guides for enterprises series, which so far includes five guides.

Sweden has presented a summary of the most important channels for information on the Internal Market, for businesses as well as for the public at large, and proposed possible ways to better structure information on the Internal Market to businesses. In order to properly assess the needs and expectations, a survey among businesses was conducted, showing that further discussions and measures to improve the information would be welcomed. The matter will now be further explored.

In **Austria**, the association “*Jus-Net SMEs*” has been set up with a view to helping Austrian SMEs to penetrate markets in the new Member States.

Several countries report on the operation of the **SOLVIT network**. SOLVIT centres have now been established in all **new Member States**. In addition, **Belgium** reports on very good results as concerns solutions to the cases submitted. **Ireland** reports on activities to promote SOLVIT within the business community and to citizen organisations as well as within the public administration. **Finland** has organised a nationwide SOLVIT campaign with regional information dissemination and discussion events directed at both companies and citizens in general. In the **United Kingdom**, selected representative organisations for businesses and citizens can now become affiliated to the SOLVIT network, allowing them to enter cases directly online, to track their progress and to be able to explain the details of the solution to the client immediately after the case has been resolved. After having distributed information about SOLVIT to authorities, business and citizens, **Norway** has also seen an increasing number of inquiries to the network.

To improve **competition**, in **Lithuania**, significant changes have taken place in the area of competition legislation. Following the changes triggered by the EU membership, the role of the *Competition Council* has been changed. It is now the institution responsible for the coordination of the application of the EU state aid legislation, providing expertise in projects

⁸² According to the Slovak Charter report, Slovakian business organisations are stressing that it would be important to complete the information system for entrepreneurs concerning the conditions for business within the Internal Market, such as payment systems, placing orders, e-business, supply and demand of services and job offers.

as well as conclusions and recommendations to the state aid providers. It also accumulates information on state aid granted to Lithuanian undertakings and provides it to the Commission as well as to other interested institutions. The **Swedish** reform of the competition legislation will strengthen the enforcement of competition rules and makes it possible for the *Swedish Competition Authority* to participate fully within the new network that exists between the Commission and the national competition authorities of the Member States⁸³. In **Norway**, a new Competition Act, partly harmonised with the EU competition rules and including prohibitions against cartels and abuse of dominance, has entered into force. A pre-merger notification system has been introduced. The test for prohibiting concentrations will continue to be that the concentration would create or strengthen a significant restriction of competition. Companies that cooperate in discovering cartels may have their fines reduced.

4.4. Taxation and financial matters

Charter commitment:

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

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

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

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

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

Indicators and targets

Seven Member States have put quantitative targets in place in the area of access to finance. **France** aims to reach €1 billion investment per year in risk capital in 2010. **Ireland** aims for venture capital investment corresponding to 0.80% of GDP by 2006 and **Poland** for 0.25% in 2010. **Slovakia** aims at having 3-4 venture capital funds worth ca. €120 million in 2010. **Lithuania** wants to increase the level of state guarantees granted annually (SME Credit Guarantee Scheme) to €33 million by 2010, corresponding to 440 credits; the **Netherlands** (BBMKB) to €454 million, corresponding to 2 500 credits, of which 60% relating to start-ups

⁸³ The Federation of Private Enterprises in Sweden considers that the Swedish government has failed to present proposals which would have involved important improvements in competition and thereby large advantages for the small businesses, even though the problems are well known and possible solutions have been discussed for years. The Federation is missing proposals to improve public procurement, where it claims that many procurement entities are not applying the rules correctly, and also proposals to remedy a situation where many small businesses complain about unfair competition from public authorities on markets where actors from both side compete for tenders.

by 2004 and **Slovenia** (SEF) to 200 credits by 2007. In addition, **Ireland** aims at having 2-3 newly listed companies per year from 2006.

Based on recent surveys, the 2004 Enterprise Policy Scoreboard concluded that some 15-20% of SMEs see access to finance as a major business constraint although there are differences between the Member States, particularly in the access to and the cost of loans for small businesses. The negative trends for equity markets eased in the course of 2003 but new listings (IPOs) relative to existing firms continued to decline with the exception of **Hungary, Austria and Slovakia**, even though the absolute numbers involved are small.

Venture capital investments continued to decrease in the EU, although at a slower pace than before, while in the United States the decline came to an end in 2003. The steep decline of venture capital investments in start-ups and in high technology is a worrying sign. The largest European venture capital markets are in the **Netherlands, Sweden and the United Kingdom** for the raising of funds and in **Germany, France, Italy and the United Kingdom** for the investments made (including buyouts). As regards the Irish 0.80% target for venture capital investment, it can be noted that due to the recent contraction in equity markets, venture capital investments in **Ireland** are currently down to 0.06% of GDP in 2003.

An encouraging development is the sharp increase, by over 55%, in the number of business angel networks, most notably in **Sweden and in the United Kingdom**. As regards access to bank credit, **Germany, the United Kingdom, Ireland, Austria and Slovenia** provide a favourable and low cost environment; at the opposite end stand **Greece, Portugal and Italy**.

With regard to taxation, the indicator “top all-in statutory corporate tax rate”⁸⁴ decreased in most Member States during the period 1995 to 2004 and now averages at 31.4 % in the EU-15 and 21.5 % in the new Member States. In the EU-15, tax rates have converged in this period, with the exception of **Ireland** which has drastically reduced its rate to the lowest level of all 25 Member States. The indicator “implicit tax rate on corporate income”⁸⁵ increased between 1995-1998 and 1999-2002 in 12 of the 13 Member States for which data are available⁸⁶. Only in **Denmark** did it decrease, to about 20 %. The increases were highest in **Sweden and the United Kingdom**, where the implicit rates also were highest at around 30 %. **Italy** had the lowest implicit corporate tax rate at about 16 %.

Recent developments

Taxation

Belgium has reduced employers’ *social contributions*. **Greece** has introduced several **tax measures to alleviate the burden of SMEs**. These include the option to set up tax-exempt reserves from their profits to be used over a three-year period for capital expenditure, relief for companies with liquidity problems and an increase in the number of instalments for paying income tax. **Italy** has changed its tax legislation concerning limited liability companies so that the tax on company earnings is not owed by the company itself but by the individual shareholders. The companies thus avoid paying the 33% company tax rate but instead the

⁸⁴ The indicator is based on the nominal tax rate, including surcharges and average local tax rates, on the profits of incorporated companies.

⁸⁵ The indicator reflects the effective tax burden for corporations in the past and takes all features of the tax system into account.

⁸⁶ No data available for the new Member States, Ireland and Luxembourg.

individual shareholders are subject to a lower rate applied to natural persons. In addition, the 40% tax rate on dividends (or 12.50% in the case of non-qualifying shares) no longer applies to limited liability companies in this case.

Latvia has reduced its *corporate tax rate* from 19% to 15%, **Hungary** from 18% to 16%, and **Poland** from 27% to 19%. **Austria** will reduce the corporate tax rate from 34% to 25% during 2005. **Finland** has separated the corporate income tax and the capital income tax. The corporate income tax will be reduced from 29% to 26% and the capital income tax to 28%. The imputation credit system for corporate income tax will end and it will be replaced by a partial double taxation of dividends. For unlisted companies, the distributed dividends will be tax free up to a ceiling of €90 000 per individual.

Austria: Favourable rates of taxation on retained profit

The 2004 Austrian tax reform provides tax incentives for equity capital for sole proprietorships and partnerships whose retained earnings will be taxed at half the average tax rate. The preferential tax rate is limited to profits up to €100 000 p.a. and will be definitive if the profits are retained for a period of at least seven years. The ordinary tax rates apply on profits exceeding this ceiling and on profits taxed at the preferential rate but withdrawn within this period of seven years. Partners of a partnership will be entitled to the preferential tax treatment of their share in the amount of €100 000 depending on their profit participation.

The new **Lithuanian** *Law on Tax on Profit* imposes a standard rate of 15% but for small businesses which fulfil certain criteria it provides for reduced rates of 13% or even 0% up to a ceiling after which 15% is charged. The *Law on Income Tax of Individuals* introduced flexible provisions with regard to the taxation of business and professional income from independent activities. The income may be taxed either at a rate of 33%, allowing for deductions, or at a rate of 15% on the whole amount. The ceiling of the gross annual income used as a criteria for being able to apply the simplified corporation tax in **Hungary** has been raised from HUF 15 million to HUF 25 million (€60 000 to €100 000). It has also introduced a corporate tax allowance in connection with investments that generate new jobs.

Austria has eased income taxation and the taxation of groupings of companies. The income tax rates will be simplified and every taxpayer will benefit from an annual tax relief. The income tax reform will also introduce higher tax exemption thresholds. For example the income from self-employment will be tax free up to €10 000, easing the burden of 150 000 entrepreneurs. **Polish** personal income tax payers whose source of income is a non-agricultural business activity now have the possibility of opting for a new system of taxation, on the basis of a uniform tax rate of 19%. This is an alternative to being taxed according to a progressive scale of taxation amounting to 19%, 30% and 40%.

Slovakia has introduced a so called equal tax which is applied to all income of natural persons and legal entities at an equal linear rate of 19%. This new tax eliminates a wide range of exceptions and exemptions. The taxation of dividends was abolished. **Sweden** is raising the share that an owner of a small private company can earn as capital income instead of labour income. Capital income is taxed at the rate of 30% compared with the income tax on labour which can raise up to 58%⁸⁷.

⁸⁷ The Federation of Private Enterprises in Sweden repeats its criticism from the last reporting round concerning the fact that the so called 3:12 tax, making a private investor investing in a small start-up

The **United Kingdom** has introduced a one-year increase in the first-year capital allowances for small businesses to 50% to help them with their cash flows and to stimulate new investment. **Norway** has presented a *Government White Paper* proposing a tax reform consisting of reductions in income and wealth tax in the region of NOK 12 billion (€1.5 billion).

As a new incentive for **business transfers**, **Estonia** does not tax the transfer of a business property from a sole proprietor to an enterprise provided that the business will continue its operation. Two amendments to alleviate the taxation of business transfers are currently being prepared in the **Netherlands**. For the *Inheritance Transfer Tax*, the proposed new legislation provides for an increase of the exemption from 30% to 50% provided that the successor continues the business and that certain other criteria are met. In case of a sale of the business, the capital gains tax on the hidden reserves can be passed on to the successor under certain conditions. The requirement that the seller and the successor stay together as entrepreneurs in the business for at least 36 months is proposed to be reduced to 24 months.

The new **Slovak Real Estate Transfer Taxes Act** changed the progressive rate to a flat rate of 3%. **Finland** has eased the taxation of business transfers by assessing the assets of a company or a farm to 40% of its market value for the purposes of inheritance and gift taxation. To facilitate business transfers of non-listed companies, rather than applying the market price for inheritance and gift taxation, **Sweden** has eased the conditions allowing companies to apply for a more beneficial valuation of shares. The Swedish Commission on Taxes on Property (Egendomsskattekommittén) has finalised the review of tax provisions concerning inheritance and gifts, real estate and wealth. In its final report, the Commission proposes, among other things, that inheritance consisting of assets in a trade or business should be exempt from tax. The government bill for 2005 proposes that inheritance and gift tax should be abolished.

The new **value added tax** law in **Estonia** allows self-employed to choose between cash or accrual bookkeeping methods abolishing the previous obligation to use the accrual method. **Poland** has adapted its *Law on VAT* to the European Union law while maintaining special rules for small taxpayers (taxpayers whose value of sales does not exceed €800 000 or €30 000 for a brokerage firm). The Law also leaves some tax exemptions intact⁸⁸. The new **Slovak** VAT legislation has increased the threshold for compulsory registration from SKK 750 000 (€19 000) to SKK 1.5 million (€38 000).

Among **other measures** taken, to improve service to the taxpayers, **Lithuania** is planning to establish a *Tax Information Centre* in cooperation with experts from the **United Kingdom**. The overall Lithuanian *Strategy for Tax Payers' Services and Communication* was developed

project being more heavily taxed than if s/he were to invest the money in the public stock market, has not yet been changed, despite the fact that discussions and preparatory legislative work has been going on for quite some time. Furthermore, the Federation notes that several taxation proposals currently under discussion in Sweden would involve deteriorations for small businesses and it also points out that Sweden is one of few countries still to apply a wealth tax, thereby discouraging private savings, while entrepreneurs need private savings as a reserve during the first few years of a new venture.

⁸⁸

The new VAT Law was unfavourably received by entrepreneurs. The Polish Crafts Association is of the opinion that the new law resulted in a change of tax burdens for many categories of goods, the abolition of preferential rates, the increase of bureaucratic services and costs, the increase of reporting obligations, more complicated methods of documentation of supplies to a European Union client of goods to which a zero-rate of VAT can be applied, and additional charges in the form of a high guarantee deposit for new taxpayers who supply goods on the territory of the EU (suppliers who do not meet this requirement will receive VAT refund only after 180 days).

with the assistance of **Swedish** experts. **Hungary** has doubled the allowances for taxpayers employing workers with at least 50% disability. It has also increased the tax base incentive for taxpayers participating in apprentice training to 20% and introduced a new tax allowance in connection with local business tax. The five year limit for the deferral of losses has been abolished.

Access to finance

A number of **new financial measures** have been introduced since the previous report. The **Czech Republic** has introduced a new subordinated loan aimed at projects worth €0.5 to 1 million. The loan is based on experiences gained from similar instruments in other Member States. In general, the range of commercial loans and the special-rate loans for entrepreneurs that have difficulties in finding credit has improved in the Czech Republic. This is the result of a transfer of the credit programmes START and KREDIT to the Structural Funds programming and the access given to the Czech-Moravian Guarantee and Development Bank for the European Investment Fund's counter-guarantees. A *special-rate loan* has also been introduced to support innovation activities.

Germany has established a new *Entrepreneur Credit Programme* (Unternehmerkredit) which provides a uniform loan product for business founders and SMEs. Germany has also introduced a new product family known as "*Entrepreneur capital*" (Unternehmerkapital) which offers equity like funding throughout the entire enterprise life cycle⁸⁹. The **Spanish** Centre for the Development of Industrial Technology (Centro para el Desarrollo Tecnológico Industrial) is launching a new *Pre-Financing Line* for research, technological development and innovation projects, available through selected financial entities. It will provide firms with a financing source for pre start-up investments and outlays in the form of a preferential bank loan.

Cyprus: Code of conduct between banks and SMEs

The Association of Cyprus Commercial Banks has taken the initiative of adopting a national *Code of Conduct* between the member banks and the SMEs in Cyprus in order to improve the understanding of each other. The Code will be based on the framework set by the draft "European Code of Conduct between the credit institutions and the SMEs" prepared by the European Commission.

Cyprus has also introduced several new schemes to facilitate SMEs' access to finance. These include *Schemes for the Encouragement, Strengthening and Reinforcement of Youth Entrepreneurship and Women's Entrepreneurship* and the *Government Grants Scheme to Promote Technological Upgrading of the Manufacturing Sector*.

Hungary has introduced a four-stage credit programme with the participation of several credit institutions and organisations. The programme consists of micro credits, midi credits, Europe credits and the Széchenyi Card for financing current assets. **Austria** Wirtschaftsservice (AWS) has introduced a new programme "*Fit for Europe*" which provides grants, loans and guarantees. The programme aims at making about 1 500 companies "fit for

⁸⁹ The German Confederation of Skilled Crafts (Zentralverband des Deutschen Handwerks, ZDH) is of the opinion that the need for collateral for the Entrepreneur Capital products is counterproductive towards its objective.

Europe” by 2006, safeguarding at least 20 000 jobs and/or creating 2 000 new ones. The AWS has also developed a *Double Equity Guarantee Fund* to improve the financing of SMEs by means of what is known as “double credit”. Equity capital which is made available by companies and/or private equity capital donors is doubled in value by a loan which the AWS guarantees in full and for which there is no personal liability. The AWS guarantees subordinated loans for these projects. No security is required for the guaranteed loan.

Poland has adopted the capital market development strategy “*Warsaw City 2010 Agenda*” which aims at creating conditions for the development of a cheap, effective and safe way to convert citizens’ savings into national investments and for financing Polish enterprises. Among others, the strategy supports the development of private-public undertakings based on capital market solutions and introduces fiscal solutions to stimulate the development of the capital market. The strategy puts emphasis on the development of the venture capital sector, necessary to support innovations in the Polish economy.

The **Slovak** Guarantee and Development Bank (*Slovenská záručná a rozvojová banka*) is planning to add micro credit programmes to its product assortment, introduce a new joint venture capital programme and a programme to support women entrepreneurs. The Slovak *Eximbanka* established a specific SME department and now provides guarantees to commercial banks of up to 80% of the requested loans. The National Technology Agency of **Finland** has introduced a subordinated loan for technology start-ups which have not yet started their operations.

To facilitate early-stage financing of technology based projects, **Sweden** is developing a new fund for commercial risk capital investments, tax incentives and a new structure for state financing⁹⁰. **Norway** is planning to set-up three new national seed capital funds. The funds will be funded on a 50/50 basis between subordinated loans from the government and a mixture of equity and subordinated loans from investors.

At **regional level**, the **Walloon region in Belgium** has created a new company called *SOFINEX* which provides finance, guarantees and cooperation programmes for export and internationalisation activities.

To finance innovative business ideas and young technology enterprises, **Germany** has launched a new start-up fund and a new umbrella fund for investing in **venture capital** funds. A high-tech fund aimed at R&D based start-ups is under development. To fill the gap for venture capital volumes between one and five million euros, a new initiative under the banner of “*Equity Capital for Grass-Roots SMEs*” (*Eigenkapital für den breiten Mittelstand*) will be launched. **Estonia** is launching a *state venture capital scheme* to provide a solid base for innovative start-ups with strong growth potential and to speed up the development of existing

⁹⁰ The Federation of Private Enterprises in Sweden stresses that it is a “detour” to use public money to finance business start-ups and small businesses, which is necessary, however, since the private capital formation is not working properly (see footnote 87). The Federation is of the view that the Swedish government has taken a number of good initiatives to finance small businesses as well as technology- and research-based businesses, but points to a study showing that public loans to finance research and development lead to less good results than projects financed by other sources. It proposes that the structure for state financing to support research and development as well as its commercialisations should be changed in order to facilitate for small business owners and other interested parties to finance for example commercialisation of patents. The Federation also suggests that lower tax rates or postponement of the tax payment should apply for an entrepreneur selling a business and re-investing the money in another business.

enterprises. The scheme also intends to enhance the beneficiaries' business culture and management practices. This is a brand new financial instrument, currently missing from the market.

Italy has launched a measure aimed at encouraging participation in the risk capital of SMEs. The measure is addressed at new businesses in the ICT sector or in other innovative sectors with a high technological impact and at SMEs in Objective 1 and 2 areas. Funds of about €200 million have been earmarked for this measure. At **regional level in the United Kingdom, Northern Ireland** has started a new *venture capital fund* aimed at companies in the manufacturing and tradable services sectors as well as high-growth potential technology companies.

The **Czech Republic** has improved the conditions for public **guarantees** by increasing the credit security from 70% to 80% of the outstanding principal. The **Estonian** Credit and Export Guarantee Fund *KredEx* has signed a cooperation agreement with the European Investment Fund for counter-guarantees. *KredEx* will start securing bank guarantees. In **Lithuania**, the guarantee organisation INVEGA now guarantees 50% of the loan amount of the banks and issues guarantees of up to 80% of the amount of investment loans not exceeding €25 000. Entrepreneurs must secure the remainder with collateral. The maximum investment loan eligible for guarantees is LTL 1 million (€290 000), and the maximum guaranteed loan amount is LTL 500 000 (€45 000).

The **Netherlands** has carried out a study which shows that the availability of small loans of under €100 000 to €150 000 for SMEs is seriously decreasing. To remedy the situation, it has changed the government guarantee scheme to better suit the requirements of banks. **Poland** has created a European Union Guarantee Fund in the Bank Gospodarstwa Krajowego. The aim of this Fund is to increase the availability of credits and funds by issuing bonds for carrying out undertakings co-financed by the European Union. The **Swedish** government will start supporting the activities of guarantee associations during 2005.

The **Danish** Regional **Business Angels** Network has broadened its concept to facilitate ownership succession. Three regional ownership succession networks have been set up, all focusing on matching company owners wishing to sell their shares with business angels. The Danish Business Angels Network has also set up a website for matching entrepreneurs facing business transfer with business angels (www.dvca.dk). **Italy** has reformed its company law so that it is easier to define relations between business angels and entrepreneurs in terms of co-ownership of the business.

The **Netherlands** has announced that it will start an action to promote business angels. The **Polish** Business Angels Network has started its operations and there are now five business angel networks in **Norway**. Norway has also produced a handbook on how to start and run a business angel network. At **regional level, the Flemish Community in Belgium** is merging five business angel networks in order to gain economies of scale in the market. This enables entrepreneurs to gain faster contacts to a greater number of business angels and provides the business angels access to more projects.

Among **other measures**, **Latvia** has introduced many aid schemes within the *Structural Funds Programming*. These include schemes to support the modernisation of business related research infrastructure and networks and the scheme “*Support to Development of New Products and Technologies*”. In addition, Latvia has developed national programmes for risk capital financing, development of loan guarantee systems and loans for business start-ups.

Also within the Structural Funds Programming, **Lithuania** has developed measures to support enterprises. The measure “*Direct Support for Business*” aims at raising the competitiveness and entrepreneurship standards, balancing equal possibilities in business and raising the potential of research in business. The measure “*Improvement of the Business Environment*” is dedicated to improving the business environment by expanding the structure of business services, for example, through support to business incubators, start-up and expansion of business support centres, innovation systems and clustering.

At **regional level, the Flemish Community in Belgium** has reformed its aid scheme for expansion of companies allowing all SMEs to participate in the scheme. It streamlines the previous system and simplifies the administrative procedures. The applications for aid can only be submitted online and the treatment of the applications is made fairly automatic⁹¹.

4.5. Strengthen the technological capacity of small enterprises

Charter commitment:

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

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

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

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

Indicators and targets

14 Member States as well as Norway have set quantitative targets in the area of research and development (R&D) spending. **Denmark, Germany and France** have translated the Barcelona target to increase R&D investment in the EU to 3% of GDP by 2010 directly into national targets, while **Spain, Ireland, Latvia, Lithuania, Hungary, the Netherlands, Austria, Poland, Portugal, Slovakia, Finland and Norway** have chosen more intermediate targets or targets lower than 3% by 2010⁹².

⁹¹ The business organisation UNIZO (Unie der Zelfstandige Ondernemers) criticised it its comments that the new form of the aid scheme does not take into account legal security and planning.

⁹² Member States and Norway have set the following targets on General Expenditure on R&D (GERD): Denmark, Germany and France – all 3% in 2010; Ireland – 2.8% in 2006; Latvia – 0.5% in 2004; 1.5% in 2010; Hungary – 1.8-1.9% in 2006; Austria – 2.5% in 2005; Poland – 2.2% in 2010; Portugal – more than 1% in 2006; Slovakia – 1.8% in 2010; Norway: OECD average in 2005. In addition, eight Member

Spain, Ireland, Latvia and Slovakia have also set targets related to patents. **Spain** aims for 24.5 European patents per million people in 2006 and 40.7 European patents per million people in 2010. **Ireland** wants 350 patents applied for per million people in 2006 and 100 patents granted per million people in 2006. **Latvia** targets 50 EPO⁹³ patent applications per million inhabitants in 2010 as well as five USPTO⁹⁴ patent applications per million inhabitants by the same year. **Slovakia** aims for 12.0 EPO patents per million inhabitants in 2007.⁹⁵

In addition, Latvia and the Netherlands have set a number of targets related to innovation. **Latvia** wants to increase its share of innovative enterprises to 25% in 2004 and to 45% in 2010. The **Netherlands** aims to move ahead on the EU average by 2005 and to be among the leading EU nations by 2010 for four indicators: share of innovative enterprises in manufacturing as a percentage of the total number of enterprises; share of innovative enterprises in services as a percentage of the total number of enterprises; innovative enterprises with innovation cooperation as a percentage of total innovative enterprises; and turnover due to new or significantly improved products in manufacturing as a percentage of total turnover in manufacturing.

A variety of indicators in the 2004 European Innovation⁹⁶ and Enterprise Policy Scoreboards show that the EU needs to improve its performance in the area of innovation and knowledge diffusion. However, there is substantial variation in performance between Member States.

R&D expenditure as a percentage of GDP in the EU did not increase in 2001, nor in 2002. The EU-25 continues to lag behind the United States but **Sweden and Finland** remain the top performers internationally⁹⁷. **Denmark and Germany** rank closely behind the United States and will soon be closing the gap if the trend can be sustained in Denmark and if Germany can accelerate the modest increase⁹⁸. Several of the **new Member States**, however, reported decreasing rates and need to step up their efforts. On present trends, the 3% Barcelona target cannot be reached, since ratios of below or around 1% in **Slovakia, Poland, Greece, Portugal, Hungary, Spain, Italy and Ireland** outweigh the 3% plus ratios in **Sweden and Finland**.

The number of patents applications decreased in 2002, for the first time after continuous increases since 1996. This occurred also for high tech patents which remained markedly lower in the EU than in the United States. Seven Member States recorded applications for more patents relative to the population than the United States – **Sweden** in the lead followed by **Finland, Germany, the Netherlands, Denmark, Luxembourg and Austria** – but only **Finland, the Netherlands and Sweden** performed well also with regard to high tech patents.

States have set targets for increasing Business Expenditure on R&D (BERD): Denmark – 2% in 2010; Spain – 0.84% in 2003; France – 2% in 2010; Ireland – 2% in 2006; Lithuania – 1% in 2010; Hungary – 0.9-1.0% in 2006; the Netherlands – EU average in 2005; Poland – 1.4% in 2010. Finland has set the target of €1 700 million governmental intramural expenditure on R&D in 2007, corresponding to ≥1% of GDP. Table VII.1 of “Benchmarking Enterprise Policy: Results from the 2004 Scoreboard”, SEC(2004) 1427, 10.11.2004, gives an overview of progress towards achieving these targets.

⁹³ European Patent Office.

⁹⁴ United States Patent and Trademark Office.

⁹⁵ Table VII.2 of “Benchmarking Enterprise Policy: Results from the 2004 Scoreboard”, SEC(2004) 1427, 10.11.2004, gives an overview of progress towards achieving these targets.

⁹⁶ SEC(2004)1475, 19.11.2004

⁹⁷ Sweden: 4.3% in 2001 (latest year available); Finland: 3.5% in 2002 (latest year available).

⁹⁸ Denmark and Germany: both 2.5% in 2002 (latest year available).

Greece, Portugal, Spain and the new Member States, with the exception of **Slovenia**, applied for very few patents.

Recent developments

In the area of **innovation**, **Germany** has launched the initiative “*Innovation and future technologies in the SME sector – high-tech master plan*”⁹⁹. This master plan is intended to strengthen the innovative capability and future viability of SMEs and thus also the competitiveness of Germany as a geographic location. In **France**, contracts have been signed with some twelve of the *innovation poles*, setting targets to be achieved by 2006 based on the recommendations of an evaluation report. The role of the innovation poles consists, for a specific sector of activity, of providing an interface between the world of the small enterprise and that of the technological know-how.

Italy has put together the *Digital Innovation Plan for Business*, a package of economic and financial, regulatory, structural, institutional and sectoral measures, with a view to promoting organisational innovation by SMEs based on extensive use of state-of-the-art ICT solutions. As regards support for pre-competitive development programmes and industrial research aimed at the adoption of advanced ICT solutions, Italy has also launched a call for applications for financial assistance from the *Technological Innovation Fund*, to promote process innovation by SMEs. In **Lithuania**, a *specialised innovation portal*, www.innovation.lt, has been set up. It provides free services regarding innovation opportunities in Lithuania and the world. Moreover, promotion of innovation has been carried out via international conferences, information days, workshops and information through the media.

Hungary: A new concept for increasing SMEs’ innovation potential

Hungary has adopted a new concept for increasing the innovation potential of SMEs. The long-term strategic goals focus on the development of SME infrastructure. Activities include a new tender for patent notification of SMEs and the early stage of their market utilisation, the *VIVACE programme* to help enterprises’ competitiveness by industrial design protection and a business angel mediatory pilot programme to support the capitalisation of innovative SMEs. Moreover, a tender has been launched to stimulate the establishment of spin-off enterprises using the R&D results from universities and research institutes.

Sweden has launched the national strategy “*Innovative Sweden - a strategy for growth and renewal*”, with the main aim of strengthening economic growth in enterprises and regions¹⁰⁰. To further develop the strategy and to discuss future actions, an *Innovation Council* has been established.

At **regional level**, the initiative *Connexences*© in the **Walloon region of Belgium** offers a comprehensive procedure for the creation of a new product by matching supply and demand for technical solutions, thus decreasing the costs of an innovative project. The service is

⁹⁹ The German Confederation of Skilled Crafts (Zentralverband des Deutschen Handwerks, ZDH) considers that the government’s definition of innovation is too narrow and that the new initiative will lead to more bureaucracy and red tape.

¹⁰⁰ The Federation of Private Enterprises in Sweden points out that the strategy is formulated at an overall level and that it is therefore impossible to judge whether the concrete measures which will be taken are sufficient or appropriate to strengthen the small businesses.

addressed to individual inventors or researchers, to entrepreneurs with ideas for innovative start-ups, to new enterprises in the development phase and to SMEs. In **Austria**, to make it easier for small businesses to analyse the current situation with regard to their innovations, the *Technology and Innovation Partners, TIP*, a joint body set up by **Lower Austria** in cooperation with the Lower Austria Chamber of Commerce, has developed a “virtual innovation consultant”.

With regard to **R&D strategies**, **Ireland** has established a Cabinet Committee on Science and Technology, supported by an Inter-Departmental Committee, and has also appointed Ireland’s first *Chief Science Adviser* to ensure effective oversight and review of the investment underway and to provide strategic direction and coherence to national investment. The Inter-Departmental Committee has submitted the report “*Building Ireland’s Knowledge Economy – The Irish Action Plan for Promoting Investment in R&D to 2010*” to the Cabinet Committee. In **Lithuania**, the *Long Term Strategy for Scientific Research and Experimental Development* has been approved, aiming at strengthening the national scientific technical potential and setting a number of strategic goals.

Several countries report on **R&D programmes**. In the **Czech Republic**, public tenders have been advertised for two freshly launched R&D programmes in the framework of the National Research Programme: the *Information Society programme* and the programme for the *Support of Targeted Research Projects*, provided by the Academy of Sciences and including a focus on cooperation between the institutes of the Academy of Sciences and small businesses. In **Estonia**, one of the key achievements has been the initiation and development of the physical infrastructure of the *R&D activities programme*, aiming to enhance the R&D and innovation capacities. In **Cyprus**, the *Research Promotion Foundation’s Framework Programme for Research and Technological Development 2003-2005* constitutes a medium term strategic instrument aiming at creating favourable conditions for the balanced development of research infrastructure and knowledge. It includes a specific research programme for the benefit of Cypriot enterprises, the main objective being to stimulate research interest in the Cyprus business world and to provide incentives for cooperation between enterprises and research centres.

In **Hungary**, the *Economy Competitiveness Operational Programme* under the Structural Funds includes activities to develop applied research, enhance conditions of research, technology transfer and cooperation, develop research infrastructure, establish networking, enhance partnerships and technology-transfer among higher education and enterprises, enhance business innovation and develop business innovation capacity. The **Netherlands** is currently investigating the feasibility of applying the *Small Business Innovation and Research scheme, SBIR*, of the United States. This scheme aims to stimulate R&D by innovative SMEs and consists of three phases: feasibility (developing the idea), prototype (R&D/product), and commercialisation.

In addition to the *Growth Promotion Programme*, which aimed to boost R&D capacity, **Austria** has seen the launch of the *Skills, Innovation and Structural Enhancement Programme, prokis⁰⁴*, aiming to promote wide-ranging improvements in SMEs’ skills and abilities and running until the end of 2009. In **Poland**, the Sector Operational Programme *Improvement of Enterprises’ Competitiveness in 2004-2006* under the Structural Funds offers entrepreneurs considerable financial assistance in respect of innovative activity. It also provides for a possibility of enhanced cooperation between R&D institutions and the business sector. **Norway** has launched *KOMPMEG*, a new initiative within the *MOBI programme*, building on experiences from the former *TEFT programme*. The new programme aims to

encourage SMEs to become more conscious about the role of R&D by developing closer links between SMEs and national research institutes.

At **regional level**, a branch of the *Industrial Research Centre of the Multisectoral Technology Federation* (Le Centre de Recherche Industrielle de la Fédération multisectorielle de l'industrie technologique, CRIF) has been set up in the **Brussels-Capital Region in Belgium** to increase the circulation of advanced knowledge between industry and research. In **Scotland in the United Kingdom**, the *SME Collaborative Research programme, SCORE*, is designed to support Scottish SMEs to undertake pre-competitive development activities in R&D in collaboration with the public sector science base. An SME or group of SMEs with a technical problem or need can assign a significant part of the required scientific and technological research to a public sector research body and the Scottish Executive will help fund the project.

Several countries report on measures to promote **technology transfer**. **Denmark** has adopted a new *Technology Transfer Act*, entitling public research institutions to establish limited companies for the purpose of technology transfer. The new Technology Transfer Act aims to promote the commercial exploitation of research results, including the creation of new science based enterprises. This is facilitated by the ability of institutional companies to acquire equity in start-ups in return for intellectual property rights, as an alternative to payment in cash. In **Finland**, the technology clinic activity of Tekes has come to an end and been replaced by a service transferring research results to SMEs, *TUPAS*. The service finances the research sub-contracting bought by companies from research institutes. The TUPAS activities are built around different themes, adjusted to the needs of SMEs at the regional and national level, the current themes being mobile technology, food industry and wood energy.

At **regional level**, the **Flemish Community in Belgium** has replaced the previous HOBUE fund by a new fund for technology transfer called *TETRA*, also allowing actors other than higher education establishments to participate in project consortia and inviting enterprises to participate in the "user committees" in order to strengthen their involvement as well as the relevance of the projects. In **Scotland in the United Kingdom**, the *Scottish Executive Expertise, Knowledge & Innovation Transfer scheme, SEEKIT*, is designed to support eligible public sector organisations such as universities and research institutes to undertake projects that promote cooperation in R&D and knowledge transfer between the Scottish public sector science base and Scottish SMEs.

Ireland has set up a number of **networking and cluster** projects to support SMEs in the areas of life sciences, rural town renewal, hi-tech sectors and cross-border initiatives. To support clusters, the *Programme of High Technologies* in **Lithuania** is directed towards the development of five industries which are already producing competitive products: biotechnologies, mecatronics, laser technologies, information technologies, nanotechnologies and electronics. At **regional level**, the **Walloon Region of Belgium** has established an *Internet portal* for clusters in the region, aiming to promote clusters, to allow the members to get to know each other and to make themselves known, to facilitate partnerships between enterprises of the same cluster and to encourage exchange of experiences. An *independent evaluation* has concluded that the Walloon measures to support clusters, including technology and export-oriented ones, carried out so far on a pilot basis have had generally positive effects and stressed the importance of keeping and improving these cluster programmes.

Estonia has launched the *Business incubation programme*, to improve the competitiveness and sustainability of start-ups by supporting the creation and development of **business incubation** services corresponding to the needs of their residents. The activities supported by

this scheme include the launch and development of a new incubator and the necessary feasibility studies, provision of incubation services which match the needs of an incubator's tenants, promotion of incubation-related cooperation and exchange of experience with local and foreign partners in order to enhance the transfer of international know-how and best practice.

The aim of the *REGplus* support programme in **Austria** is to increase the efficiency of **start-up and technology centres**. In addition, “innovation checks” in the form of a self-administered test have been developed. **Slovenia** has decided to support a third *university spin-off incubator* at the University of Primorska with the aim of securing further links between the academic and business worlds. In the **United Kingdom**, the *Science Parks research report* showed that the revenue and employment growth of knowledge-based firms was more likely to feature on **science parks** and concluded that the science park environment's importance to developing high technology firms justified further investment in them. Norway has established the *Industry Incubator programme*, aiming to contribute to a positive adoption in the existing industry, contribute to spin-offs and to develop a broader and stronger subcontractor industry. Three industry incubators have been established, located in industry areas and with an industrial company as the “mother company” for each incubator.

With regard to **international cooperation**, the President of **Cyprus** has signed an agreement with the Harvard University concerning the establishment of a *joint international research, education and technology institute for the environment and public health* in Cyprus. Cyprus has also established the *Institute of Cyprus*, which will be a research and educational centre of excellence.

In order to promote the commercialisation of research, **Ireland** has developed a *National Code of Practice for Managing Intellectual Property from Publicly Funded Research*. This Code seeks to address the issues on **intellectual property management** which arise as Ireland moves to become a more knowledge-intensive economy and enterprise base. Ireland has also started the development of guidelines for management and commercialisation of co-funded intellectual property as a step towards making Ireland the most attractive location for collaborative research in terms of its intellectual property and commercialisation policies.

Estonia, in close cooperation with the Danish government as well as local partners from the industry and design sector, is launching the *Estonian Design Info Centre*. The Centre will be a one-stop-shop for companies to obtain know-how on how to successfully benefit from the use of **design** in their business activities and company development.

Some countries report on new **tax benefits for R&D**. In **Belgium**, scientific institutes have been added to the group of non-commercial institutions that can benefit from a 50% reduction of the advance tax payment, in order to stimulate the recruitment of researchers¹⁰¹. In **Spain**, the measures described in previous reports have been adjusted slightly to increase the size of existing deductions. In order to get more companies to take up the benefits, a *new system* has been developed, under which the company requests the Ministry of Industry, Tourism and Trade to issue a binding report to the tax authorities stating whether its activities – and associated outlays – can be classified in the R&D or innovation categories. Spain has also increased the *deductible base for advanced technology acquisition* from €500 000 to

¹⁰¹ In the Belgian national report, *La Fédération des Entreprises de Belgique* stressed that the addition of the scientific institutes is an important measure.

€1 000 000 and the ceiling for the deduction ratio on research, technological development and innovation from 45% to 50%. **Ireland** grants a 20% *tax credit for qualifying R&D expenditure* to encourage foreign and indigenous companies to undertake new or additional R&D activity in Ireland. **Austria** has increased the allowance threshold for expenditure on research and experimental development from 15% to 25% and the corresponding research premium from 5% to 8%.

With regard to **sectoral initiatives**, the purpose of the *Textile-Clothing Sector Portal*, www.consejointertextil.com, in **Spain** is to offer companies in general and SMEs in particular high-value-added services. The portal has had numerous new services folded in which have made it more dynamic as well as more interactive with sector companies: technology consultancy, access via WAP-enabled mobile phones, news download to the user's personal digital assistant (PDA), fax transmission and reception via internet, and member conferencing. In **Finland**, a new *TRIO action programme* is a national project directed to the technology industry, which aims to improve the competitiveness of firms engaged in the metal and electronics industries and their networks by comprehensive development of internationalisation, business expertise and technology.

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

Charter commitment:

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

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

Indicators and targets

Eight Member States have set quantitative targets linked to e-business. **Germany** wants 20% of its SMEs to have an e-strategy by 2005 and 40% by 2008. **Spain** wants 97% of its enterprises with more than 10 employees to have internet access by 2006 and 99% by 2010, **France** wants 70% of its SMEs to have access to broadband by 2006, **Ireland** wants 95% of all its enterprises to have internet access by 2006, **Latvia** wanted 40% of all its enterprises to have internet access in 2004 and aims for 80% in 2010, **Lithuania**'s target is internet access for 92% of SMEs by 2007. **Malta** aims to have 50% of its companies buying and selling over the internet in 2007, **Hungary** wants to increase the share of SMEs with a website¹⁰² and the **Netherlands** wants 66% of its SMEs to carry out online transactions by 2005.

IT expenditure as percent of GDP in the EU-15 declined between 2001 and 2002 and remained unchanged in 2003. The ratio is still higher in the United States compared to the EU-15 average. However, five Member States – **Luxembourg, Sweden, the UK, the Czech**

¹⁰² From 22% in 2003 ; exact quantitative target not specified.

Republic and the Netherlands – have higher IT expenditure ratios than the US. The lowest levels in the EU are recorded in **Greece, Spain and Ireland**.

Internet use continues to rise in business with connections by some 85% of enterprises¹⁰³. Only a few countries have rates under 80% – **France, Latvia, Lithuania, Portugal and Poland** – while in the Nordic countries internet penetration is close to 100%. The dissemination of the internet has been very rapid in the business sector and the continuous rapid proliferation should help the Member States achieve the targets set in this area. Broadband penetration is also progressing dramatically. **Denmark, Belgium and the Netherlands** have the highest rates (around 12% of inhabitants) while **Greece and Ireland** remain last with 0.1% and 1% respectively.

Electronic commerce is growing but still accounts for a very limited part of overall turnover. **Ireland** progressed radically in 2003 jumping to 10% of business turnover¹⁰⁴, while for the rest of the countries it stands at between 0.2 and 2.8%, with **Sweden and Norway** showing the highest shares after Ireland and **Greece, Italy and Spain** showing the lowest shares. The **Netherlands, Finland, Belgium, Denmark, Norway and Ireland** are in a leading position concerning enterprises selling on the internet. For purchases on the internet, **France, Sweden and Ireland** are in the lead. In all countries, except **Greece**, more businesses are purchasing than selling¹⁰⁵.

As to support services, **France** has achieved its target of having 865 new enterprises supported by public incubators in the period 2000-2003, actually reaching 964, and now aims for its incubators to support 791 new enterprises for the period 2004-2006. **Ireland** wants to have 71 business incubators per million people employed by 2006. **Malta** aims for 10 new enterprises created through public incubators between October 2004 and September 2005 and also wants to have 8.3 business incubators per million employed people by December 2005. **Slovakia**, finally, aims to have 22 enterprise incubators in place by 2007.

Recent developments

E-business

Most countries recognise the potential of **e-business** as a tool for improved competitiveness. This is why they are continuing their support both by raising awareness and providing support and even incentives for the take-up of e-business by SMEs. **Greece** has launched the “Go on-line” programme to help small businesses with up to 10 employees connect to the internet. The programme offers funding for purchasing hardware, training and particularly on-line lessons on IT and its opportunities.

¹⁰³ However, these statistics exclude enterprises with less than 10 employees, which constitute a large part of the enterprise population.

¹⁰⁴ It has been speculated that the extraordinary Irish figures relate to Ryanair and multinationals conducting their e-commerce sales out of Ireland.

¹⁰⁵ For Greece, this result may be linked to the important role of e-commerce in the tourism sector.

Greece: eBusiness Forum

The eBusiness Forum website (www.ebusinessforum.gr) is a standing consultation mechanism between the government and the business and academic communities. It aims at strengthening e-business in Greece and promoting e-business in Greek businesses. Within the framework of the Forum, four annual surveys are carried out to record the spread of new information and communications technologies and of the techniques of e-business. The Forum has put forward proposals to the government on measures to be taken and has contributed in particular to the planning and assessment of activities. It has also produced practical guides for businesses and consumers, codes of practice and of good conduct and information sheets which are systematically distributed.

In **Ireland**, an eBusiness cluster programme was set up to improve the IT capacity of SMEs in the Shannon region. **Italy** has been promoting e-commerce by issuing guidelines, providing direct information and training as well as other targeted incentives to specific industries such as textiles, clothing and footwear. It also launched the “2003 E-commerce Oscar” which awarded prizes for the best e-commerce (B2C, business to consumers) websites operating for at least two years. In **Hungary**, a number of tenders are underway for the development of e-business systems, an electronic marketplace and the creation of internet pages for SMEs.

The **Netherlands** has developed a workbook www.voorhetMKB (www.forSMEs) which helps SMEs develop a website and an internet strategy through a 20 step questionnaire. Entrepreneurs who order a printed version of the workbook are contacted by an adviser who can provide practical help if necessary. Within one year, the workbook has reached almost 10.000 entrepreneurs. **Poland** has begun implementing a programme for “*Creating Mechanisms and Structures for e-Commerce Development*” by putting in place an electronic platform for e-business support. The platform will include inter alia a central electronic catalogue of goods, services and business entities in accordance with global standards, and a central repository of models of electronic documents. Plans for a competition in e-business are also underway.

Slovenia: Support for e-business activities

Slovenia has set up a voucher advisory system to support SMEs in e-business. The voucher system is based on subsidised advisory services available on the market. In addition, a network of Reference Centres for e-Business offers regional support in e-business, e-work and e-teaching.

The **Swedish** government has set up a non-profit organisation called *TradEasy* to help SMEs deal with the administrative costs of international e-commerce. In addition, a *Network for Electronic Business (NEA)* had been established to stimulate e-business through seminars, workshops and campaigns¹⁰⁶. The **United Kingdom** has launched the “*Support to Implement Best Practice*” programme to increase take-up of best practices in e-business particularly by SMEs with high growth potential .

¹⁰⁶ The Federation of Private Enterprises in Sweden stresses that small businesses use more and more IT solutions also without support from public bodies. Before the state sets aside funding for further projects in this area, it should be verified whether there are other actors who could make a similar contribution without public financing.

At **regional level, in Belgium the Walloon region** offers financial support and accreditation for setting up an e-business site. Since its inception in 2003, 181 businesses have applied and about 1/3 have received the premium and accreditation.

Slovenia has started the e-SLOG project to develop jointly agreed **standards** for businesses in their dealings with other businesses but also with the public administration and financial institutions. The project will also provide information and training in e-business. The project brings together 91 enterprises, eight institutions, six basic project members and four partners to work on four key areas: Prepare and enforce standards for electronic documents; Harmonise business processes to enable links among different technological environments; Prepare and introduce solutions for secure e-business by using e-signature technology; and Introduce open technology solutions for both large companies and SMEs.

One of the factors impeding the development of e-commerce in some countries is insufficient use of **electronic signatures**. In **Lithuania**, the infrastructure cannot support the electronic signature. A pilot project was started in 2003 to test the electronic signature in public institutions and depending on the conclusions it could be extended to the private sector. **Poland** has published a brochure called “*Electronic Signature – how it works, its applications and advantages*” to promote its usage.

The new HØYKOM Region programme aims at stimulating the dissemination of **broadband** communication in **Norway** particularly in rural and remote areas. At **regional level**, the **Upper Austria** broadband initiative is designed to provide comprehensive broadband links throughout that *Bundesland*.

As a result of its 2003 White Paper on E-commerce, the **Czech Republic** has passed a series of **laws** to regulate the rights and obligations attached to e-commerce so as to reinforce the status of consumers. The laws also deal with the dissemination of commercial messages online, the use of electronic signatures and brands and liberalises the recognition of qualified certificates in the EU framework.

Business support

The **Czech Republic** has set up *Information Points for Entrepreneurs* which aims at increasing entrepreneurs’ knowledge about the single market, simplifying the administrative procedures for businesses by e.g. creating a single contact point, providing better and clearer information on business environment and bringing certain activities of the state administration closer to entrepreneurs. In **Greece**, more than 1000 Citizens’ Service Bureaux (KEP) have been set up to carry out 850 simplified administrative procedures of which 255 concern small businesses, such as licenses and start-up permits.

At **regional level, the Brussels-Capital region in Belgium** has created a help desk and a free help line for businesses.

To improve **quality management**, **Estonia** has produced a “*Self-assessment Handbook*”, with appendixes that include descriptions of the practical experiences and lessons learned from a self-assessment process carried out in three Estonian organisations. It has also established principles for basic level recognition schemes and produced an “*Organisation*

*Handbook*¹⁰⁷ for managers who recognise the need for organisation development and who are looking for theoretical and practical tools.

A **business transfer** guidebook and computer programme have been developed in **Finland** to guide entrepreneurs in selling or transferring their firm. The guidebook can be freely downloaded from the internet.

The **United Kingdom** has published a standard for **business incubation managers** and their teams to lay out the key issues in effective management. The SBS has introduced grants for incubation studies to assist organisations to prepare a business case.

Three Nordic countries have **reorganised their business support services** with a view to streamlining them and increasing their regional focus. **Denmark** closed its Technology Information Centres and replaced them with 15 *Business Service Centres* corresponding to each county. The new Centres are set up in cooperation with local and regional authorities and provide free services to entrepreneurs. **Finland** has set up 25 out of the 50 regional business contact points planned under the Entrepreneurship and Local Government project to combine business services at regional level. **Norway** reorganised its business support system in an effort to link efforts for regional development with internationalisation. *Innovation Norway* is the new business support institution resulting from the merger of a series of bodies dealing with trade, industry, regional development, inventions, and tourism. It will cover financial instruments, information and support giving particular priority to specific groups such as young entrepreneurs, women and SMEs with high-growth potential.

Finland: Quartet cooperation to support growth companies

In Finland, four organisations have formed a partnership to offer expert services to growth companies. The partnership brings together Finnvera, the state owned financing company, Finpro, an association promoting the internationalisation of Finnish companies, TEKES, the National Technical Agency of Finland and the T&E Centres for employment and economic development. The expertise of the organisations will be combined into a set of services based on the client's needs and the client company will be considered as a common client.

Many new Member States have been concentrating on **institution building** as a result of EU accession and have been setting up new members of networks such as the EICs and BICs as well as putting in place the capacity to administer Structural Funds in this area. In addition, they have been helping business comply with the new legislative requirements that result from EU membership. **Estonia** has restructured its business support organisation, *Enterprise Estonia*, to improve delivery of support and EU Structural funds. Its redesigned support schemes include areas such as technology transfer, export planning, professional consulting and business infrastructure issues. In **Cyprus**, the Chamber of Commerce and Industry has set up a company to organise the collection and recycling of packaging materials in compliance with EU regulations. This support is of particular importance to SMEs who would have been unable to undertake on their own the cost of complying with the relevant legislation. In **Hungary**, a new information service helps SMEs contact the Ministry of Economy and Transport to obtain information, resources and online consulting with a professional answer provided within three days.

¹⁰⁷ Based on the principles of the European Foundation for Quality Management, EFQM.

Several countries and regions are setting up or expanding their **SME internet portals**. **Denmark** has improved and expanded its entrepreneurship portal www.startguiden.dk to contain databases with lawyers, auditors and marketing advisors. **Estonia**'s portal records 50 000 visits a month. **Spain** has expanded its portal to include two new interactive tools: business model simulators where entrepreneurs can run simulations of their business ideas and self-diagnosis of business attitudes, a benchmarking tool to learn from other entrepreneurs' experience. The portal has 31 121 registered users and records more than 1.5 million hits per month. **Latvia** is planning to set up a portal for business within the framework of its "E-Latvia" programme. At **regional level, in the United Kingdom** the **Scottish Business Gateway** dealt with over 140 000 inquiries and helped 9 700 companies get started during its first year. In **Wales**, a new National Procurement Website provides standardisation for public tenders and allows suppliers better access to public sector contracts through automated alerts sent via e-mail free of charge.

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

Charter commitment:

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

Recent developments

The **Czech Republic** has established the *Council for the Development of the Entrepreneurial Environment*, creating a **platform** where representatives of the government and other public bodies as well as representatives of business can meet, discuss problems and propose solutions¹⁰⁸. The **Estonian** government and the two main business organisations, the Estonian Chamber of Commerce and Industry and the Confederation of Employers, have signed a new "*Memorandum of Cooperation*". This Memorandum provides the framework for regular consultation and exchange of opinions between the government and the business community. Estonia has also initiated a project which aims at strengthening regular cooperation between public sector institutions and business organisations by setting new administrative procedures. The project is financed by the **Danish** National Agency for Enterprise and Housing.

The **Latvian** Ministry of Economics, the National Economic Council and the Council of Experts signed an *Agreement Protocol* to create a friendlier environment for businesses and to ensure that the interests of different sectors are heard. **Hungary** is in the process of establishing the *Economic and Social Council* which will act as a consultation and advisory platform between business representatives and the government and where the most important economic and social issues will be discussed.

¹⁰⁸ While welcoming the establishment of the Council, the Economic Chamber of the Czech Republic doubted its effectiveness as the political support given to it is insufficient and the mandate given to the officials representing the state administration is limited.

Netherlands: Active consultation of individual entrepreneurs during “Pizza Sessions”

The Dutch Ministry of Economic Affairs has initiated a *Programme on External Orientation* in order to improve the knowledge of administrators on business and trade. One of the three elements of this programme is active consultation, inter alia, in the form of so-called “*Pizza sessions*”. These are informal lunchtime sessions with entrepreneurs and the Secretary of State of the Ministry of Economic Affairs where individual entrepreneurs rather than their representative organisations are consulted about their views and ideas for the content of the future policy. These “*Pizza sessions*” are already well established and they can be seen as a new tradition in the policy making process.

The *Entrepreneurship Policy Programme* in **Finland** promotes a broad cooperation of all partners involved in the implementation of industrial policy. Commitment to the Programme is enhanced by regular monitoring and exchange of opinions between the government, business organisations and trade unions. In **Norway**, the *Innovation Forum* and the *Entrepreneurship Forum* aim to develop new policy measures on the basis of direct dialogue between all partners involved. The forums consist of relevant ministers, representatives of business organisations and other stakeholders at national and regional levels.

A number of sectoral **Observatories** in different **Italian** regions are either planned or already operating. Their objective is to redefine and update policy aimed at promoting industrial development. In **Spain**, the *Observatory* concept is to be reshaped. It will become a forum for knowledge exchange on SME issues and a source of analysis helping Spanish enterprises to assess their performance and position on the market and to provide feedback to policymakers, researchers and enterprises themselves.

Among **other measures** taken are the new responsibilities acquired by the *National Competitiveness and Development Council (ESAA)* in **Greece**. Its main aim now is to further competitiveness at national and Community level. **Lithuania** has conducted two *surveys* amongst individual enterprises and business organisations to assess the efficiency of the support provided to SMEs and to seek the businesses’ opinions and needs for new support measures that could be proposed under the new Strategy for Small and Medium-sized Business Development 2005-2008 and the action plan for its implementation. In **Luxembourg**, a new business federation for women entrepreneurs was created with the aim of better voicing the opinions of enterprises run by women. **Malta** Enterprise is adopting a more consultative approach when drafting policy recommendations, such as the entrepreneurship framework and the innovation framework.

Poland has established an *interactive forum* devoted to new legislation of the European Union (www.debata.ukie.gov.pl/www/dp.nsf/Start?Open). The aim of the forum is to inspire consultation on draft laws and on key documents published by the EU. The forum provides SMEs an opportunity to get acquainted with the changes in the European legislation and to join the discussion. All contributions are registered, analysed and forwarded to the relevant Ministries and other governmental institutions. To disseminate Polish achievements and experience abroad and to provide a stronger and more effective representation of SMEs interests in the work of European sectoral organisations and international groups, Poland organised a second *open competition* to apply for grants. All business organisations were eligible and 39 of them received financial support in 2004.

At **regional level in the United Kingdom**, the **Scottish** Executive worked in partnership with the Parliament to co-host the *Business in the Parliament Conference*. The main aim was to engage with the business community in continuing to encourage the growth of Scotland's economy and to focus on the key themes of the Executive's enterprise strategy, *A Smart, Successful Scotland*.