



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 8.2.2005
SEC(2005) 170

COMMISSION STAFF WORKING PAPER

**The activities of the European Union for small and medium-sized enterprises (SMEs)
SME Envoy Report**

{COM(2005) 30 final}

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PART I: INTRODUCTION

1. BACKGROUND

Due to their considerable economic role, small and medium-sized enterprises (SME) have been the subject of specific Community policies or initiatives for a number of years, in particular through the implementation of an enterprise policy whose main objectives are the improvement of the business environment and the development of SMEs. This policy builds both on the European Charter for Small enterprises¹, which is a key instrument of political encouragement and follow-up and, at an operational level, on the multi-annual programme for enterprise and entrepreneurship, and in particular for SMEs².

Many other policy areas, such as regional policy, research, vocational training or information society, also aim to improve SMEs' situation and competitiveness. These policies in favour of SMEs contribute to the implementation of the strategy to strengthen European competitiveness, initiated in Lisbon at the European Council of March 2000. Indeed, the latter depends partly on Europe's capacity to become more entrepreneurial, i.e. to encourage the creation of new companies, to make SMEs more competitive and to encourage their growth, all of which corresponds to the objectives of the Action Plan for Entrepreneurship adopted in February 2004³.

In addition, within the framework of the various policies developed by the European Union, Community legislation has a growing impact on the life of enterprises, and in particular on that of SMEs, for whom compliance can be more difficult than for other companies. For this reason the European Union committed itself to carry out a systematic impact assessment of its legislative projects, which is intended to improve the quality of legislation and take better account of SMEs' interests in it.

The diversity of instruments and intervention methods for SMEs led to the appointment of an SME Envoy within the services of the Directorate-General for Enterprises and Industry. This function aims to ensure better coordination of policies affecting SMEs and to help take account of SMEs' interests in the framework of European Union policies, while acting as an interface between the Commission and the SME community. This report is therefore in line with the SME Envoy's missions, as it deals with the coordination of activities impacting SMEs.

Moreover, it complements the 2005 Report on the implementation of the European Charter for Small Enterprises, of which it is an element⁴.

The objectives of this report are as follows:

¹ http://europa.eu.int/comm/enterprise/enterprise_policy/charter/index.htm

² Council Decision 2000/819/EC of 20 December 2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005), OJ L 333, 29.12.2000, p. 84.

³ Action Plan: The European Agenda for Entrepreneurship, COM(2004) 70, 11.02.2004.

⁴ SEC(2005)167

- -to review the measures taken by the Commission during 2004 to implement the European Charter for Small Enterprises;
- -to serve as a coordination and follow-up tool for the SME Envoy;
- -to provide an overall picture of the policies, initiatives and programmes that have an impact on SMEs (see in annex the table summarising the main programmes);
- -to inform the various Community Institutions, in accordance with the multiannual programme for enterprise and entrepreneurship⁵, and all interested parties, of the progress achieved in taking into account the SME dimension in all Community policies and programmes.

Thus this report gives an overall presentation not only of the measures for small enterprises taken by the Commission that correspond to the ten areas of the Charter for Small Enterprises, but also of the other European Union policy areas not covered by the Charter but which are nonetheless directly or indirectly relevant to SMEs. Indeed, it is often difficult to distinguish between measures specifically intended for small enterprises and those aimed at all SMEs but whose incidence on small enterprises is significant.

Moreover, this report fits into a series of reports produced since 1992 on the activities of the European Union for SMEs. Because of its structure and its contents, it represents an important source of information for public administrations, business organisations, Chambers of commerce, European affairs experts, academics, etc, and is thus a practical reference tool as much as a political document.

2. DEFINITION OF SMEs

The term SME used in this report corresponds to the Community SME definition contained in the Recommendation of 3 April 1996⁶. In 2003 the Commission adopted a new Recommendation on the definition of SMEs⁷, which replaces the previous definition from 1 January 2005.

The revision takes into account economic developments since 1996, such as price inflation and increases in productivity, and lessons learned from the application of the previous definition. The new definition also aims to clarify the typology of enterprises (a distinction is made between three categories: "autonomous enterprises", "partner enterprises" and "linked enterprises") and bring it into line with the Directive on consolidated accounts. It introduces a method of calculating the thresholds that gives a realistic picture of the economic strength of the enterprises and makes it possible to avoid situations where enterprises that are part of a large group benefit from support schemes for SMEs. The revised definition increases legal certainty while reducing the possibilities of circumvention, particularly with regard to State aid rules.

⁵ http://europa.eu.int/comm/enterprise/enterprise_policy

⁶ Commission Recommendation 96/280/EC of 3 April 1996 concerning the definition of small and medium-sized enterprises, OJ L 107, 30.4.1996, p. 4.

⁷ Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, OJ L 124, 20.5.2003, p. 36.

For the first time, the SME definition includes precise financial thresholds for micro-enterprises. The essential role of micro-enterprises is thus recognised and the adoption of support schemes intended for them should therefore be easier. Moreover, the revision facilitates equity financing for SMEs by granting favourable treatment to regional funds, venture capital companies and *business angels*. Lastly, the new definition is accompanied by a model self-declaration⁸ to be filled in by enterprises, making it possible to avoid uncertainties in the interpretation of the definition and to reduce the administrative burden.

The thresholds related to SMEs, valid from 1 January 2005, are as follows:

Enterprise category	Headcount (unchanged)	Turnover	or	Total balance sheet
Medium-sized	< 250	= € 50 million (in 1996: 40 million)		= € 43 million (in 1996: 27 million)
Small	< 50	= € 10 million (in 1996: 7 million)		= € 10 million (in 1996: 5 million)
Micro	< 10	= € 2 million (previously not defined)		= € 2 million (previously not defined)

The definition must be respected by all Community Institutions (the European Commission, the European Investment Bank and the European Investment Fund) in their policies in favour of SMEs applied in the European Economic Area (EEA). In the field of State aid, the definition was incorporated into the Block Exemption Regulations for SMEs, including those concerning aid for research and training aid (see heading 14).

3. STATISTICS

A prerequisite for setting up policies in favour of SMEs is improving the knowledge on the SME population. Eurostat is publishing mini-series on “**SMEs in Europe**” in the collection “Detailed tables”⁹. First issues were dedicated to competitiveness, innovation and the knowledge-driven society and to candidate countries. The results have been published also in the form of a special issue of “Statistics in Focus”. These studies show that SMEs play a major role in the European Union’s non financial business economy¹⁰ (see figure below), accounting for approximately 66% of private employment and 57% of value added in the EU-25.

Structural business statistics, regulated by Council Regulation 58/97¹¹ and Commission Regulation 2701/98¹², are the main source of data on SMEs. They provide information on the structure, activity, competitiveness and performance of businesses in the Member States broken down by sectors of activity and size classes by number of persons employed. From

⁸ OJ C 118, 20.5.2003, p. 5 and corrigendum OJ C 156, 4.7.2003, p. 14.

⁹ All available on the Eurostat website (see below note 13).

¹⁰ Non financial business economy is defined as all market activities of NACE Rev.1.1 in sections C, D, E, F, G, H, I and K. Section J (financial intermediation) is not included.

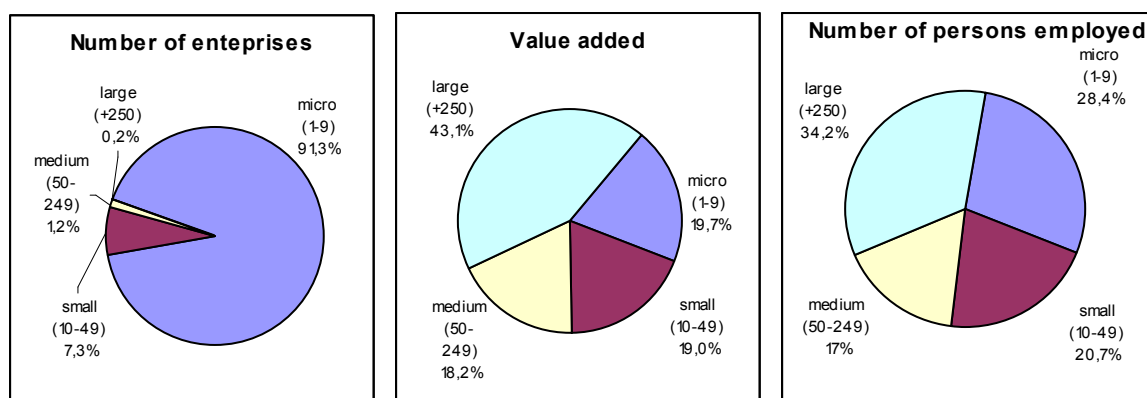
¹¹ Council Regulation (EC, EURATOM) N° 58/97 of 20 December 1996 concerning structural business statistics, OJ L 71, 13.3.1997, p. 48.

¹² Commission Regulation (EC) N° 2701 of 17 December 1998 concerning the series of data to be produced for structural business statistics, OJ L 344, 18.12.1998, p. 81.

reference year 1999 onwards, a comprehensive set of these data covering all enterprises is now available free of charge in the Eurostat Internet site¹³. The latest data available is for reference year 2002. Aggregates for EU-25 are also available.

In response to increasing needs for comparable statistics on business demography - the birth, death and survival of enterprises - a project to develop harmonised statistics in the EU was launched in 2000. The results of the first two data collection rounds covering 10 member states and Norway have been published in the series “Statistics in Focus” and in two issues of ‘Detailed tables’¹⁴. In addition, a number of Eurostat’s ‘Panorama’ and ‘Detailed tables’ series publications covering different areas such as employment, information society or transport contain data covering SMEs¹⁵. These publications as well as ‘Statistics in Focus’ are also available free of charge on the Internet¹⁶.

Breakdown of main indicators in the EU-25’s business economy by enterprise size class, 2001, % share of total



Source: Structural Business Statistics, Eurostat (estimates based on incomplete country data)

Finally, the **Observatory of European SMEs** provide additional information on the situation and performance of SMEs throughout Europe. It contains statistical data and analysis, surveys as well as thematic studies. The eighth edition of the Observatory of European SMEs consists of 8 reports, which have been published in 2003 and 2004.¹⁷ They have been prepared by the European Network of Small business Research (ENSR) and cover the following subjects: Competence development in SMEs; access to finance; SMEs and the liberalisation of telecommunication and electricity markets; internationalisation; co-operation between SMEs; the impact of enlargement on SMEs; SMEs in Europe; and a summary report also including selected results from the 2003 survey.

¹³ http://epp.eurostat.cec.eu.int/portal/page?_pageid=1090,1137397&_dad=portal&_schema=PORTAL
¹⁴ ‘Business Demography in Europe – results for 10 Member States and Norway’, available on the Eurostat website (see note 13 above).
¹⁵ ‘Employment in the Market Economy in the European Union’, ‘Statistics on the information society in Europe’, ‘E-Commerce and the Internet in European businesses’, ‘Panorama of transport – statistical overview of transport in the European Union’ and ‘Innovation in Europe - Results for the EU, Iceland and Norway’. All available on the Eurostat website (see note 13 above).
¹⁶ See note 13 above.
¹⁷ http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm

PART II: ASSESSMENT

Positive developments...

The Charter process has clearly led to improved coordination between services involved in policies affecting SMEs. This has been further reinforced by the action of the SME Envoy who has also contributed to improving coordination on SME issues and fostering closer cooperation within the Commission among all relevant services. This has resulted in the development of a more ‘SME-friendly’ approach in various EU programmes and initiatives. The SME dimension is now more and more integrated in most activities of the European Union. There are numerous programmes or initiatives which are designed for SMEs or benefit mainly to them, showing that the implementation of the European Charter for Small Enterprises by the Commission is clearly progressing.

The Commission has implemented numerous support programmes which benefit directly or indirectly to SMEs. In this regard, the largest programme in financial terms to benefit SMEs is constituted of the Structural Funds where most national and regional programmes co-financed by the Commission are putting emphasis on entrepreneurship and SMEs. In the field of research and innovation, there has been much emphasis on SMEs with the setting of a target for the allocation of part of the research framework programme budget to SMEs and several specific measures to stimulate their participation in the programme. The Commission closely monitors SME participation in the current research programme through an interservice Task Force.

Many other programmes have been designed in such a way that they either contained clear focus on SMEs or are in practice benefiting principally to SMEs, thus contributing to raising SME performance and competitiveness. This was the case for example in the areas of environment, energy, training and internationalisation. In most of these programmes, the EU dimension has brought added value, complementing national intervention and possibly bridging market gaps. It has also facilitated the exchanges of experiences and the emergence of cross-border projects and innovative behaviour. As a result, the participation of SMEs in Community programmes and initiatives is clearly improving.

Other policies, such as competition policy or trade policy, have also taken into consideration SME needs, and several initiatives have been taken to favour SME-friendly measures and improve the framework conditions in which SMEs operate. In addition, efforts have also been significant to raise the awareness of SMEs on those measures that are targeting them or have a strong impact on them. This has been the case for example to help SMEs use trade defence instruments, or to make them more sensitive to health and safety issues.

In some areas, the introduction of reduced requirements or transition periods for small businesses, as it is the case for the working time of employees in the road-transport sector, has also contributed to diminish obligations on SMEs and to facilitate their adaptation to new legislative requirements. The Commission’s proposal to introduce fees reductions/deferrals for SMEs and provide them with administrative assistance when applying for market authorisations in the field of pharmaceutical products is also a good example of the constant efforts made to facilitate the operations of SMEs.

The SME dimension has also been present in many of the sectoral policies implemented by the Commission, thanks in particular to the SME Envoy. The SME interests have actually

been considered and taken on board in various sectoral policies of the Commission, for example in the field of chemicals, pharmaceuticals, information and communication technologies, tourism or the mechanical and electrical engineering industries.

The introduction of new measures to improve the impact assessment of Commission legislative proposals is also a good step forward and first results have been encouraging. Impact assessments have led to better-informed policy making as well as increased consultation and cooperation both within the Commission and with outside stakeholders, including SMEs. On several occasions, the SME Envoy has highlighted Commission consultations concerning policy proposals to European SME organisations, making sure that they can contribute and make their voice heard. This happened for example for the future European research policy and for the review of Internal Market legislation, i.e. for the notification of new national rules and standards in the area of services and the mutual recognition in the non-harmonised area of goods. Some consultations, in the fields of eco-technology or taxation, have also been conducted through the Euro Info Centre network.

It should also be underlined that, in a number of policy areas, the development and use of support instruments such as guarantee mechanisms or venture funds, has been particularly effective in reaching much more beneficiaries than traditional instruments like grants would have done. This is true for the financial instruments of the Multiannual Programme for enterprises and entrepreneurship, especially SMEs, but this is also more and more the case in Structural Funds interventions. Such financial engineering techniques therefore had a strong impact on the capacity of SMEs to benefit from EU programmes. Moreover, these instruments are usually based on a public-private approach which gives them a high leverage effect and helps maximising the impact of the EU contribution¹⁸.

... but room for improvements

As far as better regulation is concerned, it may be too early to draw conclusions on the effectiveness of the recent measures taken by the Commission, but one can expect that these measures will have a positive effect on the integration of the SME dimension in EU policies. However, constant pressure on Commission services is needed so that the assessment of the likely impact of proposals on businesses takes full account of the characteristics of SMEs. Specific provisions for SMEs, including exemptions if necessary, should be more widely envisaged. Consultations of the SME community also has to be improved and made more systematic, while awareness-raising actions on relevant EU activities for SMEs should be multiplied.

Considering the SME participation in EU programmes, improvements are also needed to make it easier and more frequent. Very often, application procedures are not adapted to SMEs who do not have the capacity to deal efficiently with complex rules. The time taken for the treatment of SME application is also considered inadequate for many SMEs. The fact that for many schemes, SMEs have to provide bank guarantee before obtaining advance payment may also have a negative impact on the level of SME participation in programmes. In addition, in the case of EU procurement, criteria for participation can also be difficult to match for SMEs.

¹⁸ See the final report of the Strategic evaluation of European Union financial assistance schemes for SMEs, carried out for the Commission, DG Budget, Brussels, December 2003.
http://europa.eu.int/comm/budget/evaluation/Key_documents/evalguide_study_en.htm

Initiatives taken by some Commission services to assess their practice so as to facilitate SME participation should therefore be encouraged and continued.

In order to further facilitate SME participation in EU programmes and initiatives, some further measures have to be envisaged, considering existing good practices and positive experiences observed within the Commission services. These measures could include:

- Firstly, examining the best ways to effectively support SMEs, including setting targets in terms of SME participation in EU programmes;
- Secondly, facilitating SME participation with specific measures related to the management of programmes: calls for proposal targeted at SMEs, possibility for SME organisations or consortia to participate, creation of SME help-desks, provision of feedback on SME projects already financed, institution of pre-assessment procedures so that SMEs can submit “lighter proposals”, etc.;
- Thirdly, raising awareness on SME initiatives and enhancing the provision of information and assistance for SMEs, in particular through Commission support networks such as the Euro Info Centres network and the Innovation Relay Centres network, as these networks play an essential role in promoting Community programmes and making the link between them (for example, SMEs using research programmes might need support for the protection of their Intellectual Property rights and the financing of their development); and,
- Finally, evaluating systematically the relevance of EU programmes and initiatives for SMEs and of the specific needs this category of participants might have; this should be accompanied by measures aimed at obtaining improved statistics on SME participation and better assessing the effect of programmes on them.
- The integration of SMEs in the conception and implementation of EU policies and programmes is crucial for the creation of a favourable business environment and the improvement of European competitiveness. The Commission is committed to continue its efforts so that the European Charter for Small Enterprises is translated into concrete action and turns into positive effects for European SMEs.

PART III: ACTIVITIES IN THE AREAS OF THE EUROPEAN CHARTER FOR SMALL ENTERPRISES

PROGRESS IN THE SELECTED PRIORITY AREAS

Following the invitation of the Competitiveness Council of March 2003, the Commission has decided to put emphasis, each year, on a number of selected Charter areas, so as to focus more attention. The present report follows this approach and follows the same structure as the report on Member States activities. Therefore it examines first these areas selected for 2004: 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.

4. EDUCATION 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.”

Based on the previous work in this area¹⁹ and in the framework of the Commission’s **Entrepreneurship Action Plan**, a key action has been launched aiming at **“Fostering entrepreneurial mindsets through school education”**²⁰. This action includes a set of initiatives to be carried out jointly by the Enterprise and Education and Culture Directorates-General of the Commission. In this framework, a **Best project**²¹ is underway, focusing on programmes in secondary school based on students running a **mini-company** or a **virtual firm**. These methodologies can offer an important contribution to the promotion of entrepreneurial attitudes and skills among young people. The project is exploring different programmes and practices, aiming for instance to identify factors of success and to find out how public authorities are supporting their application. The action should have an impact in supporting policy and decision-making at various levels affecting secondary schools. Final results of the project will be available in March 2005.

The work programme **“Education and Training 2010”**²² was designed to ensure the contribution of education and training to the Lisbon process. In this context, a working group

¹⁹ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/training_education/index.htm

²⁰ http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_01.htm

²¹ 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.

²² http://www.europa.eu.int/comm/education/policies/2010/et_2010_en.html

on key competences has designed a European framework for eight key competences²³ that should be acquired by the end of compulsory education and maintained through lifelong learning. Entrepreneurship is considered one of these key competences for all in a knowledge-based society. The working group also emphasises that entrepreneurship is a broad competence that includes notably, initiative taking, creativity and team work as necessary background skills to support entrepreneurial behaviour. The 2004 **Joint Interim report of the Council and the Commission**²⁴ on the implementation of the work programme “Education and Training 2010”, recognises this European framework as one of the priorities to put in place as part of the comprehensive and concerted lifelong learning strategies in the EU.

In the framework of the European programme **Youth**²⁵, entrepreneurship is recognised as an important skill to be developed among young people. Youth entrepreneurship was identified in the 2001 White Paper on Youth²⁶, and in follow-up work during 2004 on the issue of youth autonomy²⁷, as an important step towards employment of young people. The 2004 Commission Communication on common objectives for voluntary activities among young people²⁸ proposes to promote and recognise voluntary activities and concludes that recognition by all sectors, including private business, of the skills gained through voluntary activities would enhance young people’s status and employability. Finally, the Commission’s proposal for a new generation of the Youth programme, “**Youth in action**” 2007-2013²⁹, includes the objective of ‘encouraging initiative, enterprise and creativity’.

The **Gate2Growth Academic Network**³⁰ (see heading 10), launched in 2003 with the support of the Commission, aspires to facilitate the integration and dissemination of good research and teaching practices in the fields of entrepreneurship, innovation and finance. Currently, the pan-European network gathers 120 junior and senior academics, researchers, scholars and other experts involved in these domains. Besides the organisation of doctoral programmes and the creation of teaching material, the network is active in setting up research workshops and supports the translation of fundamental research findings into policy recommendations.

5. BETTER LEGISLATION AND REGULATION

Charter commitment:

²³ http://www.europa.eu.int/comm/education/policies/2010/objectives_en.html#basic

²⁴ “‘Education and Training 2010’ – The Success of the Lisbon Strategy Hinges on Urgent Reforms”, Council document 6905/04, 3.3.2004.

http://www.europa.eu.int/comm/education/policies/2010/doc/jir_council_final.pdf

²⁵ <http://europa.eu.int/scadplus/leg/en/cha/c11603.htm>

²⁶ European Commission White Paper “A New Impetus for European Youth”, COM(2001) 681 final, 21.11.2001.

²⁷ Working paper on youth autonomy by the Youth Unit, Education and Culture Directorate-General, European Commission, of 26 May 2004, endorsed by the Directors-General for Youth at their meeting in Dublin on 2-3 June 2004.

²⁸ “Follow-up to the White Paper on a New Impetus for European Youth. Proposed common objectives for voluntary activities among young people in response to the Council Resolution of 27 June 2002 regarding the framework of European cooperation in the youth field”, COM(2004) 337 final, 30.4.2004.

²⁹ Proposal for a Decision of the European Parliament and of the Council creating the “YOUTH IN ACTION” programme for the period 2007-2013, COM(2004) 471 final, 14.7.2004, 2004/0152 (COD). http://europa.eu.int/comm/dgs/education_culture/newprog/index_en.html

³⁰ <http://www.gate2growth.com/academicnetwork.asp>

“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.”

The Commission continues the implementation of its **2002 Better Regulation Action Plan**. In this framework, the Commission is implementing its rolling programme to **up-date and simplify existing Community legislation**. This is an ambitious programme designed to clean, up-date and simplify the Community *acquis* through consolidation, codification, repeals, and simplification as well as to improve its organisation and presentation. Between February 2003 and June 2004, 21 policy sectors were screened for simplification potential, including motor vehicle type approvals system, marketing authorisation for medical products and processed agricultural products. The programme, whose intensive start-up period was running until the end of 2004, is now being integrated into the annual planning and programming cycle. The Commission already reported on the first and the second phase of its implementation and will present the third report in early 2005.

For those actions that require co-ordinated or joint implementation by the institutions of the EU, the European Parliament, the Council and the Commission concluded in December 2003 an **Inter-institutional Agreement on Better Regulation**. Its main elements are (1) the improvement of inter-institutional co-ordination and transparency³¹; (2) common definitions³² and agreed conditions of use³³ for alternative instruments such as co-regulation and self-regulation; (3) increased use of impact assessment in Community decision-making; and (4) the commitment to set a binding time limit for the transposition of directives into national law³⁴. Implementing the inter-institutional agreement will be a long-term process. So far, no

³¹ The three institutions will reinforce their coordination through their respective annual legislative timetables with a view to reaching agreement on joint annual programming.

³² The Inter-institutional Agreement on Better Regulation provides the following definitions: Co-regulation: “... the mechanism whereby a Community legislative act entrusts the attainment of the objectives defined by the legislative authority to parties which are recognised in the field (such as economic operators, the social partners, NGOs or associations)”; Self-regulation: “the possibility for economic operators, the social partners, NGOs or associations to adopt amongst themselves and for themselves common guidelines at European level (particularly codes of practices or sectoral agreements)”. The rules on the functioning of the social dialogue (Articles 138 and 139 of the Treaty establishing the European Community) and standardisation according to the “New Approach” are not affected by this agreement.

³³ Co-regulation and self-regulation “will not be applicable where fundamental rights or important political options are at stake or in situations where the rules must be applied in a uniform fashion in all Member States”. Under co-regulation, following notification of a draft agreement prepared by interested parties, the Parliament and the Council will have the right to suggest amendments to the agreement, object to its entry into force and, possibly, ask the Commission to submit a proposal for a legislative act. As for self-regulation, the Commission will keep the Legislators informed by reporting on the practices it regards as effective and satisfactory in terms of representativeness.

³⁴ Each directive should indicate a time limit which should be as short as possible and generally not exceed two years.

concrete initiatives have been taken by the European Parliament and the Council to implement the provisions of the agreement to speed up the adoption of the simplification proposals pending before the legislator but the Commission has recently re-launched talks with other Institutions on the impact assessment of substantive amendments by the Council and the European Parliament and the possible establishment of a common methodology between all EU institutions.

Also in the framework of the Better Regulation Action Plan, the Commission, in 2003, launched a new **impact assessment** procedure. It aims to improve the quality of the regulatory environment and to enhance policy coherency. In line with the EU Sustainable Development Strategy, it covers a systematic assessment of the likely environmental, social and economic impacts of the Commission's proposals. Both positive and negative effects on businesses, including SMEs, are assessed within this framework. This procedure represents a new and ambitious approach to policy-making, and the Commission is still in the process of implementing it and learning from how it is working in practice. Having completed 21 impact assessments in 2003, around 32 were completed in 2004. One example of a Commission proposal that has clearly been influenced by the impact assessment and the need to take into account the interest of SMEs is its proposal to amend the legal protection of designs Directive³⁵, introducing more competition in car spare parts market, thus creating opportunities for SMEs in this sector.

To further enhance the quality of the impact assessments, the Commission is currently refining and simplifying its internal guidelines for impact assessment, including improved guidance on how to assess certain impacts, such as those on business competitiveness. The new guidelines, expected for 2005, should include an explicit reference to SMEs. It is also continuing its training programmes for officials as well as promoting the exchange of expertise and good practice, both between the Commission services and with external experts and stakeholders. In addition, a 'single access point' web-site on impact assessment was launched in July 2004³⁶.

One way of ensuring that legislation does not create additional burdens and costs is to consult businesses on new legislative proposals and on the application of current rules in order to better identify their impact. The **Interactive Policy Making initiative (IPM)**³⁷, launched in 2001, now offers efficient facilities to assess the impact on SMEs within a specific policy field. The two tools available to Commission policy makers are the **IPM Feedback mechanism** (see heading 9) and the **IPM On-line Consultation tool**. The latter has proved to be an efficient way to directly ask stakeholders on their views on existing rules or proposal for new ones. In the period mid 2003 to mid 2004, more than 10 consultations were directed to companies and 3 of them were executed through the representative **European Business Test Panel**³⁸. The Commission is now working on the preparations for SME specific panels that would work through the Euro Info Centres and would allow consulting SMEs in a rapid and flexible manner on Community initiatives of interest to them.

³⁵ Proposal for a Directive of the European Parliament and the Council amending Directive 98/71/EC on the legal protection of designs, COM(2004) 582 of 14.09.2004.

³⁶ http://europa.eu.int/comm/secretariat_general/impact/index_en.htm

³⁷ <http://europa.eu.int/yourvoice/ipm/>

³⁸ The European Business Test Panel (EBTP) was created to consult up to 3 000 businesses drawn from six major sectors in the national economies and includes 1 288 small enterprises. The EBTP complements other forms of consultation, having the distinct advantages of providing quick access to business opinions and being representative of a pan-European view.

The new project “**Stigma of failure and early-warning tools**”³⁹ was launched in autumn 2004. The deliverables of this project will be, on the one hand, an information kit on business failure focussed at achieving a fairer balance of the risks and rewards linked to entrepreneurship and tackling the negative effects of business distress and, on the other hand, early-warning tools for entrepreneurs to assess their financial condition. It will ensure a **follow-up to the Best Procedure project on “Restructuring, bankruptcy and a fresh start”**⁴⁰ and its recommendations and also allow for the exchange of experiences and difficulties in the field.

For information on the latest development in the area of competition, see heading 14.

6. 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.”

In the framework of the **Copenhagen process** aimed at the enhancement of European co-operation in vocational and educational training, several achievements important to SMEs were made in 2004. In particular, the adoption by 32 ministers of education and training of the Maastricht Communiqué in December 2004 provided stakeholders with recommendations about the targets to be reached in the field of vocational and educational training during the next years. The Copenhagen-Maastricht process takes place on a voluntary basis and aims to create a single **European reference framework** within which competencies and qualifications are made transparent, comparable, transferable and recognised.

The new **Europass** was launched in January 2005, following the adoption of the Commission’s proposal of December 2003⁴¹. Europass is a single instrument for the **transparency of competences and qualifications**. It is not limited to vocational qualifications but at the service of lifelong learning and it brings together different instruments like the European CV, the Europass Mobility, Diploma Supplement, Certificate Supplement and Language Portfolio. The new Europass will make mobility of human resources inside the European Labour Market, and notably between SMEs, easier.

A series of common reference principles for **validation of non-formal and informal learning** was agreed by the Education Council in May 2004. The added value will be the possibility to improve the recognition of all learning activities which take place outside the formal systems, for example skills developed at the workplace or through extra activities like voluntary work. A strategy has been set up and agreed in 2003-2004 between the Commission, the Member States and the social partners on how to proceed in the **development of competences and qualifications at sectoral level**. A systematic mapping of all transnational education and training initiatives at sector level has been initiated by the

³⁹ http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_02.htm

⁴⁰ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/failure_bankruptcy/index.htm

⁴¹ Proposal for a Decision of the European Parliament and of the Council on a single framework for the transparency of qualifications and competences (Europass), COM(2003) 796 final, 17.12.2003, 2003/0307 (COD). http://europa.eu.int/comm/education/programmes/europass/index_en.html

CEDEFOP⁴². The results of this exercise will provide an overview of ongoing transnational training initiatives targeted to specific sectors. The Advisory Committee for Vocational Training⁴³ has become the official platform for exchange of information and co-operation at sectoral level. A first **seminar on sectoral initiatives** was organised jointly by the Commission and the Dutch Presidency in The Hague in October 2004. It allowed for a first exchange among all private and public actors involved in sectoral training at European level with the objective of linking various initiatives into a more coherent European framework.

The **Leonardo da Vinci** programme⁴⁴ aims at developing quality, innovation and a European dimension in vocational training systems and practices and is a key instrument for the development of skills and lifelong learning in Europe. Involvement of SMEs is a priority. In 2003, Leonardo co-financed 31 multi-annual transnational projects submitted by SMEs or SME organisations to a total budget of some €10 million. The topics covered by the projects are very different – from e-commerce to management training to linguistic skills for SMEs workers, etc. – but have the common objective to develop innovative training solutions targeted to SMEs’ specific needs. In January 2004, a study describing the main obstacles for SMEs to implement training and the contribution of the Leonardo programme to the skills development in businesses was published by the Commission⁴⁵. In addition, various activities for accompanying Leonardo projects dealing with skills development inside enterprises, in particular SMEs, were carried out during 2004 and a seminar on continuous vocational training inside small enterprises in the manufacturing sector was organised in December 2004 with the aim of ensuring better matching between training supply and demand.

In February 2004, the Commission adopted a mid-term report⁴⁶ on **Skills and Mobility**, assessing the state of play regarding the improvement of occupational and geographic mobility within the EU, as laid down in the 2002 Action Plan on Skills and Mobility⁴⁷. With regard to **occupational mobility**, the Council has adopted a series of benchmarks to be achieved by 2010⁴⁸, which address skill deficits in industry, manufacturing and ICT-related sectors, and are of particular relevance to SMEs. Moreover, social partners have launched an awareness-raising campaign to promote young people’s interest in science and technology. However, progress has been slower on developing new skills and qualifications related to the ICT sector, and on promoting continuing vocational training and lifelong learning, which is essential to support SME development. As to **geographic mobility**, the introduction of the Europass (see above) will support the transparency and transferability of qualifications, an issue of vital importance for both workers and employers. The introduction of the European Health Insurance Card⁴⁹ and the modernisation of the co-ordination of social security rights

⁴² European Centre for the Development of Vocational Training. <http://www.cedefop.eu.int/>

⁴³ The Advisory Committee for Vocational Training, ACVT, is the formal tripartite body on which social partners at national level are represented, along with Government representatives.

⁴⁴ http://europa.eu.int/comm/education/programmes/leonardo/leonardo_en.html

⁴⁵ “Development of skills within companies, especially SMEs”,

http://www3.socleoyouth.be/static/Bots/docbots/LEONARDO/T2/English-final_report_theme_2.pdf

⁴⁶ “Report on the Implementation of the Commission's Action Plan for Skills and Mobility COM(2002)72 final”, COM(2004) 66 final, 6.2.2004.

⁴⁷ COM(2002) 72, 13.2.2002.

⁴⁸ For example, graduates in mathematics, science and technology in the EU should increase by at least 15% by 2010, at least 85% of 22-year-olds in the EU should have completed upper secondary education and the EU average level of participation in lifelong learning should be at least 12.5% of the adult working population.

⁴⁹ http://europa.eu.int/comm/employment_social/healthcard/index_en.htm

will also help support mobility whereas the Language Action Plan⁵⁰ will also help improve the quality of skills available for SMEs.

Some **sectoral initiatives** have also been taken by the Commission. In autumn 2004, an on-line consultation on the “Competitive Analysis of **EU Mechanical Engineering**”, was launched, offering stakeholders the opportunity to express their views about what factors determine the global competitiveness of European mechanical engineering companies⁵¹. In fact, shortage of skilled staff was identified as one of the factors affecting the competitiveness of this sector. The problem presents itself as a mismatch between the skills needed by companies and the qualifications of candidates and there is no single remedy to this situation. While the Commission is aware since several years of the shortage perceived by the industry, its analysis of the situation has not yet resulted in concrete action.

The availability of adequate **information and communication technology** (ICT) skills is an important condition for the competitiveness of small businesses. Improving the availability of ICT and e-business skills (e-skills) involves actions both at European and national level, in several areas: education, training, lifelong learning, enterprise and labour policies primarily, but also in other domains such as immigration, outsourcing, taxation and research. The activities of the **European e-Skills Forum**, established by the Commission in 2003, contribute to the implementation of the Action Plan on Skills and Mobility (see above) and the eEurope 2005 Action Plan⁵². A **workshop on e-skills industry**⁵³ was organised in March 2004 in Brussels. The European e-Skills Forum also released several **issue papers** and a **Synthesis Report “e-Skills in Europe: Towards 2010 and Beyond”**⁵⁴ which was endorsed at the **European e-Skills 2004 Conference** in September 2004 in Thessaloniki⁵⁵. Future actions in this field will be based on the six recommendations of the Forum.

Finally, a **Handbook on learning areas in the tourism sector** will be published at the beginning of 2005⁵⁶. This handbook, which will be accompanied by a specific web portal and a CD Rom, intends to enhance skills among SMEs in the tourism sector and support the cooperation in this area among enterprises and other relevant actors (universities, training institutes) at local and regional level.

PROGRESS IN THE OTHER CHARTER AREAS

7. 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

⁵⁰ COM(2003) 449 final, 24.7.2003.

⁵¹ <http://europa.eu.int/comm/enterprise/library/enterprise-europe/news-updates/2004/20040917.htm>

⁵² “eEurope 2005: An information society for all”, COM(2002) 263 final, 28.5.2002,
http://europa.eu.int/information_society/eeurope/2005/index_en.htm

⁵³ <http://europa.eu.int/comm/enterprise/ict/policy/ict-skills/bru/index.htm>

⁵⁴ <http://europa.eu.int/comm/enterprise/ict/policy/doc/e-skills-forum-2004-09-fsr.pdf>

⁵⁵ <http://www.eskills2004.org/>

⁵⁶ http://europa.eu.int/comm/enterprise/services/tourism/index_en.htm

companies should be encouraged to catch up with the fastest. Online access for registration should be increased.”

Following the Best Procedure project “**Benchmarking the administration of business start-ups**”⁵⁷, concluded in 2002, it is clear that many Member States have succeeded in substantially reducing the time and costs of setting up a business and online registration systems have become operational in several countries. To verify the progress made in a systematic and comparable way, the Commission intends to revisit the issue in due course.

8. IMPROVING ON-LINE 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.”

The **Portal of the EU Administration**⁵⁸, to be launched at the beginning of 2005 under the name “**Your Europe**” by the IDA programme (Interchange of Data between Administrations), provides information and services to assist Europe’s enterprises and citizens to carry out cross-border activities, for example enterprises wanting to establish a subsidiary in another European country. The major action started in 2003 is the integration with the already existing sites “Dialogue with Business”⁵⁹ and “Dialogue with Citizens”⁶⁰ and with other Commission initiatives such as SOLVIT (see heading 9). The resulting portal will be positioned as the main EU portal in support of cross-border users. Also in the framework of the IDA programme, the **eGovernment Observatory**⁶¹ and the **Open Source Observatory**⁶² provide a valuable insight on technologies, e-Government strategies, initiatives and projects in Europe and beyond. Additionally, IDA has launched a **mobility case study** to analyse how cross-border mobility can be enhanced through the exchange of data between civil registration authorities.

Also in the area of mobility, the Commission’s mid-term report on Skills and Mobility (see heading 6) highlighted the launch of the **European Job Mobility Information Portal, EURES**⁶³ in 2003, aimed at providing Europe-wide access to available jobs and skilled workers, helping employers, including SMEs, to find skilled workers and helping workers to find jobs across Europe. The portal, which is of particular interest to SMEs, now contains additional information on living and working conditions as well as on regional labour markets. The Portal also incorporates the PLOTEUS portal on learning opportunities to facilitate mobility for learning purposes. The launch and development of this portal has

⁵⁷ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/start-ups/benchmarking.htm

⁵⁸ <http://europa.eu.int/youreurope/>, based on the pilot portal “public-services.eu”,
<http://europa.eu.int/public-services/>.

⁵⁹ <http://europa.eu.int/business/>

⁶⁰ <http://europa.eu.int/citizens/>

⁶¹ <http://europa.eu.int/ida/egovo>

⁶² <http://europa.eu.int/ida/oso>

⁶³ <http://europa.eu.int/eures/index.jsp>

substantially improved and simplified the access of workers and employers, in particular SMEs, to practical information on questions related to job mobility.

The **Information Society Technologies (IST) Priority**, which is part of the Sixth Framework Programme for research, technological development and demonstration activities (2002-2006) (see heading 11) contains certain areas which are of particular interest to SMEs. This is namely the case in the field of networking between businesses and governments, where 23 projects have been supported. Also, one of the objectives of the **eTEN programme**⁶⁴ (see heading 12) is to increase the competitiveness of SMEs by promoting the use of eServices, which includes in particular access to government services. In this context, one call for proposals, launched at the beginning of 2004, was addressing specifically SMEs.

9. 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.”

The **Internal Market Strategy 2003-2006**⁶⁵ sets out what needs to be done to maximise the contribution which an enlarged Internal Market – of 25 Member States – can make to increasing the EU’s growth, competitiveness and quality of life. This ten point plan includes priorities towards facilitating the free movement of goods, integrating services markets – where there is particular potential for SMEs, simplifying the regulatory environment, enforcing the rules, expanding public procurement opportunities and providing better information. Many of the actions within the Internal Market Strategy, while not specifically designed with small businesses in mind, will allow these businesses to take advantage of the opportunities provided by the Internal Market. The Internal Market does not deliver benefits automatically for business or citizens. Laws have to be adopted, transposed into national law and enforced, which is the primary responsibility of Member States. Correct and timely transposition of Internal Market directives into national law is therefore a prerequisite to ensure that SMEs benefit from the Internal Market.

There are nevertheless some Internal Market measures in particular where the EU must act to help business. The possibility for enterprises to trade freely throughout the EU is crucial for their development and, consequently, for their competitiveness. With the EU increasing in size and diversity, the operation of the existing legal framework for goods needs to be consolidated. With this in view, the Commission has started to reflect on a new Regulation to **improve the operation of the mutual recognition principle**. Moreover, **market surveillance** is an essential tool for the enforcement of New Approach directives. It needs to function effectively in order to provide uniform application of Community law, equal

⁶⁴ http://europa.eu.int/information_society/activities/eten/index_en.htm

⁶⁵ Internal Market Strategy: Priorities 2003 – 2006, COM(2003) 238, 7.05.2003, available at http://europa.eu.int/comm/internal_market/en/update/strategy/index.htm

protection for all citizens and maintenance of a level playing field for enterprises. In order to improve effective enforcement at national level, the Commission is actively encouraging cross-border co-operation through cross-border market surveillance and administrative cooperation between Member States.

The **Interactive Policy Making (IPM) Feedback Mechanism** is a useful tool to identify difficulties encountered by SMEs in the Internal Market. Since the launch of the new IPM database, approximately 5 000 cases concerning problems and requests for advice from SMEs were reported, covering all EU policy fields. The feedback database enables the analysis of the type of problem met, and whether it relates to rules, procedures, access to information or to EU programmes. By doing so, it helps the Commission to monitor and evaluate EU legislation, to identify difficulties in the implementation of the Internal Market rules and to detect possible infringements to these rules. As such, this database, and the way it is exploited by the Euro Info Centres and the Commission services, contributes to help SMEs overcome perceived or real obstacles on the market.

In 2004, the IPM feedback Mechanism has been improved and promoted so that Commission services can use it more systematically in the planning of their policy-making activities and ensure proper follow-up of cases. IPM cases have been used by the Commission services in the preparation of legislative initiatives and studies. Some examples are the identification of barriers in the area of e-business, helping to facilitate the provision of service across Europe by identifying unnecessary red tape, identification of problems in the area of trade of non-harmonised goods. IPM is currently the subject of an interim evaluation due to be completed by mid 2005.

SOLVIT⁶⁶ is the EU problem solving network for citizens and businesses who encounter cross-border barriers due to the misapplication of EU law by national public authorities. The system offers an alternative to formal procedures, usually lengthy and costly, and aims at solving problems in a pragmatic way within 10 weeks. SOLVIT also created a direct link to the case handling database for organisations who are regularly approached by citizens and businesses with Internal Market complaints, such as chambers of commerce or members of the European Parliament. It complements the access of all EICs to SOLVIT, which is of special interest to SMEs as virtually all of last year's business cases submitted to SOLVIT were submitted by SMEs, The number of cases submitted to SOLVIT increased significantly during 2004, especially due to enlargement.

Accounting for almost 70% of EU GDP and employment, services are an essential driver of economic growth and a key element for the competitiveness of the manufacturing industry. However, as the services sector is highly fragmented, the development of services activities between Member States is significantly hampered. Therefore, the January 2004 Commission **proposal for a Directive on services in the Internal Market**⁶⁷, establishes a general legal framework which should facilitate the cross-border provision of services as well as the establishment of service businesses in another Member State. This is being completed by a mandate inviting European Standards Organisations to develop standards for services in order to support the Internal Market in this sector.

⁶⁶ <http://www.europa.eu.int/solvit>

⁶⁷ COM(2004) 2 final/3, 5.3.2004, 2004/001 (COD).

The Commission proposal for a **Directive on Unfair Commercial Practices**⁶⁸ which is currently in its final stage of the legislative process aims at harmonising rules on unfair business to consumer practices across the European Union. In addition to simplifying the regulatory environment in this area, it will reduce fragmentation of consumer protection rules, thus easing the regulatory burden for SMEs and enhancing their competitive potential across the Internal Market.

Estimates suggest that one out of four insolvencies arise due to **late payment**, resulting in the loss of 450 000 jobs every year. Late payments have been a major problem for SMEs. Following its adoption by the European Parliament and the Council in June 2000, the deadline for Member States to transpose the Directive combating late payment in commercial transactions⁶⁹ was August 2002, and for the 10 new Member States, May 2004. Only one legal procedure is still outstanding before the Court of Justice for non-transposition of this directive and the control of national measures of transposition continues regarding three other Member States. The Commission has now started the preparations for a **review** of the situation concerning statutory rate, contractual payment periods and late payments.

The Commission adopted in February 2004 a **Communication on “the promotion of co-operative societies in Europe”**⁷⁰, which outlines the future orientation of policies and activities in favour of co-operatives at national and European level. In particular the role of cooperatives for the improvement of the competitiveness of SME members has been highlighted. Following the adoption by the Council of the **statute for a European Co-operative Society**⁷¹ in July 2003, two meetings have taken place with national administrations and cooperative organisations to discuss the main provisions of the regulation and to have an exchange of views on various important topics for cooperative legislation.

A feasibility study for a **European statute for small and medium enterprises** was launched in December 2003. This study aims to establish the need of small and medium enterprises for a new European legal form ("European Private Company"), i.e. by identifying the principal company law rules common to Member States. According to the results, the Commission will then be in a position to decide whether it is going to launch a legislative proposal for a European statute for SMEs.

10. 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.”

⁶⁸ COM(2003) 356, 18.6.2003, 2003/0134 (COD). Further information on http://europa.eu.int/comm/consumers/cons_int/safe_shop/fair_bus_pract/index_en.htm

⁶⁹ Directive 2000/35/EC of the European Parliament and of the Council of 29 June 2000 on combating late payment in commercial transactions, OJ L 200, 8.8.2000, p. 35. http://europa.eu.int/comm/enterprise/regulation/late_payments/index.htm

⁷⁰ COM(2004) 18, 23.2.2004.

⁷¹ Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE), OJ L 207, 18.8.2003, p. 1.

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.”

In the field of taxation, the Commission has launched in 2004 several projects which should have positive effect on SMEs. To strengthen the balance sheets of SMEs through **retained earnings**, the Commission has analysed the effects of tax systems on the retention of earnings and the increase of own capital⁷² and intends to review the tax codes of several Member States in order to identify potential disincentives for the retention of earnings, which will have a negative impact on the investment decisions of the business owners. In addition, as administrative and regulatory obligations for tax purposes impose a cost burden and represent an obstacle for growth of SMEs, the Commission has started to analyse potential areas for the **simplification and reduction of tax compliance procedures**. For these two projects, the objective is to identify good practices and, where appropriate, to elaborate recommendations. Final results are expected in the first half of 2006.

Concerning cross-border activities, complying with different national tax laws and regulations can be a real obstacle for SMEs⁷³. To simplify tax compliance related to direct taxation for cross-border activities, the Commission intends to launch a pilot scheme whereby SMEs can apply **Home State Taxation**. Participating Member States would agree to mutually recognise the different national methods of calculating taxable profits. This would allow firms to apply the familiar rules and regulations of their ‘home’ state when calculating the taxable profits of the subsidiaries and branches situated in participating Member States. The Commission services are currently working on the technical details of a possible recommendation for such a Home State Taxation pilot scheme for SMEs⁷⁴.

In addition, for several categories of business to consumers transactions, traders have to be registered and make tax returns for VAT purposes in every Member State where they carry out taxable transactions. Based on a public consultation in summer 2004⁷⁵, the Commission at the end of October proposed a **VAT one stop shop system**⁷⁶, whereby traders can fulfil their VAT obligations with the Member State of establishment. This system will enable traders to

⁷² http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_07.htm

⁷³ See also the Entrepreneurship Action Plan Key Action Sheet:

http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_09.htm

⁷⁴ “An Internal Market without company tax obstacles – achievements, ongoing initiatives and remaining challenges”, COM(2003) 726 final, 24.11.2003; Outline of a possible experimental application of Home State Taxation to small and medium-sized enterprises, TAXUD.C.1/DOC(04) 1410, 24.6.2004, http://europa.eu.int/comm/taxation_customs/taxation/company_tax/docs/Paper_HST_June_04_EN.pdf

⁷⁵ http://europa.eu.int/comm/taxation_customs/taxation/consultations/one_stop_en.htm; see also “Review and update of VAT strategy priorities”, COM(2003) 614 final, 20.10.2003.

⁷⁶ COM(2004)728 of 28/10/2004:

http://europa.eu.int/comm/taxation_customs/publications/official_doc/COM_728_en.pdf

deal with one single tax authority in their own language for their EU-wide activities with respect to these VAT matters.

To help the Member States make further progress in implementing the 1994 Commission Recommendation on the **transfer of SMEs**⁷⁷ and based on previous work in this field⁷⁸, the Commission has requested the countries that participated in the projects to provide an update of the measures undertaken to facilitate the transfer of businesses. In response to the recommendations of the Best project expert group, the Commission has launched a project encouraging the establishment of transparent uniform transfer market places.

In June 2004, the Commission published its tenth progress report on the **Financial Services Action Plan (FSAP)**⁷⁹. It concluded that the main legal foundations for the creation of a stable, integrated and more efficient EU capital market have been laid. The focus is now shifting to the implementation and enforcement of the new legislative framework in order to ensure that the full benefits can be captured. To this end, the Commission is presently undertaking an assessment of the FSAP, including the identification of possible remaining barriers for an integrated financial services market. One example of particular importance to SMEs is the **consultation on a new legal framework for payments**⁸⁰. Following this consultation, the Commission will present appropriate proposals for a new legal framework for payments in the Internal Market, which should help SMEs to increase their cross-border activities by bringing down the cost of cross-border payments.

The **financial instruments of the Multiannual Programme for Enterprise and Entrepreneurship (2001-2005)** (MAP) are managed by the European Investment Fund (EIF) and delivered via financial intermediaries. Since 2003, new Member States and candidate countries have had the possibility to benefit from these financial instruments. Contracts have been approved in all of them, except one.

For the **SME Guarantee Facility**, which provides guarantees to banks to cover their SME loans, and additional guarantees to national and regional guarantee schemes, the EIF had signed contracts, at the end of 2003, with 48 financial intermediaries, for a total amount of €308 million (both under the 1998-2000 Growth and Employment initiative and under the MAP). At the end of 2003, the cumulative number of SMEs benefiting from the facility was 166 279, compared with 127 812 a year earlier. Final beneficiaries with up to 10 employees made up 93% of the total number of SMEs and final beneficiaries with up to 50 employees made up 97% of the total number of SMEs. This clearly demonstrates that the SME Guarantee Facility has a high leverage effect in increasing the supply of finance to SMEs and is firmly focused on the smallest businesses.

⁷⁷ OJ L 385, 31.12.1994, p. 14 and the accompanying Communication containing the motivations of the Recommendation, OJ C 400, 31.12.1994, p. 1.

⁷⁸ See the proposals for action made in the 2000-2002 Best Procedure project on transfer of businesses and its 2002-2003 follow-up project.
http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/best_project.htm

⁷⁹ “Financial Services: Turning the Corner – Preparing the challenge of the next phase of European capital market integration”, 2.6.2004.
http://europa.eu.int/comm/internal_market/en/finances/actionplan/index.htm

⁸⁰ “Communication from the Commission to the Council and the European Parliament concerning a New Legal Framework for Payments in the Internal Market (Consultative Document)”, COM(2003) 718 final, 2.12.2003. http://europa.eu.int/comm/internal_market/payments/framework/index_en.htm

For the **ETF Start-up Scheme**, which provides risk-capital to venture capital funds making early-stage investment in SMEs, the EIF had signed contracts, at the end of 2003, with 21 venture capital funds for a total amount of €126 million (both under the Growth and Employment initiative and under the MAP). These venture capital funds have raised an amount of €602 million providing a substantial leverage to Community funds. For the **Seed Capital Action**, which supports the recruitment of specialised staff by seed capital funds, the EIF had signed, at the end of 2003, three grant agreements with two venture capital funds for a total amount of €300 000.

Within the **Joint European Venture (JEV)** scheme, which had been designed to support the creation of transnational joint ventures by SMEs, the Commission services had received 286 applications by the end of 2003, of which 220 were approved. Only 37 joint ventures have been created and reported so far⁸¹. Following an evaluation of JEV and other financial instruments of the 1998-2000 Growth and Employment initiative, the Council adopted on 21 July 2004 a Decision⁸² authorising the closure of the JEV programme and setting 29 December 2004 as the final deadline for submission of JEV projects to the Commission.

The **European Investment Bank (EIB)** finances SME investments indirectly via **global loans**. This represented around one third of global loan activity in the Union on average between 2000 and 2003. During these four years, the EIB provided the EU partner institutions acting as intermediaries for those loans with a total of €44 billion. SMEs represent the first priority of the global loan activity, particularly in assisted areas, and slightly under half of this amount benefited SMEs (around 90 000 businesses).

The discussions on a **Code of Conduct between banks, finance providers and SMEs** in order to improve their understanding of each other were terminated in 2003, but some of the stakeholder organisations were not able to endorse the Code. The Commission issued a staff working paper on the discussions in March 2004⁸³ and will continue to work to improve understanding between credit institutions and SMEs based on the discussions. As far as micro loans are concerned, a **Microcredit European Conference** was held in Brussels in September 2004 to discuss ways to promote a more favourable environment for access by small enterprises to microcredit in Europe⁸⁴. In the same line a Commission Working Document on Microcredit for European small businesses was issued on 17 September 2004⁸⁵.

After the successful conclusions of the negotiations of the Basel Committee on the revision of the **Capital Adequacy Framework for banks (Basel II)**, the Commission adopted in 2004 a **proposal for the amendment of the Consolidated Banking Directive and the Capital Adequacy Directive** to introduce a new capital requirements framework for banks and investment firms⁸⁶. A study commissioned by the Commission concluded that the overall

⁸¹ Out of which only 8 applications had resulted in the investment grant being awarded.

⁸² Decision No 593/2004/EC of the European Parliament and of the Council of 21 July 2004 amending Council Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005), OJ L 268, 16.8.2004, p. 3.

⁸³ "Code of Conduct between credit institutions and SMEs", SEC(2004) 484, 23.4.2004.

⁸⁴ <http://europa.eu.int/comm/enterprise/events/microcredit/index.htm>

⁸⁵ SEC(2004) 1156, 17.09.2004.

⁸⁶ "Proposal for Directives of the European Parliament and of the Council Re-casting Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions and Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions", COM(2004) 486 final, 14.7.2004, 2004/0155 (COD), 2004/0159 (COD).

effects should be positive for SMEs, as banks that engage in lending to SMEs should see falling capital requirements for credit risk⁸⁷. The Commission also took seriously its responsibility to prepare European SMEs for the change in bank behaviour. In order to ensure that SMEs would be aware of the exact nature of the information that they would be asked to provide to banks, the Commission is funding the organisation of **60 seminars** throughout countries participating in the MAP between October 2004 and July 2005. A **guide** on the subject will be published in 2005. Still in the context of Basel II, the Commission published in November 2004⁸⁸ a study on the use and impact of **asset backed securities in SME finance** as public intervention in the SME securitisation market could contribute to facilitating access to finance for SMEs.

In the framework of the **Gate2Growth Initiative**⁸⁹, a pan-European database of investment opportunities and a number of existing **business planning tools** for the innovative entrepreneur have been gathered. A **business plan diagnostic methodology** to provide feedback on investor-readiness allows for checking and scoring the completeness of a business plan against a number of pre-set criteria developed by investment experts. Besides an **on-line matching engine** and the tools on the website, there is an **off-line business matching team** in direct contact with entrepreneurs to help them prepare information for pitching investors and identify relevant investors across Europe. Furthermore, different Gate2Growth **business support booklets** have been published, in particular on how to write a business plan.

The **Gate2Growth InvestorNet**⁹⁰, a network of early stage technology investors, currently includes about 45 members and a platform for cross-border investor contact has been developed. Other initiatives have been developed in the context of the PAXIS initiative (see heading 11). The 22 **Regions of Excellence**⁹¹ working in the PAXIS network have established cross-networking groups on specific subjects of interest for start-up support and development. The **early-stage financing group**⁹², for example, has successfully identified models for the establishment of **business angel networks**.

Finally, support from the **Structural Funds** to SMEs is also contributing to facilitate their access to sources of finance (see heading 18 for further details).

11. STRENGTHENING THE TECHNOLOGICAL CAPACITY OF SMALL AND MEDIUM-SIZED 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.”

⁸⁷ “Study on the financial and macroeconomic consequences of the draft proposed new capital requirements for banks and investment firms in the EU”, final report of 8.4.2004, see p. 8, 9 and 13 respectively.

http://europa.eu.int/comm/internal_market/regcapital/index_en.htm

⁸⁸ http://europa.eu.int/comm/enterprise/entrepreneurship/financing/publications_documents.htm

⁸⁹ <http://www.gate2growth.com>

⁹⁰ http://www.gate2growth.com/g2g/g2g_Inv_Overview.asp

⁹¹ http://www.cordis.lu/paxis/src/reg_ex.htm

⁹² <http://www.cordis.lu/paxis/src/preseed.htm>

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.”

The **Sixth Framework Programme for research, technological development and demonstration activities (2002-2006)**⁹³ (FP6) supports European SMEs through two main routes. Firstly, SMEs participate in the **priority thematic areas of the specific programme “Integrating and Strengthening the European Research Area”**, and the target to allocate 15% of the budget to SMEs, i.e. at least €1.86 billion, has been set. According to the results of the first calls, covering 2003, the requested budget of SMEs in selected proposals is 13% of the budget of all participants. A number of corrective actions to encourage the participation of SMEs in FP6 are now being implemented such as SME dedicated calls, the adjustment of the thematic content to better target SMEs, the possibility to include additional SMEs during the lifetime of contracts and promotional activities. Furthermore, 24 projects have been selected under the first call of the “Stepping Up Economic and Technological Intelligence” (ETI) scheme, closed in April 2003. These projects, which are mainly intended to promote the participation of SMEs in FP6 through integrated projects and networks of excellence, are expected to have an important impact on SME participation in the priority thematic areas.

Secondly, SMEs are the main participants of the **“Horizontal Research Activities Involving SMEs”** programme, which consists of two schemes, co-operative (former CRAFT) and collective research. Since the start of FP6, two calls have been published for each scheme. With an indicative budget of €245.9 million for the two first calls of co-operative research and €81 million for the two first calls of collective research, a large number of projects that improve the technological capabilities and capacity for innovation of SMEs have been supported. Under the scheme for **co-operative research**, the projects will help SMEs with no or little research capacity to develop a research project together with research performers. It covers many areas such as life sciences, manufacturing, sustainable development and information and communication technologies (ICT). As to the **collective research scheme**, SMEs from a large number of industrial sectors participate in the projects which have to be presented by industrial associations. In addition, a call for proposals for **specific support actions** aimed at improving the research and innovation capacity of SMEs through the

⁹³ Decision No 1513/2002/EC of the European Parliament and of the Council of 27 June 2002 concerning the Sixth Framework Programme of the European Community for research, technological development and demonstration activities, contributing to the creation of the European Research Area and to innovation (2002 to 2006), OJ L 232, 29.8.2002, p. 1.
http://europa.eu.int/comm/research/fp6/index_en.html

enhanced cooperation between the national or regional bodies, or other public authorities, was launched in 2004.

The **SME National Contact Point (NCP) network**⁹⁴ has continued to provide information to SMEs in the field of research. Activities have included a collective research workshop for potential participants and NCPs, and a cooperative research meeting for project coordinators. The SME TechWeb, the “SME Update” newsletter, a brochure dedicated to SMEs in integrated projects, and other communication activities have contributed to providing information to SMEs⁹⁵. In addition, the **SME Helpdesk** answers any questions on SME research activities, by mail, phone or fax⁹⁶.

An **SMEs and Research Expert Group** was created at the end of 2003 under the auspices of the Scientific and Technical Research Committee (CREST), a body that plays a central role in overseeing the application of the open method of coordination in research. In June 2004, the SMEs and Research Expert Group delivered a report⁹⁷ where policy recommendations and good practices were presented with the aim to strengthen the involvement of SMEs in research programmes and make better use of risk-capital and guarantee mechanisms for the financing of research activities in SMEs.

The **Innovation Relay Centres (IRCs)**⁹⁸ form the largest network in Europe, with 71 regional IRCs in 33 countries⁹⁹, aimed at encouraging innovation and trans-national technological cooperation with a range of specialised business support services. IRC services are primarily targeted at technology-oriented SMEs, but are also available to other types of organisations such as universities or innovation agencies. In 2004, a working group was established¹⁰⁰ to improve the cooperation between the IRC network and sectoral clusters.

The results of the **Best project on “Improving institutions for the transfer of technology from science to enterprises”** were presented in the final report of the expert group in August 2004¹⁰¹. Earlier in 2004, a catalogue of technology transfer institutions and a report were published¹⁰². The conclusions of the project underlined that not all universities and publicly supported research organisations have yet established transfer functions. High efficiency of transfer functions would ensure more regular and faster commercialisation of research results to the benefit of European SMEs.

The **Incubator Forum**¹⁰³ of the **Gate2Growth initiative** (see heading 10), launched in 2003 with the support of the Commission, is a pan-European network of more than 70 university-

⁹⁴ <http://www.cordis.lu/fp6/getsupport.htm>

⁹⁵ For a list of publications available, please refer to: <http://sme.cordis.lu/about/downloadable.cfm>

⁹⁶ Contacts of the SME Helpdesk are: Tel.: +32 (0)2 295 71 75, Fax: +32 (0)2 295 71 10 and e-mail: research-sme@cec.eu.int.

⁹⁷ http://europa.eu.int/comm/research/era/3pct/pdf/crest-g2-final_en.pdf

⁹⁸ <http://irc.cordis.lu>

⁹⁹ EU Member States, the candidate countries (Bulgaria, Romania, Croatia, Turkey), Iceland, Israel, Norway, Switzerland and Chile.

¹⁰⁰ See also the Entrepreneurship Action Plan Key Action Sheet:

http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_06b.htm

¹⁰¹ http://europa.eu.int/comm/enterprise/enterprise_policy/competitiveness/doc/itte_expertgroupreport.pdf

¹⁰² European Commission (2004), “From Science to enterprises: A guide to European technology transfer institutions”, CD-ROM, which can also be downloaded from the Internet:

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

¹⁰³ http://www.thematicnetwork.com/Welcome/TN_UserWelcome.aspx?GroupID=2

based technology incubators. A broad range of activities, such as workshops, training sessions and cross-border secondment programmes, have continued during 2004 to create networking opportunities between European technology incubators and to support the creation of good practices in different incubation fields. Moreover, the **ProTon Europe network**, launched in 2002 also as part of the Gate2Growth Initiative, aims to establish a professional association of Knowledge Transfer Offices (KTOs) in all European countries and contribute to the development of European-wide guidelines and standards and the boosting of knowledge transfer between research and industry. As of July 2004, over 150 KTOs from public research organisations, covering all Member States, have become members of this network. The Gate2Growth **InvestorNet** also facilitates sector-focused technology cooperation across borders and encourages interaction between funds investing in the same technology sector at different stages.

The **Innovating Regions in Europe (IRE) network**¹⁰⁴ offers regions a joint platform for collaboration and exchange of ideas on the development of regional innovation policies. Some 120 European regions have received support from the Commission¹⁰⁵ for the formulation of regional innovation strategies. The IRE network aims to create an inter-regional learning process for the implementation of regional innovation support actions. It also seeks to promote trans-regional innovation projects. Similar to the IRCs, the network has established a subgroup of regions looking at the development of industrial clusters and networks at regional level¹⁰⁶.

Intellectual Property (IP) management involves all issues related to the generation, ownership, protection, exploitation and transfer of intangible assets. A better understanding and a more efficient management of IP by SMEs will help them to be more innovative and increase their competitiveness. To this end, the Commission is providing basic assistance to the SMEs for helping them manage IP more efficiently. The main instrument used is the **Intellectual Property Rights (IPR) Helpdesk**¹⁰⁷. It aims at providing assistance on IP management, in particular to current and potential contractors of EU-funded research and technological development projects. The main achievements of the IPR helpdesk are a multilingual website, a free-of-charge helpline and a newsletter¹⁰⁸.

In the framework of the **PAXIS** initiative, the **Pilot Action of Excellence on Innovative Start-ups**¹⁰⁹, six projects have been conducted to identify best practice in setting-up and developing innovative companies. **Promotor**¹¹⁰, **Transact**¹¹¹ and **Ester**¹¹² focus on the transfer of successful concepts on innovative start-up creation and financing to the new Member States and candidate countries. At the same time, the **Biolink**¹¹³, **Tractor**¹¹⁴ and **Globalstart**¹¹⁵ projects started to generate new support models for start-up creation. Still

¹⁰⁴ <http://www.innovating-regions.org>

¹⁰⁵ Under the following schemes: RTP, RIS / RITTS, RIS-NAC, and Innovative Actions.

¹⁰⁶ See also the Entrepreneurship Action Plan Key Action Sheet:

http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_06b.htm

¹⁰⁷ <http://www.ipr-helpdesk.org/index.htm>

¹⁰⁸ <http://www.ipr-helpdesk.org/controlador.jsp?cuerpo=cuerpo&seccion=newsletter&len=en>

¹⁰⁹ <http://www.cordis.lu/paxis/>

¹¹⁰ <http://www.pro-plus.org/>

¹¹¹ <http://transact-innovation.com/projekte/TRANSACT/index.html>

¹¹² <http://www.unipv.it/ester/>

¹¹³ <http://www.biolink.org.il/>

¹¹⁴ <http://tractor.labein.es/tractor>

¹¹⁵ <http://www.globalstartups.org>

within PAXIS, the **4th Forum for Innovative Enterprises**¹¹⁶ was organised by the Commission in December 2004 in cooperation with the cities of Stuttgart and Karlsruhe. It contributed to stimulate the dissemination of knowledge and the sharing of good practices in the field of innovation and entrepreneurship.

12. 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.”

In order to take full advantage of the e-economy, it is essential that SMEs reflect about the way the organisation works when using information and communication technologies (ICTs) and equip employees and management with the appropriate skills. They also have to be part of clusters, from informal alliances to collaborative networks of enterprises, to grasp the full potential of ICTs and improve productivity. In 2004, the **European e-Business Support Network (eBSN) for SMEs**¹¹⁷ reached its initial target of bringing together information on 150 policy initiatives. However, the picture is still unbalanced in terms of geographical coverage with an under representation of the 10 new Member States. Three workshops have been organised in 2004 that contributed to **concrete exchanges of best practices at operational level**. As an example, an e-Invoicing project deployed in the South-Karelia region of Finland is currently being tested in Slovenia. Moreover, under the eBSN umbrella, preliminary contacts have been taken with third countries, like Canada and South-Korea, in order to start exchanging experiences on how to efficiently promote the diffusion of e-business, notably in SMEs.

Within the field of **identifying and removing the legal barriers** still existing for SMEs engaged in e-business, the Commission services conducted an **open consultation** on this topic in late 2003¹¹⁸. This issue was also at the centre of the **e-Business Legal Conference**, which was organised in Dublin in April 2004. The follow-up of these considerations has already started by the launch of two separate calls for tenders, aiming at clarifying the present legal situation in the Member States and thus enhancing trust and confidence in e-business amongst the European enterprises, especially SMEs.

¹¹⁶ <http://www.fourthforum.org>

¹¹⁷ Established in 2002 under the umbrella of the Europe 2005 Action Plan and building on the results of the Best Procedure project on national and regional policies in support of e-business for SMEs; <http://europa.eu.int/comm/enterprise/ict/policy/e-bus-snfsme.htm>;
<http://www.e-bsn.org/portal/home.do>

¹¹⁸ “Legal barriers in e-business: The results of an open consultation of enterprises”, SEC(2004) 498, 26.4.2004, <http://europa.eu.int/comm/enterprise/ict/policy/legal/index.htm>.

Under the **eTEN**¹¹⁹ programme, a call for proposals has been launched in 2004 with the specific objective of increasing the use of eServices by SMEs. These include access to government services, access to eBusiness solutions and to new forms of business and commerce from which they may otherwise be excluded because of their size. Selected projects will contribute to support SMEs in the adoption and use of e-applications, to enhance their e-skills, to foster public-private partnerships and to facilitate the provision of cross-border e-services targeted for SMEs. The **eContent**¹²⁰ programme (2001-2004) aims at stimulating the development and the use of the digital content and at promoting cultural and language diversity. It helps to develop the digital content market and proved to be successful among SMEs as the majority of participants were SMEs. A new programme, eContent plus, is now being launched that will address the barriers that still affect the broad access to and the use of the digital content.

The **Euro Info Centre (EIC) Network** is the main Community support network for SMEs across Europe¹²¹. Their mission consists in **informing SMEs** on Community matters, this comprises for instance providing information about European programmes and promoting them; **advising SMEs** on the application of Community legislation, i.e. conformity assessment, applications for European funding; **assisting SMEs** in positioning themselves in the European market, i.e. helping businesses to export, to find trade partners or investment opportunities; and finally, providing **feedback** to the Commission about the effects of European initiatives on SMEs, in particular through the IPM Feedback mechanism (see heading 9). Based on a partnership with organisations already in contact with SMEs (i.e. chambers of commerce, regional development agencies, banks etc.), the network accounts for around 300 centres and is present at regional level in all EU countries and candidate countries, while Correspondence centres are established in third countries (see heading 21.1). In 2004, the EICs have run a promotional campaign to raise awareness on business opportunities related to the enlargement.

The Commission has also continued to develop the **b2europe initiative** aimed at enhancing co-operation between Community business support networks in order to offer immediate and basic access to European services for companies. It helps Community networks to deliver advice and assistance more speedily and efficiently to SMEs. Altogether, the networks currently offer around 900 entry points across the continent. At present, the following networks are involved in the initiative: Euro Info Centres (EIC), Innovation Relay Centres (IRC), Business and Innovation Centres (BIC), Organisations for the Promotion of Energy Technologies (OPET), and the networks for co-operation and investment promotion in Latin America (COOPECO and EUROCENTRO).

As a follow-up to the Best project “**Promoting Entrepreneurship amongst Women**”¹²², a **workshop on “Access to Finance for Women entrepreneurs”** was organised in Brussels in November 2003 aimed at analysing new approaches that contribute to facilitate access to finance for women entrepreneurs. A **seminar devoted to “Social protection of women**

¹¹⁹ http://europa.eu.int/information_society/activities/eten/index_en.htm

¹²⁰ <http://www.cordis.lu/econtent/home.html>

¹²¹ <http://europa.eu.int/comm/enterprise/networks/eic/eic.html>

¹²² <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/bestproject-women.htm>

entrepreneurs, independents and co-working partners”¹²³ was held in Brussels in June 2004 with the aim to analyse social protection issues from the entrepreneurship angle¹²⁴.

In response to the needs for further networking and exchange of good practices, which were identified during the European conference on ethnic minority entrepreneurs in June 2003¹²⁵, and as part of the **Best project “Promoting ethnic minority entrepreneurs”** launched in spring 2004, the Commission has initiated a study to identify and examine good practices in this area¹²⁶. The final results are expected during 2005. Moreover, the Commission has initiated the establishment of an **informal network** of officials from Member States working on issues related to ethnic minority entrepreneurs with the objective to create a platform for discussion, and exchange of good practices in this area.

Finally, the **SMIE database**¹²⁷ contains over 2 500 business support measures and 120 good practices from EU and EEA countries¹²⁸. The database is a reference and practical tool that facilitates comparative analysis, benchmarking and evaluation of support measures across Europe. Following consultation with the Member States, the Commission is currently considering a number of options for the continuation of the database and the possible integration of the recommendations and good practices of previous Charter reports and completed Best projects into it.

13. DEVELOP STRONGER, MORE EFFECTIVE REPRESENTATION OF SMALL ENTERPRISES’ INTEREST 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.”

The **SME Envoy** is the **main interface with the SME Business Community**. His role is to listen to the concerns expressed by SMEs and to consider their specific interests and needs in EU programmes and policies, in particular through the screening of EU policy and the assessment of its effect on SMEs. Since his appointment in 2002, the SME Envoy has become a key interlocutor for European and national SME organisations and his action has been useful to better integrate the SME dimension in EU policies and highlighting their concerns to the different Commission services, namely through a **inter-service SME network**. In 2004, the involvement of the SME Envoy has also been particularly important as regards research and regional policies with the objective of further integrating entrepreneurship and SME issues in the next programming period of these two policies.

¹²³ http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/seminar_socialprotection.htm

¹²⁴ See also the Entrepreneurship Action Plan Key Action Sheet:

http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_05.htm

¹²⁵ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-minorities/minorities.htm>

¹²⁶ See also the Entrepreneurship Action Plan Key Action Sheet:

http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_05.htm

¹²⁷ <http://europa.eu.int/comm/enterprise/smie>

¹²⁸ All measures are available in English as well as the language of their country of origin with a total of 20 European languages used in the database.

During 2004, the Commission continued to hold regular meetings with the **Professional Chamber of the Enterprise Policy group (EPG)**¹²⁹, a high-level advisory board with experts from the business community, including SMEs. The Commission also continued to hold **regular meetings with European business organisations**,¹³⁰ with particular emphasis on those who represent SMEs and have a horizontal approach. These meetings provided a useful forum for exchange of information on enterprise policy issues.

A **Best project on “Consultation of Stakeholders in the shaping of small business policy at national and regional level”**¹³¹ was launched in 2004 with the objective to examine the current situation in the area of consultation in 30 European countries, identify good practices and formulate recommendations. Final results are expected during 2005. To facilitate **SMEs’ participation in the standardisation bodies** at national, European and international level, the Commission has charged the organisation NORMAPME¹³² to provide information to SMEs and crafts businesses on European standardisation and to promote the views of SMEs in the European standards-making process. In addition, the Commission organised in January 2004 a European seminar regarding further needs of SMEs in the area of standardisation¹³³ and a call for tender for a study and the exchange of good practices was launched in 2004.

The **Tripartite Social Summit**¹³⁴, which is now held regularly before the Spring European Council, gives the European Social Partners a chance to put forward their views on the major issues of economic and social reform to be discussed. The two social partner delegations for the Tripartite Social Summit comprise ten representatives, among others UEAPME¹³⁵. In the **bipartite social dialogue**, SMEs’ interests are represented particularly through the participation of UEAPME. In carrying out their work programme, the social partners recently dealt with issues of interest to SMEs such as stress at work, lifelong learning, enlargement, etc. The number of **sectoral dialogue committees** has increased to 31, many of which are dominated by SME representatives. This ensures that SME interests are strongly represented in those sectors where they form the majority of the businesses¹³⁶.

¹²⁹ http://europa.eu.int/comm/enterprise/enterprise_policy/epg/index.htm

¹³⁰ Such as UEAPME, UNICE, Eurochambres, ESBA, CEA-PME, etc.

¹³¹ http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan/ap_08.htm

¹³² <http://www.normapme.com>

¹³³ http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-priorities/seminar_standardisation.htm

¹³⁴ Based on “The European social dialogue, a force for innovation and change”. Proposal for a Council Decision establishing a Tripartite Social Summit for Growth and Employment”, COM(2002) 341 final, 26.6.2002, 2002/136 (CNS) and the Council Decision of 6 March 2003.

¹³⁵ European Association of Craft, Small and Medium-sized Enterprises.

¹³⁶ http://europa.eu.int/comm/employment_social/soc-dial/social/index_en.htm

PART IV: ACTIVITIES IN OTHER POLICY AREAS

14. COMPETITION POLICY

As regards competition policy¹³⁷, the Commission adopted in April 2004 a Communication¹³⁸ on “A pro-active Competition Policy for a Competitive Europe”, which describes how competition policy contributes to the Lisbon objectives. Essentially, a competitive and open Internal Market provides the best guarantee for European companies to increase their efficiency and innovative potential. Thus, a vigorous competition is a key driver for competitiveness and economic growth. The instruments of EU Competition policy have undergone a review and the process is still on-going for the State aid rules.

Turning to the concrete changes which occurred in 2004, the new **antitrust** enforcement Regulation¹³⁹, which enforces the EU Treaty rules banning restrictive agreements such as cartels and abuses of dominant positions, came into force on 1 May 2004. The Regulation is complemented by a package of implementing rules, and this package is designed to ensure more effective enforcement of the EU competition rules while reducing bureaucracy for companies, which in particular is to the benefit of SMEs.

In the field of **State aid**, the Regulation on State aid to SMEs was amended in 2004 in order to implement the new SME definition (see heading 2) and to extend the scope to include aid for research and development. Aid to SMEs satisfying the conditions in this Regulation are exempted from the ex ante requirement to notify the aid to the Commission. The Block exemption regulation for training aid, which likewise provide for special conditions in respect of aid to be granted to SMEs, was also amended¹⁴⁰ to take into account the new definition. Furthermore, in 2004 the Commission revised the Community guidelines on State aid for rescuing and restructuring firms in difficulty. The new guidelines introduce certain changes and clarifications and in several aspects the new guidelines impose less strict requirements for SMEs than for large enterprises.

Finally, to facilitate the efforts by Member States to foster innovation, the Commission has made a **Vademecum for Community rules on State aid for innovation**¹⁴¹, which describes the possibilities Member States currently have to promote innovation under the existing State aid rules. The Vademecum contains landmark decisions to illustrate the Commission's approach to concrete aid measures for innovation-related activities and aid provided through intermediary undertakings. The Vademecum focuses on market failures impeding innovation, and it is recognised that the market failures appear to hinder innovation activities by SMEs, in particular.

¹³⁷ All relevant legislation for competition policy can be found on http://europa.eu.int/comm/competition/index_en.html

¹³⁸ COM (2004) 293 final, 20.04.2004.

¹³⁹ Council Regulation (EC) N° 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ L1 4.1.2003, p.1.

¹⁴⁰ Commission Regulation (EC) N° 363/2004 of 25 February 2004 amending Regulation (EC) N° 68/2001 on the application of the Articles 87 and 88 of the EC Treaty to training aid, OJ L63 28.2.2004, p.20.

¹⁴¹ SEC(2004) 1453, 15.11.2004.

15. EMPLOYMENT AND SOCIAL POLICIES

The European Employment Strategy, launched in 1997, is one of the main tools to give direction to and ensure co-ordination of policies designed to reach the goals of the Lisbon strategy. In this context, the 2004 Joint Employment Report¹⁴² assessed the Member States' progress in implementation of the new European Employment Strategy adopted in 2003. It underlines the need to ensure access to finance for start ups and existing SMEs and to support SMEs in managing human resources.

Encouraging employees to **start a second career as entrepreneurs** has been the subject of a report submitted by a group of experts to the Commission in September 2004. Several reasons why relatively few employees consider self-employment have been identified such as a high risk perception combined with legal and administrative obstacles, in particular related to the loss of protection from the unemployment insurance. The report concluded that legal and administrative frameworks should facilitate a gradual change from the status of employee to self-employment and provided examples of good practices concerning in particular the possibility for self-employed to remain covered by unemployment benefit insurance. The Commission will continue in 2005 to examine this issue and will **review social security schemes for the entrepreneurs**, including their spouses, and the effects of the transition from one statute to another. This will help to understand better the influence of social security on entrepreneurship and support Member States in adapting their social security schemes so as to diminish the gap in social security between employees and business owners.

The Commission has also continued its efforts to promote **responsible entrepreneurship** as a way of maximising the positive contribution of business to society whilst minimising negative impacts on people and the environment. The Multi-stakeholder Forum on Corporate social responsibility (CSR) completed its work and issued its report in June 2004¹⁴³. The report includes the outcome of the Round Table on SMEs together with recommendations for raising awareness, improving capacity and providing the right enabling environment to promote CSR among SMEs. Finally, the Commission has launched a pan-European **awareness-raising** campaign on CSR with a special emphasis on SMEs, with some 60 events being organised across Europe between September 2004 and June 2005. It also issued a booklet containing **case studies** from SMEs showing the contribution of SMEs to societal objectives as well as the business opportunities generated by responsible entrepreneurship.

16. ENVIRONMENTAL POLICY

SMEs, especially small and micro companies, face a number of specific difficulties in addressing their environmental impacts. Over the past year, the Commission has taken a series of initiatives to help SMEs tackle these challenges, particularly in relation to environmental legislation, environmental management systems, eco-labelling, clean technologies and financial support.

With respect to **environmental legislation**, in 2004 preparatory work started on the so-called "Compliance Assistance Programme for SMEs" announced in the sixth EU Environment Action Programme (6th EAP). The main purpose of the compliance programme, due for 2006, will be to propose a number of measures and tools to help SMEs comply with environmental legislation.

¹⁴² Council of the European Union, 7069/04, 5 March 2004.

¹⁴³ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/responsible_entrepreneurship

Concerning **environmental management systems** (EMSs), the Commission, in close collaboration with Member State experts and SME organisations, carried out a comprehensive Best project to describe and analyse good practice examples of public policy initiatives to promote the uptake of EMSs in SMEs.¹⁴⁴ At present, the uptake of both formal (i.e. the EU **Eco-Management and Audit Scheme** (EMAS) and the European standard EN ISO 14001) and less formal EMSs by SMEs across Europe is still very modest. The project resulted in a report with a set of detailed policy recommendations, which were presented and discussed at a High Level Conference in Brussels in February 2004.

In the meantime, other initiatives have been taken by the Commission and Member States in relation to EMAS. The Commission has made available a new version of the successful **EMAS SME toolkit**¹⁴⁵, whose aim is to provide SMEs with an easy, step-by-step explanation on how to reach EMAS registration. Moreover, the Commission launched at the end of 2004 an “EMAS-easy” pilot project where SMEs in five new Member States will be grouped and coached together on how to register EMAS.

The **Community Eco-label award scheme** aims to promote products and services which have a reduced environmental impact during their life cycle and to provide consumers with scientifically-based information on the environmental impact of products¹⁴⁶. Criteria have been established for a range of consumer goods and services to assess whether they can be awarded the eco-label and therefore bear the “eco-label flower”. The Eco-label is an instrument which gives an opportunity to SMEs to market and distinguish their products or services on the basis of their environmental excellence. There are furthermore specific **reductions for SMEs** in the fee structure for the application to use the eco-label “flower”. In 2004 several marketing campaigns, mainly devoted to SMEs, have been conducted such as the campaign for detergents in France.

To promote **clean technologies** the Commission has launched in 2004 a comprehensive Environmental Technologies Action Plan (ETAP)¹⁴⁷. It aims at removing the obstacles to the development and wider use of environmental technologies, so as to tap into their full potential for protecting the environment while contributing to competitiveness and economic growth. A number of actions are expected to benefit SMEs indirectly; for example, the development of technology testing networks will allow innovative SMEs to benefit from independent assessments of their technological innovations. Also, targeted training actions should help SMEs to develop their skills in designing, installing and maintaining environmental technologies.

The ongoing **PRODESTS**¹⁴⁸ project funded under the 6th Framework-Programme for Research and Development (see heading 11), is looking for a market-oriented methodology to stimulate SMEs within EU research projects on innovative clean and environmental technologies. In addition, the Institute of Prospective Technological Studies (JRC) in Seville has launched a study on the role of ETAP regarding SMEs, including the possible proposal of specific measures targeting SMEs if appropriate.

¹⁴⁴ See: http://europa.eu.int/comm/enterprise/environment/events/sme_conference/index.htm

¹⁴⁵ http://www.inem.org/new_toolkit/

¹⁴⁶ Detailed information can be found on the eco-label web-site <http://europa.eu.int/ecolabel>, including the product-related criteria and the contact information for the national Competent Bodies administering the scheme.

¹⁴⁷ COM(2004) 38 final.

¹⁴⁸ <http://www.prodests.org>

The **LIFE programme** is the financial instrument for the environment¹⁴⁹ which contributes to the implementation, development and enhancement of the Community environmental policy as well as the integration of the environment into other EU policies. LIFE consists of three thematic components: LIFE-Nature, LIFE-Environment and LIFE-Third countries. Half of the LIFE projects supported so far are LIFE-Environment projects where SMEs are the main beneficiaries. The specific objective of this area is to contribute to the development of innovative and integrated techniques in businesses through the co-financing of demonstration projects. Funding under LIFE approved during 2004 totals €160 million. Under LIFE Environment, 109 projects were selected in 2004 and €76 million of funding provided. It can be estimated that slightly more than €30 million have been allocated in the exercise 2003-2004 for LIFE Environment to SMEs. SMEs participation in number of companies can be estimated to 40% and its share in the total budget to more or less 45%.

17. ENERGY AND TRANSPORT POLICIES

17.1. Energy

The **ALTENER**¹⁵⁰ and **SAVE**¹⁵¹ programmes promoting, respectively, renewable energies (since 1993) and energy efficiency (since 1991) support pilot actions proposed by enterprises and other organisations, among SMEs have greatly benefited. These programmes financed up to 50% of the eligible cost of each project. As part of the wider Multiannual Energy Framework Programme (1998-2002) in 1999¹⁵², ALTENER and SAVE were continued under a new programme called “**Intelligent Energy for Europe**” (EIE) which is running from 2003 to 2006¹⁵³ with an indicative budget of €200 million. This programme supports mostly non-technological activities aiming at an increased use of sustainable energy systems, such as networking between market actors, or training and information actions. Also, first indications demonstrate that it has benefited a lot to SMEs.

17.2. Transport

Specific provisions for SMEs have been included in recent legislation. As of March 2005, the Directive on the **organisation of the working time of persons performing mobile road transport activities**¹⁵⁴ imposes restrictions on the working time of employed drivers. Self-employed drivers, a large part of the SMEs in the road-transport sector, have a supplementary delay of four years to adapt to the Directive¹⁵⁵ and after this period they will benefit from protection provisions¹⁵⁶. The **Regulation on a driver attestation**¹⁵⁷ aims to avoid distortions

¹⁴⁹ Additional information on LIFE is available at <http://europa.eu.int/comm/environment/life>

¹⁵⁰ http://europa.eu.int/comm/energy/en/pfs_altener_en.html

¹⁵¹ http://europa.eu.int/comm/energy/en/pfs_save_en.html

¹⁵² Council Decision 1999/21/EC, Euratom of 14 December 1998 adopting a multiannual framework programme for actions in the energy sector (1998-2002) and connected measures, OJ L 7, 13.1.1999, p. 16.

¹⁵³ Decision of the European Parliament and of the Council adopting a multiannual programme for action in the field of energy: “Intelligent Energy for Europe” Programme (2003-2006) COM (2002) 162 final, COD 2002/0082, 23.4.2002. Website: http://europa.eu.int/comm/energy/intelligent/index_en.html

¹⁵⁴ Directive 2002/15/EC of the European Parliament and of the Council of 11 March 2002, OJ L 80, 23.3.2002, p. 35.

¹⁵⁵ They will be subject to the rules as from 23 March 2009 at the earliest.

¹⁵⁶ Except if this exclusion would be prolonged.

of competition resulting from Community transport enterprises using non-Community drivers under non-Community conditions of employment. The Regulation establishes a driver attestation issued by the competent authorities in the Member States certifying drivers' conditions of employment. This measure protects all hauliers, particularly SMEs which generally do not make use of non-Community workforce, against unfair practices.

Important legislation in the field of **rail transport**, such as the interoperability Directives (for high-speed rail systems and for conventional rail systems)¹⁵⁸, is likely to have an indirect effect on SMEs. Harmonised technical specifications for interoperability (TSI) and European standards will help in opening up markets and will enable SMEs to specialise their production further and to establish relationships with several rail systems producers. Other rail legislation such as on rail freight market opening has led and is likely to lead increasingly in the future to the setting up of new entrant rail freight companies which are typically SMEs.

The Commission approved a **European Road Safety Action Programme**¹⁵⁹ in June 2003, which aims at halving the number of fatalities on the EU roads by 2010 compared to 2001. SMEs could make important contributions to this programme in the years to come, for example by improving the active safety of vehicles as well as by developing real-time and location-based traffic and travel information services.

The nature of the **Galileo**¹⁶⁰ programme is an ideal enabler for SMEs to develop innovative ideas not only for applications of positioning and timing services but also in the setting up of the navigation infrastructure. The development phase of the Galileo infrastructure, which is funded by the Trans-European Network (TEN) and by the European Space Agency (ESA), provides for incentive measures for the participation of SMEs. Furthermore, the research activities of the 6th Framework research programme (see heading 11) devoted to the Galileo programme (€100 million) foresee direct involvement of SMEs, both in terms of specific innovative projects reserved for such enterprises and in minimum percentages of SMEs participation (8%) in all other application development activities.

18. STRUCTURAL FUNDS POLICIES

18.1. Structural Funds interventions and the modernisation of SMEs

For the period 2000-2006, approximately €21 billion out of the €199 billion programmed, i.e. 11% of the financial resources of the Structural Funds, are identified as support actions for the modernisation and development of SMEs. These amounts however represent only a part of the financing granted by the Structural Funds to SMEs because they do not take into account the support that SMEs can receive within the framework of actions which do not address them specifically, such as actions for tourism, innovation and vocational training.

The €21 billion is distributed primarily between the following actions:

¹⁵⁷ Regulation (EC) No 484/2002 of the European Parliament and of the Council of 1 March 2002 amending Council Regulations (EEC) No 881/92 and (EEC) No 3118/93 for the purposes of establishing a driver attestation, OJ L 76, 19.3.2002, p. 1.

¹⁵⁸ Council Directive 96/48/EC of 23 July 1996 on the interoperability of the trans-European high-speed rail system, OJ L 235, 17.9.1996, p. 6, and Directive 2001/16/EC of 19 March 2001 on the interoperability of the trans-European conventional rail system, OJ L 110, 20.4.2001, p. 1.

¹⁵⁹ http://europa.eu.int/comm/transport/road/roadsafety/rsap/index_en.htm

¹⁶⁰ http://europa.eu.int/comm/dgs/energy_transport/galileo/index_en.htm

Action	Amount (million euros)	Share of the total
Physical capital investments (buildings and equipment) co-financed within the framework of aid schemes	9,100	43,3%
Promotion of shared services ¹⁶¹	3,500	16,7%
Services to SMEs ¹⁶²	3,200	15,2%
Financial engineering measures ¹⁶³	1,200 ¹⁶⁴	5,7%
Equipment intended for the promotion of environmental technologies and energy saving	880	4,2%
Support for the development of SMEs ¹⁶⁵	792	3,8%
Vocational training activities for staff in SMEs and in crafts	759	3,6%
Other actions	1,569	7,5%
TOTAL	21,000	100%

Under the European Regional Development Fund (ERDF), the specific initiative **URBAN** aims at the revitalisation of urban areas and districts in difficulty. With an appropriation of more than €700 million for the period 2001-2006, this initiative supports the design and implementation of innovative models for the economic and social regeneration of urban areas in crisis. As a result of this initiative, the creation and development of SMEs in URBAN areas has been facilitated.

For the period 2007-2013, the Commission submitted its proposals for the Regulations on the Structural Funds¹⁶⁶ in July 2004. The emphasis of these proposals was put on the strengthening of competitiveness through to the development of innovation and the knowledge economy. This should particularly benefit SMEs and foster the promotion of the entrepreneurship. In comparison to the current period, the future programme should have an increase in financial resources, notably those focusing on the strengthening of the regional capacities of research and innovation; the stimulation of innovation within SMEs - through the support to SME networks and clusters as well as better access for SMEs to business support services -; and for the creation of new financial instruments.

¹⁶¹ Infrastructures, such as business incubators, and immaterial actions such as support to networking or to the participation in business fairs and exhibitions.

¹⁶² Information services, technological watch, aid for the development of business and marketing plans, quality approaches, internationalisation, technological advice, etc.

¹⁶³ Participation and guarantee funds.

¹⁶⁴ Figure to be compared with € 570 million over the period 1994-1999.

¹⁶⁵ For example as regards health or cultural activities.

¹⁶⁶ 492 final, 493 final, 494 final COM (2004), 495 final and 496 final, 14.7.2004.

18.2 European Social Fund

The European Social Fund (ESF) provides support with a view to anticipating and managing economic and social change and promoting employment, including **self-employment**. The ESF contributes to many activities benefiting SMEs such as vocational training, advice and guidance for entrepreneurs, reinforcement of the links between education and businesses, etc. Over the period 2000-2006, €80 billion have been spent to co-finance projects in the Member States. The Commission adopted in June 2004 a package of proposals¹⁶⁷ designed to streamline and target spending on EU employment and social policy. The new European Social Fund¹⁶⁸ for 2007-2013 will link funding with policies to boost employment and strengthen economic and social cohesion in the European Employment Strategy (EES)¹⁶⁹.

The initiative **EQUAL**, funded by the ESF (€3 billion for 2000-2006), aims at tackling discrimination and inequality in the employment field. The activities are structured on employability, entrepreneurship, adaptability and equal opportunities for women and men, and are in accordance with the European Employment Strategy.

18.3 Fisheries policies

Under the Common Fisheries Policy (CFP)¹⁷⁰, the Community is taking an active part in the restructuring process of the fisheries industry via the **Financial Instrument for Fisheries Guidance (FIFG)**.¹⁷¹ Among the measures financed under the FIFG budget which have clearly benefited to SMEs, it is worth mentioning: the aid for the development of aquaculture farms which provided since 2000 an amount of €285 million; the aid for processing and marketing of fisheries and aquaculture products which granted €608 million to SMEs of this sector; the aid for the renewal and equipment or modernisation of fishing vessels with approximately €860 million which benefited mostly to SMEs.

19. AGRICULTURAL AND RURAL DEVELOPMENT POLICIES

In 2003 the **Common Agricultural Policy (CAP)**¹⁷² underwent a significant reform aiming at making the EU agriculture more responsive to the market needs and more competitive. This reform may have a significant influence on the activities of downstream sector in which the large majority of business are SMEs.

Although not being SME-specific, the rural development policy¹⁷³ also has strong implications with SMEs. Among the **rural development measures** supported by the EU, farm investments, processing and marketing of agricultural and forestry products, training, setting up of young farmers, diversification of farm activities, development of handicrafts and rural tourism are particularly adapted to SMEs. In particular, for the processing/marketing sector, the diversification of activities and the development of tourism and handicrafts in the

¹⁶⁷ Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund, COM(2004) 493 final, 14.7.2004.

¹⁶⁸ http://europa.eu.int/comm/employment_social/esf2000/index-en.htm

¹⁶⁹ http://europa.eu.int/comm/employment_social/employment_strategy/index_en.htm

¹⁷⁰ http://europa.eu.int/comm/fisheries/policy_en.htm

¹⁷¹ <http://europa.eu.int/scadplus/leg/en/lvb/l60017.htm>

¹⁷² http://europa.eu.int/pol/agr/overview_en.htm

¹⁷³ The EU rural development policy is established by Regulation (EC) No 1257/1999 for EU-15 (and from the 1st May 2004 for the new Member States as well) covering the programming period 2000-2006, and by Regulation (EC) No 1268/1999 (SAPARD regulation) for accession countries.

EU-15 rural areas, an amount of around €613 million was paid from the Guarantee section of The European Agricultural Guidance and Guarantee Fund (EAGGF)¹⁷⁴ during the financial years 2000 to 2003 (for the non-Objective 1 regions). As for the objective 1 regions, the corresponding amounts under the Guidance section of EAGGF is roughly around €714 million (including the 1st semester of 2004). This gives a magnitude of the EU funding to measures which have a strong link with SMEs in rural areas.

In addition, the specific initiative **LEADER+**¹⁷⁵ (€2.1 billion from the Guidance section of the EAGGF for 2000-2006) helps rural actors consider the long-term potential of their local region encouraging the implementation of new approaches and strategies for integrated and sustainable development. It includes support for integrated territorial development strategies for improving the quality of life in rural areas, facilitating the access to markets for small production units, making the best use of natural and cultural resources and making products and services in rural areas more competitive through new technologies. This is completed by the support for cooperation between rural territories and networking.

Similar measures apply under the Special accession programme for agriculture and rural development - **SAPARD**¹⁷⁶ programme - in candidate countries (now limited to Bulgaria and Romania). It operates on an exclusively fully decentralised system similar to that used in Member States and it supports measures to enhance efficiency and competitiveness in farming and the food industry and create employment and sustainable economic development in rural areas.

¹⁷⁴ http://europa.eu.int/comm/agriculture/fin/index_en.htm

¹⁷⁵ http://europa.eu.int/comm/agriculture/rur/leaderplus/index_en.htm

¹⁷⁶ <http://europa.eu.int/comm/enlargement/pas/sapard.htm>,

PART V: ENLARGEMENT AND COOPERATION WITH NON-MEMBER COUNTRIES

20. ENLARGEMENT ACTIVITIES AND WESTERN BALKANS COUNTRIES

20.1 Enlargement activities

Over the period 2003/2004, the Commission has continued supporting directly or indirectly the SME sector in the candidate countries although with some changes in terms of geographical focus and type of supported measures. Firstly, in view of their EU accession in May 2004, eight¹⁷⁷ of the ten Central and Eastern European countries have seen the allocation of specific pre-accession support (**Phare**¹⁷⁸, **ISPA**¹⁷⁹ and **SAPARD**¹⁸⁰) ending in 2003. As from 2004, pre-accession financial support is concentrated on two remaining countries, Bulgaria and Romania, pending the inclusion of an additional country, i.e. Croatia, new candidate country since June 2004. Turkey, which has a separate pre-accession financial assistance, takes part in initiatives benefiting SMEs under the MEDA programme and in the Facility for Euro-Mediterranean Investment & Partnership (FEMIP) managed by the EIB (see heading 21.1).

Secondly, as a result of support already successfully provided in certain areas in the last years and progress made in these areas, **Phare pre-accession support** has shifted away from mainly assisting with the establishment of the necessary legal and administrative framework to more direct forms of support to SMEs with the objective to improve the business environment and enhance investment conditions. Support for a **better business environment** has included substantial funding for improving business support structures and services. Enhancing **investment conditions for SMEs** has included increasing support for business-related infrastructure. Finally, direct support measures to SMEs have included preparatory measures to improve access to finance and grant schemes for training, technical assistance and investment purposes.

In addition Phare has continued supporting a number of so called multi-beneficiaries programmes¹⁸¹ in acceding and candidate countries of Central and Eastern Europe such as the SME Finance Facility. **The SME Finance Facility** combines loans and equity capital from International Financial Institutions (IFI)¹⁸² with non-reimbursable Phare support in the form of incentives for local financial intermediaries (banks or leasing companies). The goal is to expand the offer of finance of these intermediaries to SMEs and to enhance their capacities for new business finance practices such as monitoring and assessment of related risks. By the end of November 2004, 74 banks and 33 leasing companies have been benefiting from €1.6

¹⁷⁷ Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

¹⁷⁸ <http://europa.eu.int/comm/enlargement/pas/phare>

¹⁷⁹ ISPA - Instrument for Structural Policies for Pre-Accession, information available at: http://europa.eu.int/comm/regional_policy/funds/ispa/ispa_en.htm

¹⁸⁰ SAPARD - Special accession programme for agriculture and rural development, information available at: <http://europa.eu.int/comm/enlargement/pas/sapard.htm>; see also heading 18.

¹⁸¹ <http://europa.eu.int/comm/enlargement/pas/phare/programmes/multi-bene/applications/index.cfm>

¹⁸² European Investment Bank (EIB), European Bank of Reconstruction and Development (EBRD) and Europe Development Bank / Kreditanstalt für Wiederaufbau (CEB/KfW).

billion in IFI loans and €219 million in Phare incentives in most of acceding and candidate countries¹⁸³ generating approximately 42 500 loans and leasing transactions to SMEs.

In 2001 a special budget line was created at the initiative¹⁸⁴ of the European Parliament to strengthen the **competitiveness of SMEs in EU-15 regions bordering New Member States and Candidate Countries**. Since then, financial support has been allocated as follows: €13 million to finance improved business services through a network of 28 chambers of commerce¹⁸⁵ and €11 million to support the organisation of business co-operation events involving SMEs from border regions of EU countries and the candidate countries. In addition, from 2004, €6 million have been allocated to several projects contributing to the implementation of **Pan-European Business Co-operation Scheme**. The objective of this scheme is encourage business co-operation between SMEs in the new enlarged Europe, and from countries bordering the EU, through the organisation of business co-operation and matchmaking events and accompanying activities in a number of economic sectors.

20.2 The countries of the Western Balkans

The **CARDS programme**¹⁸⁶ is the main programme used to implement the strategic objectives of the European Union in the Western Balkans, namely through the Stabilisation and Association Process (SAP).

Economic development in the Western Balkans is a priority policy goal. In the Thessaloniki Agenda¹⁸⁷, adopted at the EU-Western Balkans summit of June 2003, the European Union urges the countries of the region to promote private economic activity and foreign investment. The summit also allowed all countries in the region to sign up to the **European Charter for Small Enterprises**. The 2004 Annual Report on the Stabilisation and Association process¹⁸⁸ notes that the Western Balkan countries must attract sufficient levels of foreign direct investment to broaden their export base and to increase their production capacity. Donors are working with the authorities and the private sector to implement reforms aiming to reduce the administrative and regulatory barriers to economic activity.

Economic and social cohesion represents the second largest area of concentration in the Multi Annual Indicative CARDS Programme 2005-2006. Efforts have been devoted to create linkages between the Western Balkan business organisations and organisations in the EU. Assistance has also been provided to develop a trade-related regulatory and policy framework to encourage trade and investment and to facilitate a higher quality of products, more efficient processing at frontiers, increased regional trade and enhanced institutional capacities. Credits for SMEs, and associated technical assistance, have also been provided in several countries. In this context, a **Ministerial Round Table** was held in Venice in October 2003 to promote private sector development and the creation of modern infrastructures.

¹⁸³ Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovakia and Slovenia.

¹⁸⁴ <http://europa.eu.int/comm/enlargement/borderregions>

¹⁸⁵ <http://www.arage28.com/>

¹⁸⁶ http://europa.eu.int/comm/europeaid/projects/cards/index_en.htm

¹⁸⁷ http://europa.eu.int/comm/external_relations/see/gacthess.htm

¹⁸⁸ http://europa.eu.int/comm/external_relations/see/sap/rep3/

21. INTERNATIONALISATION OF SMEs AND COOPERATION WITH NON-MEMBER COUNTRIES

21.1 European Neighbourhood Policy (including Russia)

The **European Neighbourhood Policy (ENP)**¹⁸⁹ aims to enhance relations and prevent the emergence of dividing lines between the enlarged EU and its neighbours. Increased economic and political integration on the basis of shared fundamental values and objectives is at the heart of the policy. The EU's partners in the policy are: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority, Syria, Tunisia and Ukraine. Concerning Russia, the latter and the European Union have decided to develop further their strategic partnership, as defined at the St Petersburg summit in May 2003, but Russia will also have access to the new European Neighbourhood and Partnership Instrument, which is being developed to support the ENP.

The **Action Plans**¹⁹⁰ jointly designed for each of these partners are the main operational tools to steer the implementation of the ENP. They all include sections on Enterprise Policy, which allow particular emphasis on support to competitiveness, innovation and SMEs. All Action Plans stress the need to improve the investment climate and spread best practice amongst the countries concerned. In particular they provide the opportunity of additional support for activities linked to the implementation of **Euro-Mediterranean Charter for Enterprise**¹⁹¹ which was signed by all Mediterranean partners. In combination with other measures contained in the Action Plans related to regulatory, administrative and judicial reform (for example improving business register, land acquisition or creditors' protection), this process ought to enhance considerably the environment in which SMEs operate in these countries concerned and the trading opportunities available both to them and to European SMEs.

Waiting the new European Neighbourhood and Partnership Instrument (due to start in 2007) support to SMEs is granted under the existing programmes such as **MEDA**¹⁹² and **TACIS**¹⁹³.

Support to SMEs in the Mediterranean countries under **MEDA** is channelled mostly through **Business Centres** and **Euro Info Correspondence Centres**. These institutions provide companies with advice and training on management skills, business planning, restructuring, and developing local and export markets. They also help business organisations become credible counterparts for governments and increase the quality of their services to members. In addition, Industrial Modernisation Programmes address key issues such as the facilitation of access to finance for SMEs through mechanisms such as guarantee funds.

The operations of the EIB in the Mediterranean region under the **Facility for Euro-Mediterranean Investment & Partnership (FEMIP)**¹⁹⁴ complement these measures. Since its creation in 2002, its remit has been to develop private-sector led economic activity and projects contributing to the creation of a favourable climate for private investment. In 2003,

¹⁸⁹ http://europa.eu.int/comm/world/enp/index_en.htm

¹⁹⁰ Based on the strategy report and country reports published by the Commission on May 2004:
http://europa.eu.int/comm/world/enp/document_en.htm

¹⁹¹ http://europa.eu.int/comm/enterprise/enterprise_policy/ind_coop_programmes/med/index.htm

¹⁹² http://europa.eu.int/comm/external_relations/euromed/meda.htm

¹⁹³ http://europa.eu.int/comm/europeaid/projects/tacis/foreword_en.htm

¹⁹⁴ <http://www.eib.org/site/index.asp?designation=med>

approximately €1 billion directly promoted the growth of private businesses, through foreign direct investment, SME financing, and the creation of a regional venture capital fund.

TACIS helps national administrations in Eastern Europe and Central Asia with the definition of enterprise development strategies through the improvement of the legal and administrative framework. It also promotes the development of SME support institutions (SME agencies and networks of business service providers) and improves the access of SMEs to local sources of finance. Twinning with European counterparts are arranged to strengthen business organisations as part of the Institution Building Partnership Programme.

21.2 SME development in third countries

The EU has decided to rationalise and harmonise **Private Sector support** in order to “add value” and improve the coherence of the Community’s external actions. To this end, a Communication¹⁹⁵ was adopted last year in order to harmonise the EU action in the field of private sector development and set up a single coherent framework for all third countries, taking into account the need for flexibility and adaptability to different local contexts. In this context, the Commission has now identified five areas of intervention which will form the basis of the business sector support. All of these areas have significant implications for SMEs, particularly those related to the provision of non financial services for SMEs and to the support for micro-enterprises.

The Cotonou Agreement¹⁹⁶ provided the first opportunity to present a complete framework to support the private sector in the **African, Caribbean and Pacific (ACP) countries**. To encourage business development, the Community has developed a variety of instruments tailored to meet specific requirements of the partner countries. The **Private Sector Enabling Environment Facility (PSEEF)**, (€20 million for 5 years) aims at building capacity for private sector development. **PROINVEST**¹⁹⁷ (€110 million, 7 years) promote investments and partnership agreements in ACP countries with a priority for sectoral and regional approaches. **EU-SADC**¹⁹⁸ **Investment Promotion (ESIP)** (€18.3 million, 5 years) complements this programme focussing on South African countries. Finally, the **Centre for the Development of Enterprise (CDE)**¹⁹⁹, financed by the European Development Fund, supports the various types of operator that make up the private sector in the ACP countries. It provides funding for sectoral programmes and services to SMEs located in ACP countries.

The EIB provides funding through the **Investment Facility** (€2.2 billion from the European Development Fund) and its own resources (€1.7 billion) for supporting small scale private sector investments and health and education schemes in ACP countries. Finally, a specific programme for micro-enterprises has been recently approved with a budget of €15 million to provide support to the micro-finance sector and also non financial support.

¹⁹⁵ Communication from the Commission to the Council and the European Parliament – European Community Co-operation with Third Countries: The Commission’s approach to future support for the development of the Business sector - COM(2003) 267;
http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0267en01.pdf

¹⁹⁶ http://europa.eu.int/comm/development/body/cotonou/index_en.htm

¹⁹⁷ www.proinvest-eu.org

¹⁹⁸ South African Development Community.

¹⁹⁹ <http://www.cde.int>

The support to the improvement of the business environment and to the regional economic integration (through the simplification of customs procedures, the harmonisation of standards, IPR protection) benefits SMEs both from Europe and from the developing countries.

The **AL-Invest** programme²⁰⁰ aims at the same time at helping European SMEs to internationalise their activities and supporting private sector development in Latin America. As for the **Asia-Invest** programme²⁰¹, it follows the same approach, fostering direct business cooperation between economic operators, in particular SMEs, in Europe and in Asia. Both programmes are providing assistance for partner-search and supporting the organisation of sectoral meetings between SMEs of the countries concerned. Through these activities, AL-Invest and Asia-invest have made it possible for European SMEs to access new markets, to conclude technology or trade agreements and to create joint-ventures.

21.3 Trade Policy

The European Community trade policy aims at promoting the economic and political interests of the Community in its relation with third countries. Its main objective is to improve market access in view of benefiting European businesses, including SMEs. In addition it provides remedies to market distortions created by third countries unfair trade practices.

A new publicly accessible database has been created for the draft technical regulations notified in the framework of the WTO Agreement on **Technical Barriers to Trade** (TBT)²⁰². It also contains a link to an automatic alert system via an e-mail list. Database and mailing list allow in particular exporting enterprises to be aware of possible modifications of product related regulations in the countries of destination and to submit comments to the Commission services. The objective of the Community's **Trade Defence Instruments** (TDI)²⁰³ is to remedy either market distortions created from unfair trade practices by third countries, such as dumping or subsidies, or to address the serious deterioration of the situation of Community producers arising from unforeseen sharp and sudden import surges (through safeguard action).

In 2004 **Basic Anti-dumping and Anti-subsidy Regulations** were amended²⁰⁴ so as to increase transparency and legal certainty for economic operators, which is to the main benefit of SMEs. Equally, the Commission is working on standardising its questionnaires to make it easier for SMEs to use them and has launched communication and training actions for SMEs, in particular through the Euro Info Centres. In addition, the Commission is watching carefully whether third countries use trade defence instruments against Member States and EU companies in a fair and legal way.

Finally, the Commission has also developed promotional activities to encourage European enterprises, especially SMEs, to penetrate specific third countries markets. Two initiatives in

²⁰⁰ http://europa.eu.int/comm/europeaid/projects/al-invest/index_en.htm

²⁰¹ <http://europa.eu.int/comm/europeaid/projects/asia-invest/html2002/programmeobjectives.html>

²⁰² <http://europa.eu.int/comm/enterprise/tbt/>

²⁰³ http://europa.eu.int/comm/trade/issues/respectrules/tpi_en.htm

²⁰⁴ Council Regulation (EC) N° 461/2004 of 8 March 2004 amending Regulation (EC) No 384/96 on protection against dumped imports from countries not members of the European Community and Regulation (EC) No 2026/97 on protection against subsidised imports from countries not members of the European Community, OJ77, 13/03/2004 p.12.

this regard are **Gateway to Japan**²⁰⁵ assisting SMEs to enter the Japanese market through trade missions and fairs and the **Executive Training Programme (ETP)**²⁰⁶ helping EU companies to obtain better knowledge of the Japanese and Korean business culture and language.

²⁰⁵ <http://www.gatewaytojapan.org/index.jsp>

²⁰⁶ <http://www.etp.org/html/content.aspx?c=g&cid=3>

ANNEX: Summary Table of main SME Support Programmes and Instruments*Community action	Estimated amount allocated to SMEs (in million euros)
FINANCIAL INSTRUMENTS	
SME element of EIB Global loans (2003)	4 771
Financial instruments of the Multiannual Programme for Enterprises and Entrepreneurship, in particular SMEs (managed by the European Investment Fund) (2001-2005)	355
STRUCTURAL FUNDS	
Objectives, Community initiatives and Innovative actions (2000-2006)	21 000
RESEARCH AND DEVELOPMENT	
6th RTD Framework Programme (2002-2006)	2 200
- of which collective and cooperative measures	473
VOCATIONAL TRAINING	
Leonardo da Vinci (2003)	9.9
ENVIRONMENT	
LIFE environment (2003-2004)	30
INTERNATIONAL COOPERATION AND EXPORT PROMOTION	
AL-Invest (2002-2006)	46
Asia-Invest (2002-2007)	35
Gateway to Japan	3.5 /year

* N.B. This table gives an overview of various types of Community support mechanisms (grants, loans, guarantees, etc.) which are different in nature, operate under different rules and cover different periods. It includes major instruments and programmes but is not intended to be exhaustive. Financial instruments are intended to increase the volume of credit or equity available to SMEs and to encourage banks to develop their SME lending capacity. Other programmes consist mostly of subsidies to businesses or to business support organisations. The amounts mentioned, which are estimates, cannot therefore be added together.