



European Economic and Social Committee

INT/324
Business potential,
especially of SMEs
(Lisbon Strategy)

Brussels, 12 July 2007

OPINION
of the
European Economic and Social Committee
on
Business potential, especially of SMEs (Lisbon Strategy)
(Own-initiative Opinion)

On 14 September 2006, the European Economic and Social Committee, acting under Rule 31 of its Rules of Procedures, decided to instruct the Section for the Single Market, Production and Consumption to draw up an information report on

Business potential, especially of SMEs (Lisbon Strategy).

At the plenary session of 14 and 15 March 2007, it was decided to transform the information report into an own-initiative opinion (Rule 29(2) of the Rules of Procedure).

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 3 May 2007. The rapporteur was Ms Faes.

At its 437th plenary session, held on 11 and 12 July 2007 (meeting of 12 July 2007), the European Economic and Social Committee adopted the following opinion by 123 votes to one with three abstentions.

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1. **Preface**

1.1 The Presidency conclusions of the European Council of 23-24 March 2006 ask for summary reports by the European Economic and Social Committee in support of the Partnership for Growth and Employment in early 2008.

1.2 Furthermore the European Council proposed specific areas for priority actions for the period 2005-2008:

- i. investment in knowledge and innovation
- ii. business potential, especially of SMEs
- iii. employment of priority categories (...)
- iv. the definition of an Energy Policy for Europe (...)
- v. measures to be taken across the board in order to maintain the momentum under all pillars of the Partnership for growth and employment (...).

2. **Summary and recommendations**

2.1 Although the Lisbon Strategy has produced positive results, it has not fully delivered so far in particular in the areas of economic and industrial growth and the creation of more and better jobs. In terms of global competition, Europe is facing challenges from traditional and more recent competitors it cannot adequately deal with.

- 2.2 Europe's businesses face an incomplete single market to operate in, especially regarding harmonisation of tax rules, too slow implementation of directives by Member States, remaining administrative burdens, lack of labour mobility. SMEs, in particular, have difficulties in overcoming these obstacles.
- 2.3 Other challenges to overcome are the lack of entrepreneurship, the ageing of the population and its effect on entrepreneurship, labour supply and a greater need to focus on transfer of business, access to finance in the start-up and growth phase, access to research results and thus of innovation opportunities.
- 2.4 Small and Medium-Sized Enterprises play a key role in attaining the Lisbon goals. Nevertheless, their necessary contribution has been neglected in the first years of implementation. Especially the involvement of the SME-organisations in the assessment of the progress should be better developed as well as their role in promoting the SME's on all policy levels. At the occasion of the next revision of the integrated guidelines for growth and jobs for the years 2008-2010, the EESC calls for better targeted and streamlined integrated guidelines on SMEs, especially for the chapter on micro-economic reforms. In order to implement them at large in the process, the EESC urges the Council to give the Charter for Small Enterprises a legal basis –as requested by the Parliament- in order to strengthen the base for more action. The following policy lines and actions are deemed crucial in order to develop the business potential of SMEs.
- 2.4.1 The EESC urges Commission and Council to make every effort to contribute to making the "think small first" principle a guiding principle in all relevant legislation.
- 2.4.2 The EESC calls for a "Year of the Entrepreneur" in 2009 to emphasise the key role entrepreneurs play for growth and welfare and to stimulate young people and others to consider entrepreneurship as a career.
- 2.4.3 The EESC calls for endeavours to assure an effective Competitiveness and Innovation Programme, providing efficient support and easy access to SMEs, and a 7th Research and Development Framework Programme and Structural Funds facilitating access to SMEs. The effectiveness and accessibility of these programmes as well as JEREMIE should be closely monitored.
- 2.4.4 The most valuable asset of a company is its human capital. Adequate support structures, tailor-made training offers and well designed financial incentives should help SMEs to upgrade competences and skills of workers as well as entrepreneurs by further investing in continuous training.
- 2.4.5 The EESC calls for the Commission to make an analysis of SME involvement in community programmes. If the participation is not deemed sufficient, a minimum percentage should be obligatory.

- 2.4.6 Public procurement is an important instrument in helping SMEs to develop their activities. SME involvement should be closely monitored, and measures to facilitate their access to P.P. should be developed. Exchange of best practices should be encouraged.
- 2.4.7 On the level of the Commission a coordinating structure should be created for a real, efficient and effective SME policy in all programmes, actions and legislative measures.
- 2.4.8 It is necessary to design special actions to promote and use best practices in the SMEs field and regarding the competitiveness growth, especially in those regions with a low degree of European development. This type of actions should be implemented through SMEs organisations.

3. **General**

- 3.1 The Lisbon Strategy is best known, in a reductive manner, as a commitment to make Europe into the world's most dynamic competitive, knowledge-based, economy by the year 2010. In addition to the general outline the Council adopted the Charter of Small Enterprises in June 2000 in Santa Maria da Feira.
- 3.2 The Committee recalls that from the outset, the Lisbon mandate of 24 March 2000:
- emphasised the need to actively involve the social partners and civil society with the strategy, using variable forms of partnership;
 - specified that its success depends primarily on private sector and public-private partnerships and on the involvement of both Member States and the Union;
 - aimed at a balanced development of its three strands, i.e. economic growth, social cohesion and environmental sustainability, by stimulating European competitiveness and job creation whilst at the same time building on appropriate environmental policies.
- 3.3 At the Spring European Council in March 2005, the Council proceeded to the mid-term review of the Lisbon Strategy and decided to relaunch the process by refocusing on growth and employment as Europe's political top priorities. An agreement was reached on the integrated guidelines for growth and jobs¹ which should foster coherence of reform measures and provide a roadmap for the design of national reform programmes.
- 3.4 In the evolution of the Lisbon Strategy, the search for competitiveness and growth is a critical feature in generating improved economic well being, creating employment, protecting the quality of lifestyles as well as improving them. In turn, better quality of life, social

¹ Council Decision of 12 July 2005 on Guidelines for the employment policies of the Member States (2005/600/EC), OJ L 205 of 6.8.2005, p. 21.

improvements and environmental sustainability may also create growth. Where the Lisbon strategy has not delivered so far is particularly in the areas of economic and industrial growth and the creation of more and better jobs. In terms of global competition, Europe is facing difficulties. Since the take-off of the Lisbon process, the EU has been through a major enlargement from 15 to 25 and then 27 Member States.

3.5 The Committee would firstly note that the Lisbon Strategy has already enabled a number of positive developments including:

- an awareness of the need for reform that goes beyond traditional divisions;
- accelerated expansion of information technologies and innovation processes;
- increased support for starting up businesses and financing SMEs;
- greater concern for sustainable development designed to lower public deficits, restore stability to the social protection budget and protect the environment;
- initiatives on the part of social partners in social reform;
- measures to simplify legal and administrative procedures, albeit of limited impact until now.

3.6 Despite these positive points, the main observation is that Europe, caught between its great industrialised competitors and emerging low production cost economies that are making greater use of new technologies, is facing ever increasing competitive challenges. Several indicators give cause for concern, such as:

- weaker domestic demand, lower investment, productivity and growth rates in the European Union, that make it lose out compared to its main competitors and upcoming markets;
- globalisation that is leading to the integration of new countries into the international economic system;
- the failure to achieve employment targets;
- continuing public deficits in several Member States, albeit not always the same;
- widely disparate taxation rules and tax rates for businesses;
- remaining administrative burden for business and slow implementation of directives in Member States;
- the ageing of Europe's population that will put an enormous strain on public finances and the labour supply;
- the threat of increasing resource scarcity or price volatility, climate change and loss of biodiversity;
- lack of labour mobility which is essential for realising the internal market;
- shift of companies in Europe to emerging and fast growing markets;
- the declining interest of European citizens in the European Union.

3.7 At the same time, the Lisbon Strategy reforms are lagging behind:

- 3.7.1 At European level, the Member States undertook to complete the single market in several areas (energy, services, public procurement, trans-European networks, adaptation of public services), but balk at implementing the necessary measures within the timeframe.
- 3.7.1.1 At European level, since the 1990s the Commission has undertaken a wealth of initiatives in order firstly to better understand the needs and functioning of SMEs and secondly to support their development and help to better exploit their potential of job creation. These actions have been reinforced in the past few years with the nomination of the SME envoy, the action plan for entrepreneurship adopted in 2004, and the efforts for a better legislation, better access to finance (EIF and EIB), the Competitiveness and Innovation Programme (CIP).
- 3.7.2 At national level, results vary, with shortcomings concerning mostly:
- the structural complexity of regulations and administrative procedures;
 - high rates of unemployment, especially for some target groups;
 - high rate of early retirement, in spite of commitments;
 - non-adapted education and training systems, especially concerning entrepreneurial and ICT skills;
 - insufficient provision of lifelong learning possibilities;
 - research spending that has generally diminished further, rather than increasing to the Lisbon target of 3% of GDP;
 - lack of innovation, although the most recent innovation scoreboard report shows better results;
 - lack of access to finance for SMEs, combined with a lack of knowledge about the possibilities, as well as on the EU level;
 - continuing budget deficits albeit not always in the same countries.
- 3.7.3 The new Member States must often overcome additional handicaps due to a development gap, for example in employment, technologies or the environment, although these handicaps are sometimes also offset by renewal measures which are more radical than in the EU-15.
- 3.8 Reference is made to the report drawn up by the European Economic and Social Committee (EESC) at the request of the European Council of March 2005, setting out the results of the EESC's consultation of its partners, throughout the Member States and at the European level, on the implementation of the Lisbon Strategy and the role of the social partners and other components of organised civil society². Several reports on the Lisbon Strategy and specific aspects of it have been published by the Committee in recent years³.

² CESE 1468/2005. Implementation of the Lisbon Strategy. Summary report for the European Council.

³ INT/288 – CESE 595/2006, OJ C 185, 8.8.2006 + CCMI/032 – CESE 1140/2005 fin.

4. **Improving business potential, especially SMEs**

4.1 *Importance of SMEs in the European economy*

4.1.1 The vast majority of enterprises (99.8%) in Europe are SMEs. The typical European firm is a micro firm (91%); 7% are small enterprises. Not only are most enterprises in Europe small, but they also account for a significant amount of European work experience (two thirds of employment in the private sector) and economic activity (57% of the GNP)⁴.

4.1.2 In order to improve the monitoring of the economic performances of SME's the EESC calls on the European Commission for relaunching the activities of the European Observatory for SMEs.

4.1.3 SMEs are the main generators of jobs, representing one of the main sources for the state budget incomes (taxes, VAT, etc.), offering the chance of professional and social achievement for a large part of the population, especially of the most active and innovative segment, which pushes the economy forward. Furthermore they ensure the main component of an economic background favourable to the market economy, characterized by flexibility, innovativity and dynamism, and representing the seeds of the future large companies, especially in the new fields of economy, based on complex technologies.

4.2 *Competitiveness*

4.2.1 The emphasis on competitiveness acknowledges the need to achieve sustainable competitiveness in an open and global economy by enhancing our use of new technologies, identifying more effective vocational training, ensuring employees are well qualified and improving productivity. The concept of quality (quality of goods, services, regulation, governance, employment, social relations and the environment) is central to the strategy.

4.2.2 To secure economic stability, Member States should maintain their medium-term budgetary objectives over the economic cycle or take all the necessary corrective measures. Subject to this, Member States should avoid pro-cyclical fiscal policies. Member States posting current account deficits that risk being unsustainable should work towards correcting them by implementing structural reforms to boost external competitiveness and also contribute to their correction via fiscal policies. These measures are a minimum because of the ageing of the European population.

4.2.3 The EESC thinks that only by changing the basic thrust of economic policies and, in particular, macroeconomic policies will it be possible to eliminate within Europe the obstacles which are thwarting a sustained and more far-reaching economic recovery. The EU has to act

⁴ Data available for 2003. Eurostat's Pocket book 2006.

from within if it is to steer the European economy back on the road to growth and full employment. This will require a balanced macroeconomic policy with the declared aim of: achieving the objectives of the Lisbon Strategy, in particular full employment; strengthening competitiveness; and giving real consideration to the obligation to pursue sustainable development, in line with the conclusions of the Gothenburg Summit.

- 4.2.4 The EESC recalls that the aim of monetary policy should be to strike a balance between price stability, economic growth and employment. It would make sense to urge the ECB to target stability in the wider sense, i.e. not only price stability but also stability in terms of growth, full employment and social cohesion⁵. To achieve results it is important to have the national budgets in line with the ECB policies and to respect the Pact for Stability and Growth.
- 4.2.5 Moreover, the EESC points out the special relevance of business related services as part of SMEs for the success of the Lisbon process and the competitiveness of the EU. Following up the accordant communication of the Commission⁶, the EESC underlines the necessity to create a regulatory environment in which the concerned SMEs are able to fulfil the societal demands they are confronted with.
- 4.2.6 The EESC supports also the wide analysis of necessary support measures in 27 sectors of manufacturing industry in the Commission document on an integrated industrial policy but insists on the real implementation of the policy in coordination with the Member States.⁷

4.3 ***Better regulation***⁸

- 4.3.1 The EESC fully supports the recent proposal of the European Commission to cut the administrative burden for companies by 25% by 2012⁹. This can lead to an increase in the

⁵ The EESC has itself demanded on several occasions that monetary policy should also strive to achieve the goals of full employment and growth.

⁶ "The competitiveness of business-related services and their contribution to the performance of the European enterprises" [COM(2003) 747final] of 4 December 2003.

⁷ Communication from the Commission - Implementing the Community Lisbon Programme: A policy framework to strengthen EU manufacturing - towards a more integrated approach for industrial policy COM(2005) 474 final and CESE 595/2006 of 27/4/2006 Modern Industrial Policy.

⁸ The EESC has recently published several opinions on Simplification, Better Lawmaking:
OJ C24, 31/1/2006, Better Lawmaking, exploratory opinion on the request of the UK Presidency, rapporteur Mr Retureau.
OJ C24, 31/1/2006, How to improve the implementation and enforcement of EU legislation, own initiative opinion, rapporteur Mr van Iersel.
OJ C112, 30/4/2004, Opinion on Updating and simplifying the *acquis communautaire* [COM(2003) 71 final], rapporteur Mr Retureau.

⁹ COM(2006) 689, 690 and 691 of 14 November 2006.

GDP of the EU of 1.5%. The EESC urges the Commission to put forward a clear Strategy for the simplification of the regulatory environment in full in order to avoid failure to deliver¹⁰.

- 4.3.2 A lighter administrative burden can fuel economic dynamism. Curbing the weight of legal and regulatory obligations requires a global approach from the local, regional and national authorities as well as from the European Union. It is essential that regulations are well designed and proportionate.
- 4.3.3 The creation of the (Business) Impact Assessment Board, announced by the Commission in its strategic overview on "Better Legislation"¹¹ and aimed at strengthening the quality and efficiency of impact analyses, gets the support of the EESC. Nevertheless, its scope of action must not be limited to simple coordination, but also take in consideration the quality of work considering SMEs and the analysis of the economic and social consequences of regulatory proposals. New regulations at national and Community level should be screened to assess their impact on SMEs.
- 4.3.4 The economic, social and environmental impacts of new or revised regulations have to be carefully assessed to identify the potential trade-offs and synergies between different policy objectives. Moreover, existing regulation is screened for simplification potential and its impact on competitiveness is assessed. Special attention should be paid to independent business impact assessments, including a specific target towards small enterprises, of all legislative and regulative proposals from the European Commission. Finally, a common approach to measuring the administrative costs of new and existing legislation is being developed. The "think small first" principle should be the guiding principle when reviewing the existing legislation and conceiving new one. This means that legislation should take into account the particularities of SMEs.
- 4.3.5 The EESC points out that improvements are especially important for small and medium-sized enterprises (SMEs), which usually have only limited resources to deal with the administration imposed by both Community and national legislation.
- 4.3.6 The necessary steps should be taken to ensure that all Member States implement all directives in time and with a high level of quality, and to convince the national and regional governments and legislators to start their own simplification project targeting regulation, where "gold-plating" has happened by implementing European law.
- 4.3.7 Most of policy actors at regional, national and European levels do not know enough about the reality in small enterprises and their real needs. Better involvement of representative SME

¹⁰ Action Programme for Reducing Administrative Burdens in the European Union. COM(2007) 23 final of 24.1.2007.

¹¹ Communication of European Commission of 14 November 2006.

associations¹² at all levels is a precondition to improve the quality of SME policy in Europe. Strengthening associations of small enterprises is also one of the key elements of the European Charter for Small Enterprises (2000). Representative SME associations should be involved as important stakeholders in the decision-making process at all levels.

4.3.8 CESE is strongly supporting the European Charter for Small Enterprises which proved to be a useful tool for monitoring progress and for identifying SMEs problems, as well as for determining member states to act aiming at improving coordination of entrepreneurial policies within the entire Europe. It is important to maintain a sustained rhythm in the process of integrating Charter implementation reports in the annual reports of the Lisbon Agenda. It is imperative to continuously bring it up to date and to complete it in respect of the revised Lisbon strategy and the EU major enlargement process.

4.4 *Entrepreneurial culture and Business Start-ups*¹³

4.4.1 Entrepreneurship is a complex phenomenon that comprises elements of a sense of initiative, risk-taking and innovation. Small and new companies generate innovations, fill market niches, create employment and increase competition thereby promoting economic efficiency.

4.4.2 The European Union as a whole is suffering from low early stage entrepreneurial activity. The latest GEM (Global Entrepreneurship Monitor) report ranks no European Member State on the top 10 countries¹⁴. On the contrary, eight Member States figure among the 10 lowest levels of participation¹⁵.

4.4.3 Entrepreneurship is important to society as a whole. To promote and raise the awareness of the culture of entrepreneurial thinking as well as an understanding of the importance of entrepreneurship for a country's overall development, the Committee proposes that 2009 be declared European Year of Entrepreneurship. In this context the Committee notes that the mid-term review of several relevant Community programmes will take place in 2010. Positive public attitudes on entrepreneurship need to be established. The Year would also provide an opportunity to consolidate and reinforce existing exchanges of best practice.

12 With SME-organisation we refer to organisations representing SME's (European definition) in different fields of actions: crafts, industry, services, trade, liberal professions. Multisector as well as more sector related organisations are referred to.

13 SOC/242 – CESE 971/2006, O.J. C 309, 12.12.2006, Opinion of the European Economic and Social Committee on the Communication from the Commission: Implementing the Community Lisbon Programme: Fostering entrepreneurial mindsets through education and learning COM(2006) 33 final.

14 Ireland ranks 11th.

15 Hungary, Belgium, Sweden, Slovenia, the Netherlands, Denmark, Italy and Finland.

- 4.4.4 Much need exists within the EU for changes in the education and training curricula – in particular in the higher education level – to place more emphasis on advanced entrepreneurship education, the strategic value of information management and ICT and networking. The role of schools and universities is an essential factor in fostering an entrepreneurial mindset among young people. Active participation of company representatives in education, for example, is recommended as well as an involvement from business organisations. Media activities and the image they convey of business are important.
- 4.4.5 Policies to assist businesses to start up and develop should be intensified including quicker, lower-cost start-ups, measures to improve access to risk capital, more entrepreneurial training programmes, measures to improve access to public networks and utility services and a denser network of support services for small enterprises. Moreover, political decisions in view of reforming tax systems, regulation, market access, rescue and restructuring proceedings as well as inheritance law are needed. A cultural change regarding the attitude on bankruptcy is needed.
- 4.4.6 The availability of early-stage financing is a crucial issue. In Belgium, initiatives have been taken by the government aiming at bridging the equity gap. An example is the ARKimedes fund that has raised EUR 110 million in the form of shares or bonds, guaranteed by the regional government of Flanders.
- 4.4.7 Equally essential is providing information and business support services, notably for young entrepreneurs. Mentorship programmes in Flanders (Belgium) have proved their worth.
- 4.4.8 Fear of failure has a powerful negative impact on potential start-ups. An adequate social framework has to be adopted for self-employed persons. The self-employed should also be given a second chance more easily.
- 4.5 ***Internal market***¹⁶
- 4.5.1 The potential of the Single Market should be unleashed. The European Union should now have the advantages of a market that is bigger than that of the USA or China but
- too many directives have not been fully transposed into national legislation;
 - inadequate progress has been made in securing standardisation and mutual recognition for the supply of services;
 - delays have taken place in liberalising markets, including those in the public sector;
 - difficulties have arisen in agreeing workable European intellectual property rights;
 - distortions are caused by forms of fiscal differences.

¹⁶ CESE 89/2007, exploratory opinion on the Review of the Single Market.

- 4.5.2 The attractiveness of the European Union as an investment location depends on the size and openness of its markets, its regulatory environment and the quality of its infrastructure. Increased investment will make Europe more productive as labour productivity levels depend on investment in physical and human capital as well as in knowledge and infrastructure.
- 4.5.3 The ability of European producers to compete and survive in the internal market is key to their competitive strength in world markets. Whilst the internal market for goods is relatively well integrated, services markets remain, legally or de facto, rather fragmented. In order to promote growth and employment and to strengthen competitiveness, the internal market of services has to be fully operational while preserving the European social model. The elimination of tax obstacles to cross-border activities and the removal of remaining impediments to worker mobility would also bring important efficiency gains. Finally, the full integration of financial markets would raise output and employment by allowing more efficient allocation of capital and creating better conditions for business finance.
- 4.5.4 For SMEs, especially in the service sector, the internal market is still not fully realised. High administrative burdens for cross-border operations and non adapted European standards hinder small enterprises to profit from a larger market.
- 4.5.5 Standards play a major role in the access to markets. Current standardisation processes do not take sufficiently into account the specificities of craft and SMEs. Small businesses have to be better involved in the elaboration of European and international standards. Despite strong support given by the Commission to structures like NORMAPME¹⁷, further efforts in favour of SMEs are needed, in particular for small series and tailored made production, for lower standards costs, for a more balanced representation in technical committees, for the simplification of certification systems.
- 4.5.6 There is considerable scope for further improvements in public procurement practices. Such improvements would be reflected in an increase in the share of public procurement publicly advertised. Focus should be put on the possibilities for SMEs to participate in public procurement procedures. The EESC supports the composition by the Commission of a compendium of good practices in this field recorded by EU member states, and by the USA and Japan, which have resulted in the growth of SMEs' access to public procurement.
- 4.5.7 SMEs in Europe have to face 27 different taxation systems, which cause prohibitive compliance costs and create serious barriers to the internal market. Compliance costs for small companies are much higher than for large enterprises¹⁸. Simplification in favour of SMEs in particular is awaited.

¹⁷ NORMAPME : European Office for Crafts, Trades and SMEs for Standardisation – www.normapme.com

¹⁸ Refers to compliance costs on taxation in cross border activities.

4.6 *Human capital, development of competences and social dialogue*

- 4.6.1 In a context of a globalised and knowledge-based economy, companies have to constantly adapt to change. Successful entrepreneurs need more than ever a solid basis of knowledge and qualifications in order to face increased competition and to be able to win the innovation race. Moreover technological developments require the constant development of new competencies, especially in the field of ICT and acquisition of updated skills for entrepreneurs and workers alike¹⁹.
- 4.6.2 Since 2000, with the Lisbon Strategy, training objectives and lifelong learning strategies have clearly been reinforced in Europe, but they still need further improvements as stated in the evaluation report 2006 of the "Framework of actions for the lifelong development of competencies and qualifications" agreed by the European social partners (ETUC, BusinessEurope, CEEP, UEAPME) in 2002. In this context, the new Community "Integrated action programme in lifelong learning" should also fully participate in this effort as its official aim is to contribute to the realisation of Lisbon goals namely "the development of the European Union as an advanced knowledge society, with sustainable economic development, more and better jobs and greater social cohesion".
- 4.6.3 As the EESC rightly pointed out,²⁰ "the Union's educational programmes are among the very few Community actions addressed directly to its citizens. The new programme should therefore aim to promote democracy based on participation and active citizenship", and "to promote employment and a versatile labour market". Since it also integrates the main European mobility programmes, namely Leonardo da Vinci for apprentices and young people in initial vocational training and young workers, as well as Erasmus for students, they should be more easily accessible to individual mobility. Learning and working abroad for a certain time not only enriches skills and the know-how of an individual, but also increases the understanding of Europe and European citizenship. Additionally, it helps the individual to be pro-active and more open to take on responsibility for his or her own employability in the working life.
- 4.6.4 Moreover, the EESC stressed the "particular importance to the possibility of SMEs having access to the programme" and "proposes a special approach for SMEs, simplifying the relevant procedures in order to make their participation in the programmes both feasible and effective". In a services-driven economy, the most valuable asset of a company is its human capital. In order that enterprises, particularly SMEs, can pursue a strategy for competence development, customised support initiatives should be designed to help them to invest in continuous training such as tailor-made training offers, financial support, tax incentives.

¹⁹ Even traditional professions like plumbers and carpenters have to take into account energy saving techniques.

²⁰ SOC/176 – CESE 139/2005, OJ C 221, 8.9.2005.

4.6.5 Social dialogue is an important tool to overcome economic and social challenges. One of its main achievements is the improvement of the labour market functioning and the anticipation of change. Furthermore, social dialogue contributes to creating a climate of confidence in companies. It can also provide tailor-made answers for small enterprises as far as it takes into account the specificity and quality of the working environment and of the working relations as well as the particular situation in which craft and small enterprises are working and developing.

4.7 *Innovation*

4.7.1 The Lisbon Agenda aimed at a 3% target for R&D as related to the GDP of which two thirds must come from the private sector. Currently it is contributing just 56%. Unfortunately we have to note that Europe devotes a much lower share of its GDP to R&D than the US and Japan (1.93% as compared to 2.59 % in the US and 3.15 % in Japan). Furthermore, China is on track to match the research intensity of the EU by 2010. Research and development: in 2002, the private sector spent EUR 100 billion more on research and development in the United States than it did in Europe.

4.7.2 The future European Institute of Technology (EIT), whose aim it is to reach the highest possible of integration of education, research and innovation at the excellence level, should strongly recognise and valorise the SMEs potential. Cooperation between universities and research centres and businesses, in particular small businesses, should be strengthened. Researchers should be encouraged to have contacts with businesses. The importance of promoting technology transfers via technology centres and incubators cannot be underestimated. Measures to sustain innovation support service providers, clusters and networks should also be foreseen in the new State Aid Framework for Research, Development and Innovation (R&D&I). European researchers should be given more opportunities in each of the 27 EU Member States. A better promotion and dissemination of research results is imperative in order to improve access to these results for business and the economic impact of it.

4.7.3 Europe should provide a harmonised regulatory environment across the EU favourable to innovation. New initiatives for a European Community Patent are needed to protect innovation and address the needs of European businesses. Such a system should foresee reduced fees for SMEs and a proper patent litigation insurance structure.

4.7.4 The European Commission has recognised in its latest communications the need to expand the definition of innovation to focus on SMEs and take account of non-technical innovation in all economic sectors. This new approach must now be implemented in all policy areas to become of use for small businesses.

4.7.5 It is essential for SMEs to upgrade their existing human capital and to introduce an academic work force into production and innovation. The 7th Framework Programme should give

support to SMEs for introducing advanced technological research and production techniques, but also to other forms of innovation important in an SME structure.

- 4.7.6 The necessary resources at EU level are to come from the CIP programme, the Framework programme on research, the Structural Funds, and the education programmes, to mention the most important. Coordinating policies, including resources, will be a difficult and delicate task, particularly since the available European financial resources are relatively limited in relation to the needs and demands. To ensure the use of financial means from the structural funds to co-finance programmes for innovative SMEs, start-ups and business transfers (i.e. via the European Investment Funds - JEREMIE), appropriate measures must be adopted at Member State level and their effectiveness and accessibility should be closely monitored.
- 4.7.7 The introduction of advanced new production methods and machines, particularly in SMEs, will require credit on favourable terms. The EIB and the EIF should be involved closely in the work of the sectoral and inter-sectoral planning groups.
- 4.7.8 SMEs have to be guided more to ICT applications, which can lower their costs, increase their productivity and enhance their competitiveness.

4.8 ***Business Transfer***²¹

- 4.8.1 European studies show that about one third of Europe's entrepreneurs, mainly family business owners, will depart within the next 10 years. It is estimated that this will affect some 690 000 enterprises, providing 2.8 million jobs. Transfers should be promoted as valuable alternatives to starting up a business.
- 4.8.2 In contrast to the past, more and more business transfers take place outside the family, to third parties. Also there is a growing interest in taking over an established firm, rather than starting a business from scratch. Research showed that 96% of business transfers survive the first five years in comparison with 75% of start-ups.
- 4.8.3 So the first challenge is to set up a platform and to facilitate the matching of potential buyers and sellers of businesses. This marketplace should be transparent in order to increase the possibility of making contacts and ensuring the continuity of existing viable enterprises. High quality of services including matchmaking, consultancy and confidentiality are essential. In most of European countries there are governmental or government supported business transfer markets²². These initiatives should be developed in all EU Member States.

²¹ Implementing the Lisbon Community Programme for Growth and Jobs. Transfer of Businesses – Continuity through a new beginning. COM(2006) 117 final, 14/03/06.

²² France, Italy, Luxembourg, the Netherlands, Austria, Finland and Belgium (which has a separate database for each region). The success rate for these countries is around 25%, i.e. one in four businesses in the database has found a successor.

4.9 *Access to finance*

- 4.9.1 SMEs and especially start-ups, business transfers and innovative companies should get better access to finance to fully realise their potential and create economic growth and more employment in Europe. Risk-sharing models such as mutual and public guarantee schemes have proven to be very effective instruments and must be further promoted both at EU and Member State level.
- 4.9.2 The availability of capital at a reasonable cost for new business, SMEs and fast-growing enterprises: this requires maintaining interest rates and risk premiums at reasonable levels as well as a rationalisation of government aid schemes.
- 4.9.3 Consultancy to SMEs by SME organisations should be strengthened and supported. It is also necessary to install financial instruments adapted to the needs and means of small businesses. The EESC invites the Commission and the EIB/EIF to finance innovation in small business in the form of risk capital and guarantee schemes.
- 4.9.4 Venture capitalists and business angels are important ways of access to finance for SMEs. Stimulating the networking between venture capitalists and business angels on the one hand and (starting) entrepreneurs on the other hand is important to lower the small equity gap.
- 4.9.5 Guarantee systems prove to be a very effective and resources efficient way to support small business. The Caisse Mutuelle de Garantie de la Mécanique (CMGM) in France has over 45 years' experience in this field. This Caisse offers banks guarantees over the near totality of credits (investment credits, transfer of business, bank warrants, cash credits) that they accord to companies. Companies subscribe to its capital and guarantee fund. This system allows reducing the private warrants asked from the entrepreneurs, makes available larger credits and offers a safety net for the entrepreneur toward its banker. Exchanges of good practices among EU Member States, regarding access to finance and guarantee funds for SMEs, should be encouraged.

4.10 *Internationalisation*

- 4.10.1 The EU must seize the opportunities provided by the opening up of rapidly growing markets in Asia, such as China and India. At the same time, the EU must deal with the resulting new international division of labour, particularly as China begins to specialise more in high value-added goods and as India develops as a global hub for outsourcing. The EESC stresses that a common approach in dealing with third countries is essential so as to improve market access conditions for EU companies.

- 4.10.2 Even though the single market has been in place for over 14 years, a lot of firms still operate solely in their own country. Language barriers, remaining legislative and regulatory differences, and a lack of knowledge of other markets are the main obstacles. The EESC welcomes the creation of support services close to the entrepreneurs, comparable to the Passport to export in the UK²³. Access to public procurement for SMEs should also be encouraged.
- 4.10.3 Adequate support systems should be developed to stimulate cross-border activities as well within the European Union and on other markets.
- 4.10.4 The EESC stresses that a special focus should be given to SMEs in the Commission documents on Trade Policy (Access Strategy, Defence Instruments, Global Europe).

Brussels, 12 July 2007.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Dimitris Dimitriadis

Patrick Venturini

N.B.: Appendix overleaf.

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For details about the single market see Flash Barometer 180 – TNS Sofres/EOS Gallup Group Europe, Internal Market Opinions and Experiences of Businesses in EU-15, published June 2006.

For details on Passport to Export, a programme by UK Trade and Investment to support British exporters to overcome their weaknesses in international trade, see Charter of Small Business, Selection of good practices 2006, p. 9.

APPENDIX
to the
OPINION
of the European Economic and Social Committee

"Contributions from the Economics and social councils"

Contributions from the Bulgarian Economic and Social Council

The situation in Bulgaria

The main priorities in this area are improving the business environment, modernising infrastructure, developing entrepreneurship and increasing innovation to achieve sustainable development. The implementation of these measures and policies aims to improve the business environment by implementing good governance principles, improving administrative services and regulatory regimes and increasing the flexibility of product and factor markets.

Initiation and implementation of the principles of good governance in the work of the state administration is one of the prerequisites for creating a favourable business environment and reducing administrative barriers confronting the private sector. The legislative framework for reforms in state administration is more or less in place. The delay lies in the implementation. In 2006, the Law for the Administration and the Law on Civil Servants were amended, with the aim of optimising the work of the state administration, improve the process of managing human resources and establish effective internal control of the administration's activities.

The planned reforms will be funded by the state budget and the European Social Fund (Operational Programme "Administrative capacity development"). Its main objectives as regards administration regulations are reducing the administrative burden and simplifying the procedures for settlement of disputes over the implementation of contract obligations.

Bulgaria is ranked 62nd of 155 countries for its business environment. Steps are being taken to improve public access to administrative services and standardisation of services. The principle of one-stop-shop is already applied in 71% of the central administration, 100% of the regional administrations and 68% of the municipal administrations. By accepting the Strategy for the development of e-governance, the state agreed to put 20 administrative services online – 12 to the public and 8 to businesses. Implementing these measures is expected to:

- facilitate and accelerate the company registration procedure and implement a single procedure after launching the company register;

- cut registration fees;
- shorten the business start-up period to one day;
- reach 20 minutes maximum for administrative services;
- increase the use of mediation;
- optimise the licenses regimes;
- cut state administration costs by 12% by extensive use of outsourcing;
- reduce the time for service, reduce the number of payments to one fee at bank counters situated on the border check-points.

The planned reforms will be funded by the state budget and the European Social Fund.

The modernisation and development of infrastructure, in particular transport and energy networks, as well as ICT infrastructure is a crucial factor in achieving sustainable economic growth, more jobs and social inclusion. Measures to be implemented include upgrading the regional and local road and railway infrastructure – the poor conditions of the road system is a significant limiting factor and much construction, repair and rehabilitation are needed. Five Trans-European corridors pass through Bulgaria: IV, VII, VIII, IX and X and much work is needed to achieve operational compatibility with the Trans-European Transport Networks.

Improving access by SMEs to financing, using clusters to assist the economy of undeveloped regions, technological renewal, improving the business environment, introducing innovation and providing favourable conditions for starting up new companies through entrepreneurial education and skills will allow the successful integration of Bulgarian companies into the EU Common Market. SMEs dominate the market in Bulgaria and are a substantial part of the economy. Nevertheless, compared to bigger companies they are less productive and less competitive. Measures need to be taken to tackle this problem.

As part of the operational programme for administrative capacity development, a number of measures are envisaged to contribute to the development of SMEs, including free investment schemes, information and consultant services, improving access to financing by creating guarantee funds, use of clusters, etc.

ESC proposals

State policy in this area has taken into account the principal guidelines of the operative programme for administrative capacity development to improve the administration activity and administrative servicing of business and citizens. However, the requirements set by the Lisbon Agenda for a significant extension of the range of services provided by a single counter, as well as the requirement that 50% of administrative services be offered on-line by 2010 were not taken into consideration. Therefore, the ESC proposes that specific measures be included to increase the percentage of electronic administrative services.

The ESC recommends more active inclusion of the social partners in discussions on developing policies and measures to simplify regulation regimes and increase the quality of the administrative service. The ESC suggests that requirements be introduced for the provision of information concerning the monopoly and oligopoly suppliers of public services equal to requirements on public companies, to ensure transparency and public control. At the same time, the ESC proposes that the development and implementation of the necessary legal framework to establish the conditions for a significant increase in the percentage of e-trade should be taken into account.

The ESC supports the proposal of the employers' organisations, trade unions and other civil society organisations, represented in the ESC, for a sharp decrease in the number of regulating and permitting administrative regimes, as well as the elimination of those administrative regimes not enshrined in a statute or act. This would ensure the necessary equity between State and business.

The Council considers that the creation of a common register of economic operators and united cadastral and property register are also prerequisites for the improvement of the business area, and clearer commitments should be set to this end. The promotion of clusters proposed by the government must be directed towards sectors with competitive advantages, with the choice based on the strategy for the development of the business potential. There are no assessment criteria for the selection of clusters. According to the ESC, this would lead to insufficiently effective use of resources, since the clusters able to absorb funds will gain the advantage, rather than those with a proven export potential.

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Contributions from the Greek Economic and Social Council

Promoting Entrepreneurship and SMEs

One of the basic characteristics of the Greek economic and social structure is the preponderance of small and medium-sized enterprises. Although throughout the European Union the majority of companies are small and medium-sized, of the southern group of countries, where SMEs are particularly high in number, only Greece and Portugal have a high number of very small companies and micro-enterprises (fewer than 50 or 10 employees respectively). The importance of SMEs has been assessed both from an economic point of view (focus on employment, job creation, contribution to GDP) and from a social point of view (protection of the social fabric). SMEs are a basic source of jobs, a seedbed for business ideas and the main driver for innovation, employment and social and local cohesion. Nowadays, SMEs operate in a complex environment, defined at EU level by the single internal market, and internationally by globalisation and new competition rules.

SME survival is critical, both for the competitiveness of the European economy and for social cohesion in the EU's regions, and it is closely linked to business modernisation and improved competitiveness. To a certain extent, European SMEs all face the same problems, but they also have specific difficulties relating to the region or country in which they operate.

The Lisbon Strategy objectives for the competitiveness of the European economy, sustainable economic development, employment and social cohesion are to a large extent yoked to SME development and improved competitiveness, as SMEs account for the majority of companies in the European economy.

Nevertheless, despite policy measures taken in the context of the Lisbon objectives, the critical mass of companies in the new economy that might drive SME development, with multiplier effects, has yet to emerge, either owing to bureaucratic inefficiencies, or because the measures have not yet been applied in full and therefore not started to deliver results, or because SMEs are not actually implementing them. In this sense, while the SME operating environment has changed radically, the situation remains stagnant. Nevertheless, gradually the stage is being set for the renewal of the bulk of companies to reflect the new environment and today's competitive conditions.

To form a business environment that nurtures entrepreneurship and the creation of new businesses, and within which the new innovative enterprises can grow quickly, calls for a broad swathe of mutually supportive policies. As the European SME Observatory's sixth report states, the regulatory reforms affect small and large companies in different ways. More specifically, they can restrict flexibility and generate a disproportionate amount of red tape for SMEs. In addition, when the conditions for market entry are relaxed, SMEs face less capable competitors. The result is self-regulation, often leading to mergers and buy-outs, so as to compete with more efficient, larger companies with greater market power. In other words, the business environment for SMEs is improving with the simplification of regulatory provisions, freeing them from needless bureaucratic procedures and improving competition and market rules.

Basic areas of intervention to strengthen entrepreneurship among SMEs

Ø Capital - financing

SMEs face particular difficulties in accessing sources of funding. A financial support system is therefore needed with quantitative and qualitative standards, to enable them to overcome current difficulties, particularly regarding high-risk capital.

Ø Taxation

There have been important reforms affecting the tax system as a whole. Generally speaking, the reforms are aimed at simplifying the tax system, creating a more favourable environment and a climate of confidence between tax payers and the tax authorities.

Ø Bureaucracy

There have been a number of positive changes in relation to the bureaucratic system, mainly relating to the time it takes to establish a company (a reduction in the time needed to set up in business and in the number of supporting documents required).

Ø Competition conditions

The conditions for competition in a free market are a major factor in the development of entrepreneurship and of businesses. Central government, which shoulders most responsibility for market regulation, should develop the strategies needed to develop a healthy and stable competitive environment. The absence of such an environment can in many cases create an unstable situation for SMEs and also consumers. The necessary measures must be planned and implemented to address the threat to SME survival occasioned by improper commercial practices (selling under cost price, gifts, etc.).

Ø Technology – Research - Innovation

In our country, the majority of SMEs are still lagging far behind when it comes to research and innovation. There is a pressing need to frame an all-encompassing plan to support and integrate research and new technologies in small and medium-sized companies, in conjunction with the social partners. An initiative of this kind could be expected to have a positive impact on the competitiveness of the Greek economy. Every possible measure must be taken to gear research to SME needs and for research results to be disseminated among SMEs. Efforts must also be made to make it easier to build innovation into the production process.

Ø **Incentives to merge**

Increased competition leads to an increase in the average size of company capital. Consequently, SME mergers should be encouraged through the creation of tax, development and financial incentives.

Ø **Improvement of the entrepreneurial culture and the business climate**

Both SME professional bodies and government should contribute to the development of a culture of entrepreneurship, as this is a key element in the development of companies and the national economy. They should also contribute to promoting programmes to develop entrepreneurship.

Ø **Professional training**

As has been observed on many occasions, basic and continuing professional training is critical when it comes to improving SME entrepreneurship and competitiveness.

Ø **Taking account of SME size in policy-making**

SMEs should not be treated as a single category; policies should be SME-size specific. Size is the basic characteristic used to differentiate between and categorise SMEs in each and every EU Member State. Grouping all SMEs into a single one-size-fits-all category may be the most serious obstacle to the implementation of SME-related policies.

Ø **Access to European programmes**

Measures are needed to improve SMEs' chances of taking part in European programmes, particularly micro-enterprises, which have great difficulties in this respect.

Ø **Shadow economy**

There is an urgent need to establish a favourable environment for integrating illegal business activities into the formal economy, particularly in countries where there the shadow economy is a major phenomenon, distorting competition.

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Contributions from the French Economic and Social Council

Potential of Businesses, Especially SMEs

The ESC welcomes the EESC's statement that "*in the evolution of the Lisbon Strategy, the search for competitiveness and growth is a critical feature in generating improved economic well being, creating employment, protecting the quality of lifestyles as well as improving them*".

Despite the positive points, as described in the report, many indicators are regarded as being of concern.

The reforms are lagging behind and "*results vary, with shortcomings*" that persist, particularly with regard to administrative procedures and "*research spending that has generally diminished further, rather than increasing to the Lisbon target of 3% of GDP.*" Meanwhile, there is still a "*lack of access to finance for SMEs.*"

1. Improving the potential of businesses, especially small firms

One should consider the various means of **improving business potential**, especially for SMEs.

SMEs make up practically the whole of Europe's production base (99.8%). Small businesses account for some 57% of Europe's GNP and are responsible for two thirds of private sector jobs. The concerns of these businesses, which together make up most of Europe's business fabric, are far removed from those of the several dozen or so companies that are global in scale. Nonetheless, the dynamism of this sector can bring about success in the industrial arena.

This is why the French ESC fully endorses the proposal "*to fundamentally redirect economic policy, to modulate monetary policy objectives and to adopt a more integrated approach towards industrial policy*" along with the practical concern of "*genuinely implementing such action.*"

At the same time, it is important to promote innovation in businesses of all sizes; both product and process innovation. As the EESC opinion of 24 April 2007 rightly argues: "*The Lisbon Agenda aimed at a 3% target for R&D as related to the GDP of which two thirds must come from the private sector. Currently it is contributing just 56%. Unfortunately we have to note that Europe devotes a much lower share of its GDP to R&D than the US and Japan (1.93% as compared to 2.59% in the US and 3.15% in Japan.*" (2003 figures).

Furthermore, building on the EESC's proposals, one should consider the potential impact of measures such as tax credits, which are particularly well suited to help small enterprises turn to innovation.

2. **The role of legislation and non-regulatory instruments**

Better lawmaking, which some may see as an issue that has been put forward so often that it has lost much of its impact, is also approached pragmatically through the creation of "*a committee responsible for analysing the impact of legislation (on enterprises)*" without limiting this to a simple task of coordination. This also has the support of our assembly.

It could be useful to link this issue to that of **less lawmaking** (often evoked by high-level administrative and judicial bodies in our country) in order to ensure that companies, particularly SMEs, can become truly visible.

The importance of implementing a *small business act* in a European context mirrors the very real concerns expressed in France in a number of parliamentary studies, discussion groups, and in proposals from a variety of organisations. We support the idea of "*blocking the adoption by the Commission of any new legislative proposal that has not been the subject of a sufficiently complete analysis or for which it is clearly apparent that the measures proposed stand in the way of the socio-economic development of SMEs*".

It is worth reiterating at this juncture that such implementation could, for example, make it possible to set aside a substantial proportion of public contracts for small enterprises and to significantly cut the cost of red tape, as well as its volume (as proposed by the French ESC in its 2005 opinion on the report by Anne Duthilleul on *Enterprises and administrative simplifications*).

One should promote provisions that contribute to the completion of a genuine **internal market**, clearly an issue of key importance for SMEs, which must be able to access a rich, extensive zone where they can find their own place.

Yet the internal market has yet to be completed. The ESC endorses the comments made by the EESC, particularly with regard to the use of non-regulatory instruments. The issue of standardisation, for instance, is of great importance; SME involvement should be encouraged at all stages of the standardisation process, both at national and European level.

Equally, there is a need to ensure and improve the access of the smallest manufacturing companies to intellectual property instruments, which are also an aspect of current commercial and industrial policy. That is why the EESC's discussions and proposals are particularly relevant.

3. **Fostering the development of an entrepreneurial culture**

All action taken to foster an **entrepreneurial culture** should be encouraged, particularly for the young.

Equally, **business start-ups** should also be encouraged. However, while this issue has been the subject of much attention from the public authorities – and rightly so – (there is no shortage of structures or resources) there has been less interest in ensuring the continuation of or transferring that which has already been created.

Our assembly has stressed these various points in two opinions/studies: "*Setting up and ensuring the continuation of small businesses*," a study by Jacqueline Socquet-Clerc Lafont and an opinion by Françoise Vilain entitled "*The transfer of craft, commercial, industrial and service-based SMEs*".

The ESC has therefore encouraged the development of "incubators" in order to be able to identify and evaluate start-up projects and support their promoters. It has also promoted the development of start-up support networks. Chambers of commerce and industry, professional bodies and agricultural chambers can play a vital role in this area.

The ESC is also in favour of strengthening deposit and mutual guarantee procedures, instruments that are suited to SMEs.

There is also much to be gained from developing "venture capital" activity (such as business angels) and tapping local savings.

Ensuring the continuation and transfer of companies is an issue of great importance. In this light, our assembly draws attention to all the proposals it has put forward, particularly on the development of training for the acquisition of enterprises, by employees in particular. Support for the buyer should be strengthened, as acquisition represents a moment of great uncertainty for a company. Accordingly, the principle of carrying out a due diligence (compulsory in Britain and the USA) should be extended to the whole European Union. This audit should make it possible to ensure the viability of the acquisition in all areas: legal status, prior commitments of all kinds.

Naturally, these few examples do not provide a complete overview of the subject.

4. **Promoting social dialogue**

In addition, we can only wholeheartedly support all that relates to *human capital and social dialogue* and to European education programmes, both for students and young workers. The budgets for these programmes should be significantly increased; it is important to ensure that "*the involvement of SMEs in such programmes is as great as possible and produces results*."

General factors such as the cost of regulations, better lawmaking methods, taxation and the completion of the internal market are, clearly, of vital importance. To encourage growth, we should begin by not preventing it.

Furthermore, a certain number of good practices exist in the European Union that are hugely important such as multi-layered cooperation between enterprises, the Italian districts, the way German banks support companies at crucial moments in their development or in exporting.

Lastly, noting the quality of the proposals put forward in the EESC's opinion and their relevance, the ESC trusts that they will be implemented as soon as possible.

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Contributions from the CNEL (National Economic and Labour Council) - Italy

Factors in SME competitiveness: general introduction

It is widely known that Italy's productive system is substantially made up of small and medium-sized enterprises: employment and social cohesion largely depend on their competitiveness. The ability to invest in innovative processes and products, the presence locally of efficient infrastructure, the availability of credit, investment in education and vocational training, adequate security and a reasonable level of tax and social security contributions are vital to businesses, and especially small ones.

Among policies to enhance SME competitiveness, the CNEL has looked particularly closely at efforts to lighten the administrative burden on companies, and the internationalisation of SMEs.

Legislative and regulatory obstacles to business activity

The CNEL seeks to place the need to remove identified legislative and bureaucratic bottlenecks and grey areas, which block SME development, at the centre of the debate on competitiveness policies. In spite of the many laws introduced over recent years, the number of procedures with which Italian businesses must comply and the number of agencies they must contact, along with sluggish response times and the uncertainty caused by the plethora of rules – often unclear and subject to constant modification – generate substantial costs for businesses, and penalise them compared to their counterparts in other countries.

National and regional laws and regulations, and those implementing Community rules, constitute a heavy burden for Italian companies which has been continually growing, now acting as a serious brake on development and competitiveness. Dealing with official procedures absorbs an increasing share of company resources, in terms of taking on internal staff and paying for external consultants.

Not only is this red tape growing and becoming tighter: it is often obscure and needs clarification from the public authorities, who have to interpret it and explain how it applies. Consequently, the legislator often implicitly recognises this "delaying power" on the part of public administrations towards businesses, which as a result incur additional costs.

These procedures are more costly for SMEs in general, and those in the south of Italy in particular. The laws and regulations imposing administrative procedures on businesses do not generally allow for exemptions or for simpler procedures for small and medium-sized businesses than for larger ones: the same quantity of company resources used for dealing with red tape is thus relatively greater for SMEs. Moreover, SMEs in central and northern Italy can fulfil their requirements more cheaply than those in the south, because business associations are more present in the region, offering services and advice at competitive prices.

Italian legislators should not, when transposing European directives, impose a greater administrative burden on businesses than those required by the directives themselves. Our legislator rarely considers the impact of its decisions on the most highly dispersed production system in Europe. On the contrary, the Italian Parliament has frequently transposed European directives (such as those on the environment and safety), placing more administrative requirements on businesses than in other European countries.

The CNEL advocates measures to streamline matters, such as a link-up between government and business in favour of simplification, self-regulation and de-legislation, coordination between state and regions, application of European directives in a way that is not worse than in other European countries, a reduction in the number of administrative bodies that must be contacted by companies, especially in the field of monitoring and supervision, simplified checks on certified companies, and specific training of public officials involved in the administrative procedures imposed on businesses.

Internationalisation policies

The progressive opening up of markets has resulted in globalisation – the growing integration of the world's various economic systems – but has also triggered radical change in localisation processes and structural reorganisations: down-sizing has been taking place across the world for some time, with a view to increasing efficiency.

This is contradictory in appearance only: large companies, which have to face increasingly fierce global competition, are in ever greater need of the efficiency, flexibility and specialisation that small businesses can successfully guarantee.

This is why small businesses are a powerful player on the global markets, occupying niches and international economic segments thanks to their flexibility and the quality of their products, and their ability to seize global niches if tackled with the proper strategic approach. Italian small businesses, accounting for 30% of the country's total exports, by themselves export as much as the total for Greece and Denmark's. This striking capacity of small businesses to place themselves on the world markets comes in spite of the fact that a number of factors are anything but favourable to Italian enterprises. Using World Bank indicators²⁴ on international trade procedures, it can be seen that Italy, compared to several major world trade competitors, scores very low on certain competitiveness indicators: in Italy, for example, import-export procedures require 24 documents and 15 signatures, compared to eight documents and two signatures in Germany.

The official bodies responsible for the sector must be encouraged to make more active use of their pathfinding and guidance capacity, given that demand for internationalisation is widely distributed across Italy, as a result of the number and geographical spread of our companies. This requires a

²⁴ World Bank, *Doing business*, 2006.

grassroots response, tailored to each situation, based on the establishment of an action network to which multiple specialist players can contribute.

Public bodies should offer genuine services, in the first place information, and subsequently operational advice, geared to the scale of companies' presence and involvement at international level. The primary role of such consultancy services is to give SMEs the ability to manage the complex procedures for gaining access to support mechanisms. This complexity frequently represents an insurmountable obstacle for small businesses.

Our small businesses could join forces to achieve greater competitiveness. Consortiums or groupings, rather than forced expansion or mergers, allow individual entrepreneurs to retain the specific features, technical characteristics and skills that lie at the heart of small businesses. By joining together in "functional" groupings, they can seize major market opportunities without losing their soul.

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Contributions from the Malta Council for Economic and Social Development²⁵

Private sector enterprises in Malta are mainly constituted of small and medium enterprises (99.87% of all registered companies), with the largest number of these falling under a micro enterprise category (96.59% of SMEs)²⁶. In recent years, this industry has faced the need to restructure in order to better compete at international levels. This need was underpinned on the one hand by the prospect of the dismantling of protective measures as well as by the need to better face the challenges from developments in the international markets, in particular with intensified competition from emerging countries. International competition will remain a key concern and further investments in support infrastructures are required to assist enterprises in dealing with such challenges while supporting a competitive enterprise by promoting further development of those economic activities that can add most value both economically and socially.

Malta's National Reform Programme 2005-2008 specifies that improving national competitiveness is a matter of priority for Government as it will help Malta to respond to changing international economic conditions. Government believes that Malta's competitiveness and economic growth can be enhanced through a focused vision for industry built on Malta's comparative advantages. The country's industrial policy can only be renewed by:

*"Enabling industry to achieve quality value-added and productivity growth to engender prosperity and wealth."*²⁷

In order to achieve this vision, Malta needs to exploit the current comparative advantages, which include:

- reinforcing Malta's comparative advantages with regard to its human resources;
- enhancing knowledge of the citizen's English language and multi-lingual skills-base;
- continuing with the country's innovative legislation design;
- disseminating the idea amongst prospective investors in Malta that smallness provides agility; and
- trying as much as possible to create a climate of stability.²⁸

25 Please note that the unabridged version is available on the EESC website (http://eesc.europa.eu/lisbon_strategy/index_en.asp).

26 Source: Malta's NRP Annual Progress Report 2006.

27 Pre-Budget Consultation Document 2007.

28 Malta's NRP Annual Progress Report 2006.

Maltese businesses need to ensure that the products and services offered are creative and innovative in order for the Maltese product to gain a competitive edge in an enlarged market. In order to achieve this competitive edge, Malta needs to invest in research and development both within the public and private sector.

Malta's industrial policy with a view to becoming more competitive within the international markets requires a strategy which will also include an action plan directed at:

- inculcating entrepreneurialism;
- reinforcing Malta's human resource capital;
- achieving high quality added value and productivity growth in industry;
- clustering high quality added value and productivity growth in industry;
- clustering and networking industry and Government;
- incentivising research and innovation capacity;
- enabling access to finance;
- re-vitalising the essential conditions and infrastructure to secure competitiveness; and
- orientating Government as a partner to industry.

The Maltese Government is committed to build a more enterprising culture by reducing the barriers to enterprise as well as by creating a supportive framework for enterprise and SMEs. A coherent and integrated business support service was outlined as being a priority so as to offer adequate support services for accelerated and sustained growth, productivity and competitiveness of businesses.

Some aspects of the local regulatory environment are still fairly complex and costly. This situation may impact negatively on the time to market and contributes to a longer timeframe in the case of business start-ups as well as for the established firms in cases where a quick decision or initiative needs to be taken. Steps have already been taken to reduce the administrative burden on enterprises through streamlining, administrative procedures and amending the relevant legislation, where necessary by a number of institutions.

Government felt the need for an appropriate framework to carry out Regulatory Impact Assessments (RIAs) since these are at present carried out by individual ministries or government institutions. The 2007 Government Budget Speech outlines a Plan of Action for Simplification which puts forward five main Government priorities with regard to Better Regulation, which are:

- setting up of a one-stop shop entity or consolidation of existing entities;
- revision of procedures and processes with the aim of improving processing cycle times and throughput;
- use of ICT and e-government services which will save businesses' time and money by avoiding them having to go round in person to a number of entities and by improving the clarity and accessibility of regulations;
- simplifying legislation and repealing obsolete legislation in order to make legislation clear, understandable, up-to-date and user-friendly;

- consolidation of forms in order to remove excessive complexity, thereby making the Government-customer interface more simple and user-friendly.

The Government is also committed to rewarding good governance in industry, facilitating the achievement of good governance, aligning its business hours with the productivity chain, better managing public works maintenance so as to refrain from creating unnecessary productive losses, and refining the institutional framework to provide increased value-added to industry.

Malta Enterprise, the country's exclusive agency focused on attracting inward investment and supporting enterprise in Malta, has taken up the role to act as a single point of contact for all enterprise support in Malta and to provide cohesion to government policies and efforts relating to enterprise in this country. It provides a comprehensive package of assistance and advisory services to international companies and investors considering operations in Malta, such as information packages, promotional activities, advice and direct support, one-stop-shops, business planning courses, mentoring, the development of business contacts, as well as incubators and technology parks.

With respect to establishing a one-stop shop for the setting up of a company, the Commerce Division, within the Ministry for Competitiveness and Communications, acts as a single window interface for businesses, hosts Malta's EU SOLVIT Centre and supports small businesses and crafts through various channels including Local Councils. Following the major computerisation initiative within the Public Service in the 1990s, a satisfactory level of penetration of ICT has been achieved. The Malta National Reform Programme (NRP) Annual Progress Report 2006 mentions the facilitation of business start-ups for foreign companies seeking to set up business in Malta by reengineering its procedures with the aim of shortening and improving the timeframes for business start-ups. One particular initiative is the introduction of fast track procedures and the identification of focal points within all Government departments and entities relating to industry in order to facilitate communications.

The Innovative Start-Up Programme is amongst one of the initiatives offered by Malta Enterprise that aims to support innovative start-ups in the industrial sector. Projects that encompass innovative elements are given priority and are supported in their initial years of operation. Innovation Relay Centre (IRC) Malta also offers a number of supportive measures for innovative start-ups or potentially innovative start-ups. As part of the IRC Service Package, IRC Malta offers one-to-one coaching services to start-ups and novice entrepreneurs with innovative ideas and business ventures. IRC Malta can also organise company missions for Maltese start-ups wanting to conduct a company mission in a particular country/region in specific sectors. Initiatives are also in place to facilitate the access of SMEs to top class, hands-on, independent business consultancy.

Amendments to the Trading Licences Regulations which allow for a lowering of trading license fees as part of a business operating expense are to be lowered to facilitate the process for issue of trading licenses. With regards to the creation of an overall positive entrepreneurial climate, a Forum for Entrepreneurship was established in 2005 to act as a platform for the exchange of ideas and information with commercial enterprises, promote business possibilities, and identify ways to increase entrepreneurial culture. Leveraging the nation's infrastructure by maximising the potential of Maltese

ports is required. Government also provides assistance to SMEs through the provision of training to SMEs in specific areas, seminars, loan guarantee schemes and tax credits in certain areas of operations.

More people, particularly women and youths need to become entrepreneurs. Education is also an important factor which is being tackled to improve entrepreneurship. The University and the Malta College for Arts, Science and Technology have already included entrepreneurship as an academic subject to foster skills and more importantly the mindset required to instil an entrepreneurial culture, while the upgrading and expansion of educational and training infrastructure to cater for the increasing and diversified needs in the enterprise infrastructure will be addressed.

Malta Enterprise recognises that the promotion of entrepreneurship in Malta is very important for economic growth. It has developed an Entrepreneurship strategy and launched a consultation process. It also encourages a culture change for entrepreneurship and is currently developing a project "Discover Enterprise" that aims to enhance entrepreneurship education among young people. This project aims to initiate training for school children and their teachers on the subject. EUREKA also aims to enhance European competitiveness through its support to businesses. This network will allow Maltese enterprises to participate in joint research and development projects with SMEs from other EUREKA countries. One particular measure announced in The Budget Speech for 2007 is that of enabling men or women working in a family business to register as employees of the same family business for fiscal purposes. The Budget Speech also states that 3 million euros is to be allocated for the improvement of work places from which a number of self employed small enterprises operate.

In 2003, the then Ministry for Economic Services launched an industrial policy document entitled "Prosperity in Change - The Way Forward". This document focused primarily on the introduction of the Business Promotion Act²⁹ (BPA) to establish a framework wherein established firms and start-ups would be entitled to benefits in terms of grants, soft loans and incentives to encourage and support enterprise development. Although Malta Enterprise has formulated its medium-term strategy, which identifies specific sectors, which are to benefit from financial support, a more holistic supportive framework needs to be designed to direct all efforts towards the sectors that will be identified in the enterprise policy. The BPA needs to be revised accordingly in order to provide for the needs of those sectors that will be identified in the enterprise policy. Incentives and other forms of financial support need to be introduced to encourage and support entrepreneurship, and to assist industry in strengthening its competitive advantage.

High quality business support which is essential to access finance such as venture capital funds for innovative business start-ups is important. Malta is currently assessing the possibility of using the JEREMIE initiative which consists of a set of financial engineering products such as risk capital, equity and loan guarantees to enhance access to finance for SMEs.

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The BPA features competitive tax rates, investment tax credits, investment allowances and non-fiscal incentives including soft loans, factory space at competitive prices and interest rate subsidies.

With regards to state aid relevant to SMEs, The NRP Annual Progress Report 2006 mentions State Aid and related advice offered through the Business Promotion Act. An agreement between Government and the European Investment Fund has been reached whereby businesses in Malta may benefit from guarantees for medium and long-term investment loans. Government is also committed to provide tax credits to promote certain areas of operations in enterprise. Initiatives singled out for tax credits include back office services, re-investment of profits by SMEs, hosting services, use of e-business solutions by SMEs, the development and use of warehousing in free zones, and post graduate studies with the aim to match industrial demand.

The creation of a more favourable business environment, encouraging SME's through more favourable policies and less bureaucracy together with increased levels of financial and state aid encourage a high level of investment in Malta and make Malta more attractive for future investment. SMEs offer a huge untapped potential to create growth and employment. Improved communication and consultation with all the stakeholders involved is also deemed as very important.

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Contributions from the Romanian Economic and Social Council

The Romanian government has committed itself to complying with the renewed Lisbon Agenda, and has accordingly drawn up the National Reform Programme for 2007-2010 (NRP) through a joint effort by the institutions involved in identifying those national priorities which are key to pursuing and building on the reforms intended to achieve the objectives of economic growth and employment (target date 2010) and to reduce economic and social disparities compared to the EU Member State average.

With reference to the business environment, Romania plans to:

Continue to Improve the Business Environment

General economic growth and progress on market entry by companies have had a positive impact on the rate of start-ups of small and medium-sized enterprises. Analyses have highlighted the major contribution made by SMEs to the overall number of employees and turnover. For the period 2007-2010, Romania proposes to implement a package of reforms designed to improve the business environment and consolidate economic growth by:

1. Reducing the administrative and procedural costs borne by businesses

The government thus proposes to draw up a standard methodology for assessing administrative costs. The introduction of an online authorisation and registration system for entrepreneurs will reduce this process to two or three days. The system of intelligent electronic forms (e-forms) makes it easier to register online in the Trade Registry as well as to obtain online information from the computerised Trade Registry, thus cutting the costs to companies of travelling to the Trade Registry building.

2. Developing consultation with business circles

This is being achieved through the Consultative Committee for SME Development (CCDIMM), which acts as an instrument for partnership and consultation. Three distinct levels have been taken into consideration: institutional (comprising the central public administration), the socio-economic partnership of professional and trade union organisations, and lastly employers' organisations, the banking system and the academic world. This ensures a good level of representativeness and effective participation in the process of consultation developed by the government. The government's aim here is to promote the new strategic measures which are closely connected to EU policies on SMEs, which aim to consolidate and develop the entrepreneurial base and to ensure the existence of appropriate financing schemes. Preliminary consultation with partners at regional and local level ensures that the issues are discussed with full knowledge of the facts. This measure receives national funding.

3. **Updating the strategy to support SME development**

Intended to reduce the risks and maximise the benefits generated by the free movement of goods, services, capital and people, in accordance with the Presidency Conclusions of the 2006 spring Council.

4. **Establishing and developing one-stop contacts and a national support network for SMEs**

Another two territorial offices for SMEs were set up in 2007, on top of the eight already established, facilitating a partnership with representatives of business and local organisations and authorities. By becoming involved in both the preparation of project portfolios and the provision of financial aid from national or Community funds, the territorial offices for SMEs will act as a helpdesk for SMEs. They will supply detailed information and provide guidance on accessing financing mechanisms, provide feedback on the process of drafting and making strategic decisions for the sector and identify market shortcomings and specific regional and local features. This measure receives national funding.

5. **Faster and less costly market entry and exit for businesses**

By facilitating this procedure, the government plans to encourage young people to take over viable SMEs operated by older entrepreneurs or entrepreneurs who can no longer manage their businesses for various reasons. Together with the National Office of the Trade Registry, the government will support the introduction of a national programme to facilitate the transfer of businesses. The objective of the programme is to provide financial support for the costs connected to registering the transfer of a business (services of the Trade Registry office, fees and tariffs involved in registering the changes to the statute, fees for publishing the relevant documents, stamp duty for legal work and for the surrender, free of charge, of the company/property).

The programme will be accompanied by "soft" measures to supply SMEs with information and access to the database available via the SME IT Portal set up for the same purpose, and to provide funding for specialised consultancy services as part of the operational sectorial programme *Raising economic competitiveness 2007-2013 A.P. 1 – an innovative and economically efficient production system*.

Updating the Manual of good practices for the application of the insolvency procedure

This measure aims to monitor the implementation of the new insolvency law and to identify and promote good practices in this field. A second edition of the *Manual of good practices for the application of the insolvency procedure* will be prepared by December 2008, regularly updated by a working group comprising representatives from the Ministry of Justice, the National Office of the Trade Registry, judicial bodies (judges-syndic), relevant professional organisations (the National Union of Practitioners in Reorganisation and Liquidation and the Romanian National Bar Association) and the academic and business worlds. The working group's goal is to identify and collate best practices in a collection to be regularly checked by the government (case law, ways of getting out of a situation of financial crisis and/or of liquidating a company – maximising income).

Assessing the electronic insolvency dossier and the electronic subpoena system (Bulletin of insolvency procedures)

Work to develop the two IT systems and ensure that they complement each other effectively and smoothly will be completed by June 2008. This measure is intended to identify the positive consequences of recent legislation, assess changes in the length of the procedure, assess the efficiency of insolvency practitioners and mechanisms for receivership, evaluate ongoing vocational training and provide statistics on the performance of each system.

Identifying and drafting legislation for a pre-insolvency procedure

This measure anticipates that a pre-insolvency procedure will be made law, based on the economic recovery of the trader undergoing financial difficulties. The procedure is essentially extra-judicial. A draft legal instrument on the procedure for reaching a legal settlement will be drawn up and promoted by September 2007, to be adopted in December 2007. This measure will have a positive impact on the activity of judicial bodies, by reducing the number of cases using the judicial re-organisation procedure.

6. Developing business support services and promoting entrepreneurship

Training modules and classes suited to the needs of SMEs are being promoted so as to enhance managers' capacities to run their companies more effectively and to adopt modern systems which will improve management and make their businesses more productive, flexible and competitive. The business support services market must enable SMEs to reap the benefits of specialised consultancy services in order to become more competitive. So as to meet the needs of SMEs which are interested in making use of these specialised services, the SME Portal will provide an index of business consultants. The aim is to develop a business culture. Drawing up this index of business support service providers will encourage more start-ups, consolidate and spur on competitive SMEs and encourage the launch and development of R&D and innovative companies. The ongoing deployment of business support services will be supported by the ERDF via the operational sectorial programme *Raising economic competitiveness 2007-2013 A.P. 1 – an innovative and economically efficient production system*.

Transposing Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC

This objective assumes that the existing institutional framework will be adapted by the establishment of new structures responsible for monitoring the activity of statutory auditors, to be carried out in the course of 2008.

Transposing Directive 2006/123/EC on services in the internal market

This is a vital step towards achieving an EU-wide single market in services. Romania will achieve this in 2009, with a view to substantially reducing the administrative costs borne by service providers and consumers.

7. Developing an e-business environment

Support for the development and implementation of e-business and e-commerce solutions

Disparities in the SME sector as regards innovative, high-productivity technologies which can ensure sustainable operation of the business and progress towards an efficient business environment will diminish. The knowledge-based economy project will increase the competitiveness of SMEs in the national and international markets.

Increasing broadband internet access for SMEs

SMEs will receive funding to cover broadband internet connection and to purchase the appropriate hardware and software. The ERDF will provide the funds.

Creating portals to promote e-commerce and business networks

With a view to developing local economies, a new culture of close contacts between entrepreneurs will be established, innovative e-business solutions will be adopted and local development plans will be drawn up and incorporated into the regional strategy. The SME Portal (a project financed by the pre-accession funds) will include e-government solutions, databases for SMEs and benchmarking solutions for SMEs which either want to develop their own e-business systems or to interact with other platforms (marketplaces) which have been recommended or imposed on them by clients.

8. Increasing companies' technological capacity

Through investments, both tangible (equipment and new technologies) and intangible (licences, patents, trademarks and know-how), better products, marketing and application of the results of research and innovation, as well as other sources which provide greater added value with major benefits for companies. This type of measure will be funded by the ERDF.

Promoting the strategy on chemical products: REACH (Registration, Evaluation and Authorisation of Chemicals)

The aim is to protect human health and the environment, while maintaining competitiveness and further developing the chemical industry's innovation capacity. Therefore, 30 000 existing substances will be processed on a step-by-step basis over a period of eleven years, beginning with those produced in the largest quantities. The draft legal instrument on the application of Regulation No 1907/2006 (REACH) establishes the authority competent to provide information, liaise with the European

Chemicals Agency and determine sanctions in the event of infringement of the provisions of the regulation. However, the government has proposed a study on the socio-economic impact of implementing the REACH Regulation.

9. **Strengthening the industrial base**

Productivity will be assessed. This study will identify industrial sectors with competitive advantages in the international market. A National Productivity Plan will be drawn up in 2008 on the basis of the conclusions of this study. With the aim of correcting any deficiencies, national business infrastructure (industrial parks, business incubators and science parks) will be tackled at national level, on the basis of a coordinated government strategy. Under the operational sectorial programme *Raising economic competitiveness 2007-2013*, business support infrastructure will be supported by means of major public works to develop industrial parks and networks of business incubators, as well as stimulating clustering by companies by attracting multinational companies. Through the national programme INFRATECH for the development of innovative infrastructure and technology transfer, the government supports the establishment and development of innovative infrastructure and technology transfer.

10. **Facilitating access to capital**

Possibly by creating a package of instruments to develop existing and alternative sources of financing for SMEs, as well as by the JEREMIE initiative.

11. **Knowledge and innovation for companies**

The National Strategy for Research and Development and Innovation 2007-2013 aims to increase Romania's economic competitiveness through innovation. In the first half of 2007, it is proposed to develop the resources and performance of the RDI system – programmes for human resources, capacity, ideas and support for institutional performance. Raising R&D capacity and stimulating innovation by promoting cooperation between research and development institutions and the business community is also financed by the ERDF.

With a view to boosting the capacity for absorption of the Structural Funds by developing the portfolio of RDI projects, the government is funding IMPACT, a national programme which focuses on projects enhancing business competitiveness and RDI infrastructure, especially at regional level.

Setting up and developing integrated research platforms and networks

The optimum research programme (*Cercetare de Excelență - CEEX*) supports complex R&D projects in specific sectors of cutting-edge technologies, the training of human resources for research and participation in European and international research programmes. The aim is to develop R&D activities and infrastructure with an economic impact at regional level (Module I). Romania has committed itself to developing its research infrastructure in specialised bodies such as experimental

and testing laboratories, calibration laboratories or certification bodies (Module IV), as well as participating in European and international research programmes (Module III).
