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**Creating an entrepreneurial Europe
The activities of the European Union for small and medium-sized enterprises (SMEs)**

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SUMMARY

This report is drawn up in accordance with the Decision on the Multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) 2001-2005. The Multiannual programme focuses on new economy challenges to SMEs and constitutes a tool to progress towards the objectives set by the European Charter for Small Enterprises in the EU Member States, in the EEA EFTA countries and in the candidate countries. This report is intended to support the 2003 Report on the implementation of the European Charter for Small Enterprises.

The report is the sixth report of its kind, and it summarises recent developments since 2000, covering 2001 and most of 2002. The objective of the report is to give an overview of the activities of the European Union for SMEs and present how the SME dimension has been incorporated in Community policies and programmes. A very wide range of different policies, programmes and instruments is presented, all benefiting SMEs in a direct or indirect way. The report's structure corresponds to areas of the European Charter for Small Enterprises, with the addition of a few other policy areas not covered by the Charter, but which are of relevance for SMEs.

Prerequisites for creating an environment favourable to businesses include improving the **knowledge on the SME population**, and the work to produce reliable and updated statistics is crucial in this respect. Strong and effective **representation of SMEs' interests** is ensured through for example the Commission SME Envoy, the Enterprise Policy Group, the Interactive Policy Making initiative, the Dialogue with Business website and the European Social Dialogue.

Encouraging entrepreneurship is a key to creating jobs and improving competitiveness and economic growth throughout Europe, and **education and training** offer an important contribution. The Communication on Lifelong Learning and the detailed work programme on the follow-up of the objectives of education and training systems in Europe, which defines entrepreneurship as a basic skill, both stress the importance of developing an entrepreneurial spirit among European citizens. A project on the development and implementation of European entrepreneurship training curricula has been carried out, and several benchmarking and other projects have taken place in this area, concerning for example entrepreneurship amongst women, ethnic minority businesses and management capacity building. An education toolkit on private equity and venture capital has been developed. Support in this area is given through the European Social Fund and the Leonardo da Vinci and Socrates programmes.

Difficulties experienced in starting up an enterprise can clearly act as a direct break on entrepreneurship. Considerable emphasis has therefore been placed on **improving start-up procedures**. In response to a call from the Lisbon European Council, a Best Procedure benchmarking exercise has been carried out, establishing a clear mapping of procedures in each Member State and identifying illustrative cases of best practice. The analysis showed that there has been steady progress in reducing delays in administrative procedures in recent years, although some of the basic elements of the 1997 Commission Recommendation in this area have yet to be implemented.

The **Better Regulation** Package, adopted by the Commission in June 2002, aims at reforming the way in which the institutions are legislating at the European level, and how the Member States implement and apply this legislation at the national level. This ambitious package responds to the request of the Lisbon European Council and aims at simplifying and improving the regulatory environment. Starting in 2003, the Commission's new impact

assessment procedure, which is part of the package, will be applied to all major initiatives listed in the Commission's Annual Policy Strategy or its Legislative and Work Programme. The modernisation of the Business Test Panel, whereby a number of representative businesses are consulted on-line, is also an important means to improve policy and law making. The Best Procedure project on restructuring, bankruptcy and a fresh start, launched in 2002, should also be mentioned in this context.

Human capital plays a crucial role in economic growth, and education and training are instrumental in providing the European human capital with the **right skills and competences** for the knowledge society. As emphasised by the European Council in Barcelona, the current education and training systems in Europe need to evolve and change in order to face new challenges. In this respect, an ambitious set of goals for education and training systems in Europe have been agreed, that should be reached by 2010. Following on from the Communication on Lifelong Learning, the "Bruges Process", was launched to improve cooperation in European vocational education and training. The Action Plan on Skills and Mobility and the eLearning Initiative and Action Plan are other major initiatives in this area. Again, support is given via the European Social Fund and the Leonardo da Vinci and Socrates programmes.

The IDA common portal, the Gate2Growth portal for growth businesses and the e-business legal portal are important contributions to **improve on-line access**.

The Commission's current **Internal Market Strategy** is a five year programme last reviewed in April 2002 which focuses attention on those areas where progress is most urgently needed in order to make EU businesses more competitive and able to take better advantage of the opportunities offered by the Single Market. Progress in the areas of intellectual property protection and the application of the principle of mutual recognition are of major importance in this respect. Significant developments during the period under review also include the improved framework for cross-border payments as well as the efforts to combat late payments in commercial transactions. The functioning of the Internal Market in services is of particular importance to SMEs, and work is going on to address key remaining barriers. Important work on the legislative environment for co-operatives, mutuals and associations is also taking place. While the Internal Market generally works well, sometimes businesses run into problems resulting from possible misapplication of Internal Market rules by public administrations. The SOLVIT Problem Solving Network, which formally opened for businesses in July 2002, has been set up to resolve problems of this kind.

In the area of **taxation**, efforts to realise an Internal Market without tax obstacles continue insofar as direct taxation is concerned. Two recent directives in the field of value added tax (VAT) make it easier for SMEs to trade across borders and lessen their VAT-related obligations, for example invoicing requirements. A study on employee stock options has been carried out, as well as a Best Procedure project on transfer of businesses.

As regards **financial matters**, successive European Councils have acknowledged the importance and called for the implementation by 2003 of the Risk Capital Action Plan, and major progress is now being made in this respect. The Financial Services Action Plan is also well on the way to completion. As requested by the Industry Council, work has begun on preparing a possible European Code of Conduct for banks and SMEs, and the Fourth Round Table of Banks and SMEs is also continuing its work. Work on best practices in micro lending is being carried out, a benchmarking exercise of business angel policies in the Member States has been completed, and a pan-European database of investment opportunities – Gate2Growth – has been established. The Commission supported the preparations of SMEs for the introduction of the euro, which, despite generally late preparation by SMEs, took place

without major problems. The Commission has closely followed the possible effects on SMEs of the Basel Committee negotiations on the new Capital Adequacy Framework for banks.

The three financial instruments managed by the European Investment Fund (EIF) under the Multannual programme became operational in the first quarter of 2002. These are the ETF Start-up Scheme, the SME Guarantee Facility and the Seed Capital Action, all of which are delivered via financial intermediaries. These instruments build on the financial instruments of the Growth and Employment initiative of 1998-2000. Important work on the financing of innovation has also been carried out, including the I-TEC (Innovation and Technology Equity Capital) pilot project and, building on this, I-Tec-Net pan-European network of early stage technology venture capital investors, as well as a project on guarantee mechanisms for financing innovative technology, a study on the funding of new technology based firms by commercial banks, and a survey on corporate venturing in Europe.

In March 2002, the Barcelona European Council agreed that RTD investment in the EU must be increased, with the aim of approaching 3% of GDP by 2010. Prospective policy approaches will be more co-ordinated and bundled under the European Research Area conception, and it is clear that SMEs need to be involved pro-actively in this knowledge conversion process. **Strengthening the technological capacity of SMEs** is of major importance, and the Sixth Framework Programme for RTD attaches great importance to the participation of SMEs. It devotes the highest ever budget – nearly €2.2 billion – to them, becoming one of the largest support instruments in the world for SMEs in the field of research and innovation. Other activities in this field include a Best Procedure project on technology transfer institutions, the ProTon Europe network of technology offices, studies on mechanisms to create new innovative firms and on enterprise clusters and networks, as well as a survey on the methods for transferring expertise and knowledge in the rare crafts sector. The Intellectual Property Rights (IPR) Helpdesk assists an important number of SMEs participating in Community funded RTD projects. The Innovation Relay Centre Network supports innovation and transnational technological cooperation with a range of specialised business support services, and important work to promote innovation within European regions is also taking place.

Information and communication technologies (ICTs) and particularly **e-business** offer many opportunities for SMEs to grow and prosper, but for the most part, European SMEs find these opportunities difficult to grasp. The obstacles include lack of technical and management skills in SMEs, lack of appropriate e-business solutions, the high cost of ownership of ICT equipment, concerns about security and privacy, and complex regulatory frameworks for e-commerce. Most significantly, many SMEs are not yet convinced that e-business is suitable for their particular circumstances. They are seeking highly specific information, on the basis of which they can make informed and realistic investment decisions. The eEurope Action Plan proposes a comprehensive set of actions in relation to legislation, e-skills, interoperability, and trust and confidence, with specific reference to SMEs. Actions have also been launched in the framework of the Go Digital initiative to address the needs of SMEs with regard to the adoption of ICTs and e-business, and a benchmarking initiative on national and regional policies in support of e-business for SMEs has been carried out.

Enterprises have the right to expect that the **business support services** they receive be of the highest quality. A Best Procedure project has been carried out in this field, which also included a study on support services for micro, small and sole proprietor businesses. The Support Measures and Initiatives (SMIE) databases are an important reference tool on business support measures for SMEs and good practices in this area. The importance of incubators is twofold, since they both favour the setting up of new businesses and provide the appropriate support needed to increase the chances of their survival and growth. A Best

Procedure project on incubators has been carried out, and the Commission also supports the Gate2Growth Incubator Forum. A project on university spin-outs has been carried out. The Euro-Info-Centre (EIC) network, supported by the Multiannual programme, provides simple, clear and efficient access to the EU for SMEs, concerning legislation, programmes and opportunities offered by the EU.

Other policy areas than the areas covered by the European Charter for Small Enterprises also affect SMEs. Over the period of the past three years there have been great efforts on the part of the Commission to modernise its **competition rules**, make procedures more efficient, increase their transparency and hence facilitate their application. This policy trend has a direct bearing on SMEs. **Employment and social policies**, with the entrepreneurship pillar of the European Employment Strategy, and the concept of corporate social responsibility are also important factors influencing the environment in which SMEs operate. **Environmental policy**, with the Eco-Management and Audit Scheme (EMAS) and Community Eco-label award scheme, is likewise important, and a Best Procedure project has been launched to promote environmental management systems in SMEs. SMEs are also the main beneficiaries of the LIFE-Programme, the financial instrument for the environment.

The most concrete positive impact **energy policy** may have on SMEs stems from the improvement of conditions for competition, making energy available at competitive prices. In addition, the ALTENER and SAVE programmes to promote, respectively, renewable energies and energy efficiency greatly benefit SMEs. **Transport policy** also has an influence on SMEs, especially through the Trans-European Networks, for which SMEs play a role in executing the works to create or expand parts of transport infrastructure, and which will also have an indirect impact on SMEs by unblocking major routes and thus increasing market opportunities. **Telecommunications policy**, with the new regulatory framework which will create a truly liberalised telecommunications market, is of utmost importance to SMEs. The result will be cheaper and faster Internet access for citizens and businesses alike.

The **Structural Funds** are the EU's main instruments for financial support to SMEs, and some €16 billion is being spent on SME-targeted projects in the period 2000-2006. Approximately one third of this Community aid to SMEs is dedicated to advisory services and to share business services, such as incubators, networking and clusters. In addition, this Community aid is triggering large matching support from national funds. **Agricultural and rural development policies** also have a bearing on SMEs.

The Commission is preparing for the **enlargement** of the EU by opening up the Multiannual programme to the candidate countries as part of the pre-accession strategy. The candidate countries have also endorsed the European Charter for Small Enterprises. Activities under the Phare programme, the SME Finance Facility, the Business Support Programme and SAPARD provide support to improve the business environment in the candidate countries, while the partnership events for SMEs in EU border regions aim to strengthen the competitiveness of SMEs within the EU through special support measures.

Finally, **cooperation with non-member countries** contributes to the internationalisation of businesses in the global economy. It concerns **trade policy**, which aims at improving market access through the progressive abolition of unnecessary restrictions on international trade in view of benefiting EC businesses, and **industrial cooperation** with a number of countries.

SUMMARY TABLE OF AID FOR SMEs

FINANCIAL INSTRUMENTS, COMMUNITY PROGRAMMES AND SMEs				
Community action	Estimated amount allocated to SMEs in euros	Estimated number of SMEs	Estimated SME participation in projects overall	Estimated SME share of the total budget
FINANCIAL INSTRUMENTS				
EIB Global loans (1997-2001)	22.5bn	100 000		
EIF Guarantees (1994-2002) - of which "Growth and Environment" (1995-2002)	1 382m			
<i>Estimated loan amount</i>	1 300m	5 500	100%	100%
<i>Estimated guarantee amount</i>	649m			
<i>EC budget contribution</i>	25m			
SME Guarantee Facility (1998-2000)	9 822m	120 585	100%	100%
<i>Estimated loan amount</i>	2 526m			
<i>Estimated guarantee amount</i>	199m			
<i>EC budget contribution</i>				
SME Guarantee Facility (2001-2005)	8 000m	-	100%	100%
<i>Estimated loan amount</i>	2 500m			
<i>Estimated guarantee amount</i>	203m			
<i>EC budget contribution</i>				
EIF Venture capital instruments				
EIF own resources (1997-2002)	150m	700	100%	100%
EIB mandated resources (1997-2002)	Up to 2 000m	1 250	100%	100%
ETF Start-up Facility (1998-2000)	168m	206	100%	100%
EFT Start-up Facility (2001-2005)	92m	-	100%	100%
Seed capital action (2001-2005)	22m			
JEV (1997-2002)	57m	298	100%	100%
STRUCTURAL FUNDS (2000-2006)				
Objectives, Community initiatives and Innovative actions (2000-2006)	16bn			11%
RESEARCH AND DEVELOPMENT				
5 th RTD Framework Programme (1998-2002)	1.463bn*	11 911	38%*	13.5%* of the budget of the priority thematic areas
- of which specific SME measures	544m	7 296	100%	100%
6 th RTD Framework Programme (2002-2006)	2.2bn			Min. 15% of the budget of the priority thematic areas
- of which specific SME measures	430m		100%**	100%
VOCATIONAL TRAINING				
Leonardo da Vinci <i>Participation in the first three years (2000-2002) of the 2nd phase of the programme (2000-2006) – Procedures B and C</i>	25m (SME contracts)		9% SMEs as project promoters 18% overall involvement of SMEs in projects	10.5%
INTERNATIONAL COOPERATION AND EXPORT PROMOTION				
Business Support Programme (1998-2001) <i>Phare contribution</i>	42.7m			
SME Finance Facility (1999-2002) <i>Estimated partners' contribution</i>	1 430m		100%	100%
<i>EC budget contribution</i>	241m			
AL-INVEST (2002-2006)	46m			
Asia-Invest (2002-2005)	35m			
EBAS (1999-2002)	20m			
PROINVEST (2002-2008)	112m			
Gateway to Japan (2002-2005)	3.5m / year***	200-250 / year	SME-oriented (>95%)	
ETP Japan	7m / edition***	35-50 / year	Open to SMEs (+/- 50%)	
ENVIRONMENT				
LIFE financial instrument (2002)	28.8m****	141****	38%	42%

N.B. This table gives an overview of various types of Community action (grants, loans, guarantees, etc.) covering different periods. The amounts cannot, therefore, be added together. It includes major instruments and programmes, but is not intended to be exhaustive. The figures are estimates.

For guarantee instruments, the *estimated guarantee amount* is the amount actually guaranteed by the EIF thanks to the *EC budget contribution*. The *estimated loan amount* is also provided.

* Data till 2001 as regards Shared-cost projects; definite data as regards specific SME measures.

** Part of the funding used to cover the costs of research performers for their work, to the benefit of the SMEs who own the results.

*** No direct grants paid.

**** SME being beneficiary or partner and according to a broad definition of SME (incl. federations, research centres, etc.).

PART I: INTRODUCTION

1. BACKGROUND

The Lisbon European Council of 23-24 March 2000 set the European Union a new strategic objective for the coming decade: *to become the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion.*

To this end, in April 2000 the Commission adopted a Communication and a proposal for a multiannual programme setting out how its Enterprise Policy could meet the challenges of globalisation and the new knowledge-driven economy¹.

The Multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) 2001-2005 was adopted by the Council on 20 December 2000². Throughout this report, the programme is referred to as the “Multiannual programme for enterprise and entrepreneurship”, or simply the “Multiannual programme”.

The programme focuses on new economy challenges to SMEs and constitutes a tool to progress towards the objectives set by the European Charter for Small Enterprises³ in the EU Member States, in the EEA EFTA countries and in the candidate countries.

The Decision on the Multiannual programme⁴ provides for the Commission to evaluate the implementation of the programme and to submit

“an evaluation report on progress made in taking account, in a coordinated manner,

– of enterprise policy in Community policies and programmes as a whole,

– of the implementation of the European Charter for Small Enterprises”.

Accordingly, the Commission is now reporting to the Council and to the European Parliament in such a way as to cover not only progress on the implementation of the European Charter for Small Enterprises, but also relevant Best Procedure projects⁵ and Commission measures in support of SMEs in general.

¹ Challenges for enterprise policy in the knowledge-driven economy, COM(2000) 256 final, 26.4.2000.

² Council Decision 2000/819/EC of 20 December 2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005), OJ L 333, 29.12.2000, p. 84, http://europa.eu.int/comm/enterprise/enterprise_policy/mult_entr_programme/programme_2001_2005.htm

³ Endorsed at the Feira European Council, June 2000, http://europa.eu.int/comm/enterprise/enterprise_policy/charter/index.htm

⁴ In its Article 5.

⁵ The Best Procedure was launched, in the framework of the Multiannual programme, as a Commission’s response to the Lisbon European Council’s call for an *open method of co-ordination*. It provides a framework to support Member States’ efforts to identify and exchange best practices in a limited number of specific areas of particular importance for enterprises. It should be noted that the conclusions and recommendations mentioned in this report in connection with the Best Procedure projects are the conclusions and recommendations of the *projects*, and not of the European Commission. For further information about the Best Procedure projects, see also the Commission Staff Working Paper

This report is thus intended to support the 2003 Report on the implementation of the European Charter for Small Enterprises⁶. It presents a very wide range of different policies, programmes and instruments, all benefiting SMEs in a direct or indirect way.

The Commission services have also launched an intermediate study on progress with the Multannual programme. Only a few projects have been concluded, and the study will be correspondingly constrained. The aim is to complete the study by 2003. A more extensive evaluation of the programme is planned for 2004.

In this context, the ongoing strategic evaluation of European Union financial assistance schemes for SMEs should also be mentioned. The principal objective of the Commission's strategic evaluations is to provide useful elements for the definition of future policy guidelines of the Commission. Several evaluations of SME financial assistance schemes have been made, and these give useful information on effectiveness and the efficiency of each instrument. However, overall relevance, consistency and profitability of the different schemes have never been analysed. The overall evaluation should improve the knowledge base for upcoming strategic decisions. It should provide factual information making it possible to select the most effective instruments and to ensure synergies. The general aim of this evaluation is to examine the "reason for being", the relevance, coherence, effectiveness and, if possible, the overall efficiency of the various Community financial assistance schemes for SMEs and to consolidate the useful knowledge base on Community policies for SMEs. The final report is expected to be available by the last quarter of 2003.

The present report is the sixth report of its kind, following on from those of 1992, 1994, 1995, 1997 and 2001⁷. It summarises recent developments since 2000, covering 2001 and most of 2002.

The Member States' representatives on the Enterprise Programme Management Committee (EPMC) welcomed the 2001 report at the meeting of the Committee on 3 May 2001.

The Committee of the Regions demonstrated its interest in the 2001 report by adopting an opinion on 14 November 2001⁸. The Committee praised the report for providing "a good and indeed a detailed overview of all the measures taken at EU level to support SMEs". The Committee pointed out, however, that the report would gain in quality if the conclusions were more explicit about future SME policy. It asked whether Euro Info Centres might be the appropriate structures for providing SMEs with a single, well-defined contact point. Lastly, the Committee recommended that the Commission should coordinate and reduce the number of support measures for SMEs and ensure that structured data on the life of businesses in the candidate countries should be collected according to the methodology used in the European Union.

⁶ "Highlights of the results of the Best Procedure projects 2001-2002", SEC(2002) 1212, 7.11.2002. http://europa.eu.int/comm/enterprise/enterprise_policy/best/best_procedure.htm

⁷ Report on the implementation of the European Charter for Small Enterprises, COM(2003) 21 final, 21.1.2003.

⁸ SEC(92) 704, 26.5.1992, COM(94) 221, 7.9.1994, COM(95) 362, 8.9.1995, COM(97) 610 final, 25.11.1997, and COM(2001) 98 final, 1.3.2001.

⁸ Opinion of the Committee of the Regions of 14 November 2001 on the Report from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions entitled *Creating an entrepreneurial Europe: The activities of the European Union for small and medium-sized enterprises (SMEs)*, COM-6/031

1.1. Objective and structure of the Report

The objective of this report is to give an overview of the activities of the European Union for SMEs and present how the SME dimension has been incorporated in Community policies and programmes.

The report's structure corresponds to the areas of the European Charter for Small Enterprises, with the addition of a few other policy areas not covered by the Charter, but which are of relevance for SMEs.

An overview of the major programmes and instruments providing aid for SMEs is given in a summary table, with the participation rates of SMEs in the programmes in terms of both their number and the budgetary amounts involved. Various types of aid are given and the table includes aid covering different periods, which means that the amounts cannot be added together. Finally, it should be noted that the figures in the summary table are estimates.

Contact details of responsible officials are provided for relevant measures. Please note that e-mail addresses for Commission officials follow a common format: firstname.surname@cec.eu.int.

1.2. Definition of an SME

The abbreviation SME used throughout this report refers to the Community definition of small and medium-sized enterprises (SMEs) given in the Commission Recommendation of 3 April 1996⁹. The definition of an SME is summarised in the table below. It must be applied by all Community bodies (for instance the European Investment Bank, EIB, and the European Investment Fund, EIF), and in the context of Community programmes and legislation.

DEFINITION OF A SMALL AND MEDIUM-SIZED ENTERPRISE (SME)			
Criteria	Micro-enterprise	Small	Medium
Number of employees	< 10	< 50	< 250
Annual turnover	---	< €7 m	< €40 m
Or			
Total balance sheet	---	< €5 m	< €27 m
Independence	---	No more than 25 % of the capital or voting rights held by one or more enterprises which are not themselves SMEs	

The SME definition currently in force in Community law is being revised in order to take account of economic developments, and reduce the likelihood of the definition being circumvented, particularly with regard to state aid, Structural Funds and the Research and Development Framework Programme.

⁹ Commission Recommendation 96/280/EC of 3 April 1996 concerning the definition of small and medium-sized enterprises, OJ L 107, 30.4.1996, p. 4.

In order to achieve this and to integrate the concerns and needs of all stakeholders in a revised text of the SME definition, the Commission has conducted two consultation rounds, in 2001 and 2002, involving Member State governments, business organisations and experts. This large-scale consultation process also included a second public consultation via the Internet. The new Commission Recommendation on the definition of an SME is foreseen for adoption during the first quarter of 2003.

PART II: IMPROVED KNOWLEDGE AND REPRESENTATION

2. IMPROVED KNOWLEDGE ON SMES

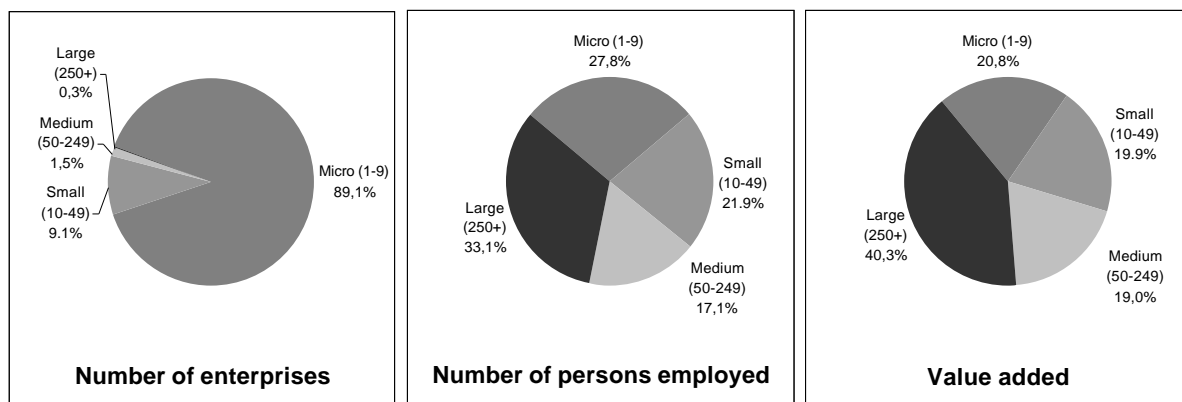
Prerequisites for creating an environment favourable to businesses include improving the knowledge on the SME population.

2.1. Statistics on SMEs

Eurostat has started a mini-series (3 issues, one per year starting in 2002) on “SMEs in Europe”. The first issue is dedicated to “Competitiveness, innovation and the knowledge-driven society” and presents the latest available statistical data of relevance to this politically important topic. Results have been published in the form of an 8-page issue of “Statistics in Focus”¹⁰ and a 50-page compendium in the “Detailed tables” series of Eurostat.

The first issue demonstrates that SMEs play a major role in the European Union’s business economy (see Figure 1 below), accounting for approximately two-thirds of employment and 60% of value added in the EU.

Figure 1: Breakdown of main indicators in the EU’s business economy by enterprise size class, 2000, % share of total (please note that the percentages do not add up to 100 due to rounding effects)



Source: Structural Business Statistics (theme 4/SBS/sizclass), Eurostat (estimates based on incomplete country data)

The sixth edition of the publication “Enterprises in Europe”¹¹, published in 2001, provides data on European enterprises broken down by size classes (on the basis of their number, employment and turnover), mainly on reference years 1996-1997. It aims to identify the key events that have affected business life over the past few years and pays special heed to the main themes of the Commission’s SME programme. It contains thematic chapters on SME access to innovation and finance, challenges on employment, regional development and on enterprises in the candidate countries.

¹⁰ <http://europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat&collection=02-Statistics%20in%20Focus&product=KS-NP-02-039--N-EN>

¹¹ Office for Official Publications of the European Communities, Luxembourg, n° KS-27-00-815-**-C

2.1.1. *Structural Business Statistics*

Council Regulation 58/97 concerning structural business statistics¹² provides a common framework for the collection, compilation, transmission and evaluation of Community statistics on the structure, activity, competitiveness and performance of business in the Member States, with particular reference to SMEs. In order to limit the statistical burden on enterprises, in particular SMEs, Member States can acquire the information requested by using a number of different sources: obligatory surveys, administrative sources or estimates.

Commission Regulation 2701/98 concerning the series of data to be produced for structural business statistics¹³ breaks down a number of basic variables (number of enterprises, turnover, value added, gross investment in tangible goods, number of persons employed) by sectors and size classes in accordance with the Commission Recommendation on the SME definition (see heading 1.2).

From reference year 1999 onwards, a comprehensive set of data broken down by size class covering all enterprises is available in NewCronos, the reference database of Eurostat¹⁴. The latest data available is for reference year 2000. In 2002, it has, for the first time, been possible to produce EU-15 estimations for SME data.

In response to increasing needs for comparable statistics on business demography - the birth, death and survival of enterprises - a major project to develop harmonised statistics has been initiated in 2000, with first results expected to be published in early 2003.

Contact: Mr Paul Feuvrier, Eurostat, tel. (32-2) 293 38 81

2.1.2. *General publications or publications on specific sectors that include data on SMEs*

Regarding Commerce and Distribution, two new publications called “Distributive Trades in Europe - 2001 edition”¹⁵ and “Distributive Trades in Europe- Pocketbook”¹⁶ have been released in 2001, as well as several derived short publications in a periodical called ‘Statistics in Focus’.

Special features on “Publishing and printing”¹⁷, and on “Chemicals, Rubber and Plastics”¹⁸ have been published, as well as a ‘Statistics in Focus’ on Regional SME data and on Computer Services.

“Business in Europe – Statistical Pocketbook”¹⁹ contains an overview of the structure and evolution of the EU’s industrial and services sectors.

Contact: Ms Christine Carlsson-Aubry, Eurostat, tel. (32-2) 293 21 42

¹² OJ L 71, 13.3.1997, p. 48.

¹³ OJ L 344, 18.12.1998, p. 81.

¹⁴ <http://europa.eu.int/comm/eurostat>

¹⁵ Office for Official Publications of the European Communities, Luxembourg, n° KS-AJ-01-001-**-C.

¹⁶ Office for Official Publications of the European Communities, Luxembourg, n° KS-AK-01-001-3A-C.

¹⁷ Office for Official Publications of the European Communities, Luxembourg, n° KS-33-00-946-EN-N.

¹⁸ Office for Official Publications of the European Communities, Luxembourg, n° KS-30-00-972-EN-I.

¹⁹ Office for Official Publications of the European Communities, Luxembourg, n° KS-39-01-796-**-C.

2.2. The BACH database

The Commission has also been involved for a long time in the follow-up of the economic and financial situation of European companies, and among these, SMEs are a specific subject of interest²⁰. A specific database was created in 1987 for that purpose – BACH²¹ – which contains harmonised annual accounts statistics for 11 European countries, Japan and the United States. It was set up with a view to supplementing the information sources already existing at European level and has been developed in cooperation with the European Committee of Central Balance Sheet Data Offices (ECCB). BACH has been serving as a basis for a number of comparative economic analyses carried out by the Commission and its national data suppliers. The information that it provides is also used by a growing number of researchers, universities and private and public bodies. Some possible uses are comparative sectoral analyses; sectoral reference systems; and performance comparisons between European, US and Japanese firms.

Contact: Mr Jacques-Bernard Sauner-Leroy, Economic and Financial Affairs DG, tel. (32-2) 299 33 82

2.3. Methodology for the collection and grouping of statistical data on small craft businesses

Craft trades play an important role in a number of Member States. Often, however, it is difficult to compare the available information, due either to the lack of legal definition of craft-trade enterprises in many countries or to the lack of uniformity. In order to fill this gap, a study has been carried out to identify craft-trade activities in existing databases available at Community level and to propose appropriate groupings of activities that permit valid comparisons between Member States and quantification of the economic role of the sector. This study provides a methodological approach for identification of craft business, starting from the different national definitions, so as to contribute to the statistical definition of craft trade companies²².

Contact: Mr Fabien Durand, Enterprise DG, tel. (32-2) 299 67 54

2.4. The Observatory of European SMEs

While the 6th report of the Observatory of European SMEs was published as a full report in 2000²³, the 7th Observatory has been transformed into a series of general and thematic reports mainly disseminated via the Internet²⁴.

The Observatory of European SMEs now consists of the following elements: basic statistics on SMEs, a yearly survey on more than 7 000 SMEs, and a series of reports on specific issues

²⁰ See “Financial situation of European enterprises”, European Economy, Supplement A, N° 8/9 – August/September 2001.

²¹ http://europa.eu.int/comm/economy_finance/databases/bach_en.htm

²² The methodology is available on: <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-studies/methodology-craftstatistics.htm>

²³ The European Observatory for SMEs, Sixth Report, European Communities, 2000. For copies, contact: Competitiveness, analysis and benchmarking unit, Enterprise Directorate-General, European Commission, B-1049 Brussels, fax: (32-2) 2998362, or e-mail to ENTR-COMPETIT-BENCHMARKG@cec.eu.int

²⁴ http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm

relying on the results of the survey and on research conducted by the ENSR Network, which gathers research institutes specialised in SME-related issues.

In 2002, in addition to the reports covering the basic statistics and the results of the yearly survey, thematic reports were published on regional clusters and on SMEs as well as social and environmental responsibility.

Contact: Mr Guiseppe Maddaloni, Enterprise DG, tel. (32-2) 299 85 27

3. STRONGER, MORE EFFECTIVE REPRESENTATION OF SMALL AND MEDIUM-SIZED ENTERPRISES' INTERESTS

In addition to the formalised consultation structures described below, complementary ad hoc bilateral discussions take place with European and national SME organisations.

Other examples of Commission services' consultation of SMEs are mentioned in this report. These include the programme and advisory Committees of the Leonardo da Vinci programme, in which Social Partners, and among these representatives from European SME organisations, participate (see heading 7.7); the recently initiated "Bruges Process" for increased cooperation in the area of European vocational education and training, which involves, from the very beginning, Social Partner representatives (see heading 7.3); and the Community Eco-label award scheme, where considerable effort is made to involve the participation of representatives of manufacturers in the working groups, via the various sector federations, in establishing criteria for a product group, and representatives of SMEs are specifically invited, via UEAPME (see heading 17.4).

3.1. SME Envoy

In December 2001, the Commission nominated an SME Envoy in the person of Mr Timo Summa, Director in charge of the promotion of entrepreneurship and SMEs within the Enterprise Directorate-General. The SME Envoy aims at establishing an active interface with the SME Business Community, considering their specific interests and needs in EU programmes and policies. The main objective of this new function is to set up a direct and close link between the Commission and the SME community.

The SME Envoy function aims at reinforcing SME interests in the European Union, and in particular within the Commission, by ensuring a "watchdog function", i.e. monitoring policies and actions affecting enterprises. SMEs can thus be better informed in areas of interest to them, in particular with regards to legislation and support programmes. Furthermore, the SME Envoy function aims at strengthening contacts between SMEs and other Commission services whose actions can have an impact on SMEs.

Outside the Commission, the SME Envoy is a visible contact person for small or medium-sized companies and SME organisations, i.e. business organisations, sectoral federations, Chambers of commerce and Chambers of crafts. In practice, the SME Envoy conducts regular dialogue through meetings and visits with SME representatives, both at EU and national level.

Consequently, the SME Envoy is in a position to inform SMEs and obtain feedback from the SME business community on issues of interest to them, especially on EU legislation and support programmes. The SME Envoy also ensures a timely and appropriate response to queries and demands from SMEs or their representative bodies. This is being co-ordinated

with existing networks such as the Euro Info Centres, which already provide valuable information and advice to SMEs.²⁵

Contact: Mr Emmanuel Berck, Enterprise DG, tel. (32-2) 299 41 54

3.2. Enterprise Policy Group

A high-level consultative body advising the Commission on enterprise policy - the Enterprise Policy Group (EPG) - was created in November 2000²⁶. The EPG is divided into two sections: a group including Directors-General responsible for Industry and for SMEs in the Member States; and a Professional Chamber, which gathers a representative sample of Europe's enterprise community active in industry, services and trade unions, or in promoting growth in innovation. The chamber includes SME entrepreneurs, and those with experience of working in and with SMEs, among its thirty-five senior members. The Chamber advises the Commission on the choice of enterprise policy priorities, helps disseminate information about Commission or Member State activities and provides useful feedback on the impact of, and possible improvements to, Community programmes.

Sixteen sessions of the Enterprise Policy group have taken place since its creation. With its different formats, the Group has allowed a concertation between the high-ranking officials of the Member States responsible for SMEs with their colleagues responsible for Industry. Observers from the candidate countries and from EEA EFTA countries have attended several sessions, thus facilitating the exchange of good practices in the domain of enterprise policy (for instance a specific session dealt with the candidate countries' reports on best practices). The number of meetings increased significantly in 2002 and the contribution of the Professional Chamber constituted a valuable asset for the preparation of major initiatives of the Commission in favour of SMEs, such as the preparation of the Barcelona European Council.

Contact: Mr Pierre Vigier, Enterprise DG, tel. (32-2) 296 23 18

3.3. Meetings with business organisations

The Commission holds regular meetings with European business organisations, with particular emphasis on those who represent SMEs and have a horizontal approach. The purpose of the meetings is to generate a two-way information flow, i.e. the Commission informs the European business organisations on current issues, with a view to disseminating the information to their member organisations, and consults them on forthcoming initiatives. The business representatives in return inform the Commission about the concerns and interests of their respective members. The frequency of meetings has been progressively increased from 2-3 per year to 5 meetings held in 2002, at which issues such as the Implementation Report on the Charter for Small Enterprises, the revision of the SME definition, the Basel II agreement, industrial policy, innovation and competitiveness and corporate social responsibility were discussed.

Contact: Ms Katja Reppel, Enterprise DG, tel. (32-2) 299 09 52

²⁵ See also "The SME Envoy: An active interface between the Commission and the SME Community", SEC(2003) 60, 21.1.2003.

²⁶ Commission Decision 2000/690/EC of 8 November 2000 setting up an Enterprise Policy Group, OJ L 285, 10.11.2000, p. 24.

3.4. The Interactive Policy Making (IPM) initiative

In the framework of the “e-Commission” initiative²⁷, but also linked to the Commission’s governance²⁸ and better regulation initiatives (described below, see heading 6.2), the Interactive Policy Making (IPM) initiative²⁹ has introduced two new internet-based instruments (Feedback Mechanism and On-line Consultations) in order to let stakeholders participate actively in the Commission’s policy making process. This should benefit businesses in general but help SMEs in particular. The Feedback Mechanism, building on the Business Feedback Mechanism launched in April 2000 in connection with the Euro Info Centres (EICs, described further below, see heading 14.5), has collected information from over 17 000 cases, mainly from small businesses, about all kinds of problems. These cases do not just concern a general lack of information but also more complex problems (i.e. the high compliance costs of legislation, inconsistent legislation, insufficient redress facilities, possible infringement cases, etc.), which small enterprises face each day in their working environment. This enables the Commission to make policy based on “hard” facts. With the On-line Consultation mechanism, the general public, specific target groups as well as small enterprises are able to contribute and thus feed their views into the policy-making process.

Contact: Mr Jobst von Kirchmann, Internal Market DG, tel. (32-2) 296 58 24

3.5. Dialogue with Business

Also in connection with the Euro Info Centres (EICs, described further below, see heading 14.5), the Dialogue with Business Website³⁰ is a well-established multilingual gateway to data, information and advice from many existing sources. It is a practical and free tool helping enterprises to win new business in the Internal Market and to overcome possible obstacles through a better knowledge of its operating rules. Several thousand companies use it daily to access support services at European, national and local levels.

Contact: Mr Gerardo Canet Navarro, Enterprise DG, tel. (32-2) 296 29 16

3.6. Promotion of SMEs interests in the European standardisation process

While SMEs’ participation in the European standardisation process is crucial for their competitiveness, many decisions on standards are made each year without taking into account their needs. For this reason, in 2002, the Commission services charged a contractor with providing information to SMEs and crafts businesses on standards, certification, quality and norms and organising SMEs’ participation in the standardisation bodies at national, European and international level³¹.

Contact: Ms Barbara Noel, Enterprise DG, tel. (32-2) 299 90 48

²⁷ White Paper “Reforming the Commission”, COM(2000) 200, 1.3.2000.

²⁸ White Paper on European Governance, COM(2001) 428 final, 25.7.2001, http://europa.eu.int/comm/governance/index_en.htm

²⁹ C(2001) 1014, 3.4.2001, <http://ipmmarkt.homestead.com/>, <http://europa.eu.int/yourvoice>

³⁰ <http://europa.eu.int/business>

³¹ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-priorities/craft-standardisation.htm>

3.7. European Social Dialogue

Social dialogue at European level is, as in many Member States, organised on a sectoral and a cross-industry basis³². SMEs are represented in both forms of dialogue.

The Amsterdam Treaty gave the social partners special powers, at both cross-industry and sectoral level³³. The Commission is required by the Treaty to consult the social partners before adopting any legislative proposal in the social policy field. The social partners can interrupt the legislative process and negotiate an agreement, which, if they so wish, could lead to Community legislation.

The Commission is currently consulting around 40 employers' and workers' organisations on legislative proposals in the social policy field.

In June 2002, the Commission adopted a Communication on "The European Social dialogue, a force for innovation and change" with a proposal for a Council Decision establishing a Tripartite Social Summit for Growth and Employment³⁴. In the Communication, the Commission presents its view on the future of social dialogue both as a key to better governance of the enlarged Union and as a driving force for economic and social reform. It puts forward concrete measures aimed at strengthening the different levels and forms of social dialogue. This approach to social dialogue is based on the social partners' contribution to the Laeken European Council in December 2001 and the reflections of the High Level Group on Industrial Relations.

3.7.1. *European Social Dialogue at cross-industry level*

In December 1998, UNICE (Union of industrial and employer's confederation of Europe) and UEAPME (European Association of Craft and SMEs) concluded an agreement on their future cooperation in social dialogue meetings, including negotiations, which enabled the concerns of SMEs to be taken proper account of.

Also in 1998, the Standing Committee on Employment was reformed. This body constitutes a forum for three-way dialogue and consultation between the Council, the Commission and the Social Partners on employment strategies. In the Committee, employers are represented by UNICE, CEEP, UEAPME, Eurocommerce (Association of Commerce of the European Community) and COPA (Committee of Agricultural Organisations in the EU).

With the cooperation agreement and the reformed standing Committee, SME representation in the cross-industry social dialogue has considerably improved. The framework agreement negotiated by the social partners (on fixed-term contracts) and transformed into a Council directive on 28 June 1999 was not contested by any SME organisation. The cross-industry framework agreement on telework of 16 July 2002 has also been signed by UEAPME and will be implemented in the Member States in the coming three years in accordance with the social partners' own national procedures and practices.

The Social Dialogue Communication mentioned above provides for a new tripartite concertation committee for growth and employment, which would be the forum for

³² http://europa.eu.int/comm/employment_social/soc-dial/social/index_en.htm

³³ Articles 138 and 139.

³⁴ COM(2002) 341 final, 26.6.2002,

http://europa.eu.int/comm/employment_social/news/2002/jul/socdial_en.html

consultation between the social partners and the public authorities in the overall European strategy defined at the Lisbon European Council. It would replace the Standing Committee on Employment, which did not see a sufficient integration of concertation and did not meet the need for coherence and synergy between the various processes in which they were involved. A corresponding draft Council Decision on a Tripartite Social Summit for growth and employment was discussed in the EPSCO of 3 December 2002, but final agreement has not yet been reached. SMEs will once again have a voice in this committee, and representativeness studies are underway for both the sectoral social dialogue and the cross-industry social dialogue. A joint declaration of the European social partners to the European Council in Laeken in December 2001 underlined the necessity to develop the autonomous social dialogue further. For this purpose, a multiannual work programme drawn up by the social partners was submitted on 28 November 2002. It will cover, among other things, reporting on social partners' actions in Member States to implement the employment guidelines, aiming at drafting a framework for action concerning gender equality, organise seminars with a view to negotiating voluntary agreements on stress and harassment at work, exploring possible joint actions on active ageing and obstacles to mobility, aiming at a joint opinion on undeclared work and identifying orientations through best practices serving as a reference for managing the social consequences of economic change. These general policies should be underpinned by actions at sectoral dialogue level.

3.7.2. European Social Dialogue at sectoral level

Sectoral social dialogue was in the past very much focused on those sectors which were covered by a well-developed common policy (transport, agriculture, fisheries, telecommunications and postal services). Other sectors, in particular the emerging service sectors, were equipped with social dialogue structures which were less developed and also received less Community interest.

With the reform of Community sectoral social dialogue of May 1998³⁵, the Commission has established a new framework which is applicable on the same terms to all sectors wishing to take part in social dialogue.

Following the reform, 27 Sectoral Dialogue Committees have been set up, replacing the old structures. These new Committees will constitute the key forum for sectoral dialogue (consultation, joint action and negotiations). Latest examples of the results of sectoral social dialogue on sectors where SMEs play an important role are e.g. agreement on training in the agriculture sector (9 December 2002), a guide for organisations awarding contracts for cleaning services (12 March 2002), code of conduit for European Hairdressers (26 June 2001), agreement on guidelines on telework in commerce (26 April 2001) and agreement on voluntary guidelines supporting age diversity in commerce.

Although sectors with a sectoral dialogue Committee differ considerably according to company sizes, social dialogue is well established in some of the sectors where SMEs are predominant: traditionally both in the primary industries of agriculture, fisheries, wood and furniture sectors and in transport sectors such as road transport and shipping (where "Joint Committees" have existed long before the reform). In classical service sectors, such as commerce, HORECA (HOTel, REstaurant and CAFés), as well as in cleaning, personal

³⁵ Communication from the Commission adapting and promoting the social dialogue at Community level, COM(1998) 322 final, 20.5.1998.

services and private security (where there were no or only very loose social dialogue structures existing before the reform), SMEs are also predominant.

SMEs are also well represented in industrial sectors such as leather, footwear and textile sectors, which were among the first to have informal committees preceding the existing sectoral committees. Also in construction industry, SMEs play an important role.

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

4. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP

Encouraging entrepreneurship is a key to creating jobs and improving competitiveness and economic growth throughout Europe. Although the rate of entrepreneurship (actual or potential entrepreneurship) may be influenced by a number of different factors, there is certainly a cultural aspect that needs to be taken into account. In this respect, education may offer an important contribution. The development of an entrepreneurial attitude should be encouraged in young people, starting at school. The Communication on Lifelong Learning and the detailed work programme on the follow-up of the objectives of education and training systems in Europe (described further below, see heading 7.1), which defines entrepreneurship as a basic skill, both stress the importance of developing an entrepreneurial spirit among European citizens.

4.1. Benchmarking of education and training for entrepreneurship

In October 2000, the Commission organised jointly with the French authorities a Forum on “Training for Entrepreneurship”. As a follow-up, a Best Procedure project on “Education and training for entrepreneurship” was launched by the Commission, in close cooperation with the administrations of the Member States and Norway³⁶. The objective of the project, concluded in November 2002, was to identify and compare initiatives from across Europe that aim to promote teaching entrepreneurship in the education systems, from primary school to university. It concluded that entrepreneurship is now widely recognised as an important issue to be taught, with numerous initiatives underway, but that much remains to be done. In addition to this common trend, the project also highlighted that:

- In many countries, in particular at secondary level, schemes based on learning by doing (e.g. “mini-enterprises” created and run by students) are a widespread instrument for the development of enterprise skills. However, they should be better integrated into the education systems and be more widely available.
- The development of indicators and the collection of quantitative data in this field are still very limited.
- The evaluation of measures undertaken is mostly done on a limited basis or occasionally. Also, there is no widely accepted measure of outcomes against which many of these activities can be judged.
- Initiatives aiming at promoting the development of an entrepreneurial spirit are still not frequent at the level of primary school, but more widespread in secondary schools, very often depending on initiatives taken individually by the educational institutions.
- The provision of specific training to the teachers on the subject of entrepreneurship is insufficient, both as regards initial training in teachers’ colleges and further vocational training available during their career.

³⁶

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

- Links between schools and the world of business, aimed at the promotion of entrepreneurship are widely developed in most countries.

The results of the project will be widely disseminated to contribute to steering policy action in Europe in the field of education for entrepreneurship.

Contact: Mr Simone Baldassarri, Enterprise DG, tel. (32-2) 295 33 11

4.2. Development and implementation of European entrepreneurship training curricula

The Commission published in 2002 the results of a Finance-Innovation-Technology (FIT) project on the development and implementation of European entrepreneurship training curricula³⁷. The exercise resulted in the description of 40 lessons for the implementation of entrepreneurship training curricula, as well as a selection of good practice examples. The project recommended provision of support to promote of cross-border cooperation initiatives, as well as the creation of a website focused on training programmes for technology entrepreneurs and of a database with information on experts, trainers and other key actors. These suggestions have been taken up in the Gate2Growth Initiative (described further below, see heading 8.2), which is serving as an umbrella under which cross-border cooperation can be stimulated at European level.

Contact: Marc Verlinden, ENTR.C.1

4.3. Entrepreneurship Education Toolkit on Private Equity and Venture Capital

Under the auspices of the Gate2Growth Initiative (described further below, see heading 8.2), the Commission has supported the development of the European Venture Capital Association (EVCA) Entrepreneurship Education Toolkit on Private Equity and Venture Capital. The toolkit is an 8-module course syllabus, provided in a ‘ready-to-use’ format. It will be available for European universities and institutions of higher education to help them teach a one semester class explaining the basics of private equity and venture capital, and to stimulate young people with entrepreneurial ideas to finance their own business using venture capital. It is also designed to help technical universities to better exploit their research results and to explain the role of venture capital and private equity as a convenient means to spin-off research.

Contact: Mr Marc Verlinden, Enterprise DG, tel. (32-2) 293 41 94

4.4. Promotion of entrepreneurship amongst women

In 2000, the Commission presented a study on “Young Entrepreneurs, Women Entrepreneurs, Ethnic Minority Entrepreneurs and Co-Entrepreneurs in the European Union and Central and Eastern Europe”³⁸. The study identifies the main problems and challenges faced by those target groups of entrepreneurs and contains a number of recommendations to help foster their development. The study was presented to the relevant public actors, including professional organisations, in November 2000.

³⁷ European Commission, Enterprise DG, Innovation papers No 24, EUR 17047.

³⁸ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-studies/entrepreneurs-young-women-minorities.htm>

The Commission also supported the creation of the European Network to Promote Women's Entrepreneurship (WES)³⁹. WES is composed of administration representatives responsible for the promotion of women's entrepreneurship. The Commission participates regularly in (or hosts) WES meetings where information on new initiatives and good practices is exchanged, covering economic support, networking, mentoring, gender-based statistics, research, etc. The Commission also invites WES members to participate in expert meetings and puts its members into contact with other services dealing with Community programmes and initiatives where the participation of women entrepreneurs may be encouraged and promoted.

At the end of 2001, within the framework of the Best Procedure, the Commission launched the project "Promoting entrepreneurship amongst women"⁴⁰. Carried out in cooperation with the WES network, the project aims at the identification and evaluation of national measures in the areas of start-ups, information/advice, funding, training, mentoring and networks related to the promotion of female entrepreneurship, in the EU and EEA EFTA countries. A database containing 132 actions/measures adopted by public administrations has been created. All these measures are public, and have been adopted either at national level or regional level. These measures will be evaluated in order to identify good practices, and relevant good practices in the USA, Canada, Japan, Australia and New Zealand will also be registered. These practices will be presented to all interested actors during a European Forum to be held at the beginning of 2003.

Contact: Ms Elena Nielsen Garcia, Enterprise DG, tel. (32-2) 295 24 23

4.5. Ethnic minority businesses

In 2002, the Commission organised an expert meeting on the impact of immigration on entrepreneurship. 14 experts from the private (mostly ethnic entrepreneurs) and public sectors and from university participated in the meeting as well as representatives from different services of the Commission. The aim of the meeting was to have an initial brainstorming with the experts in order to identify areas related to immigrant/ethnic entrepreneurship where European added value could be achieved through the intervention of the Commission. At the expert meeting, some of the most important obstacles that Ethnic Minority Entrepreneurs are faced with, when starting up and developing their businesses, were identified. The meeting also brought forward some useful conclusions as to what the Commission may do to support the development of ethnic minority businesses, including facilitating networking.

Contact: Ms Birthe Lise Landsted, Enterprise DG, tel. (32-2) 299 40 32

4.6. Management capacity building

Following the work conducted in the context of the business support services area, and building on the results of the above-mentioned project on "Education and training for entrepreneurship", strengthening management capacity to support SME creation and growth in Europe appeared as an important condition to favour entrepreneurship and to contribute to the Lisbon objective of an entrepreneurial and inclusive Europe. Thus, a project on management capacity building was launched in March 2002. This project, to be conducted in close cooperation between the Commission, the Member States and the candidate countries, will consist of exploratory and research work until March 2003. It aims at producing a short

³⁹ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/wes.htm>

⁴⁰ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/bestproject-women.htm>

policy oriented document, drawing a picture of the situation, with a view to lay the grounds for a possible future benchmarking exercise.

Contact: Ms Florence Lemmel, Enterprise DG, tel. (32-2) 299 37 34

4.7. European Social Fund support to strengthen entrepreneurship

The European Social Fund (ESF) is one of the four Structural Funds (described further below, see heading 19). SMEs are a specific target group for ESF support in all Member States across all the policy fields of the ESF and across all the pillars of the European Employment Strategy.

There are two principal types of intervention aimed at SMEs in the programmed ESF implementation in the Member States for the period 2000-2006. The first is training and human resource development activities, which is described in more detail below, under heading 7.9 The second type of intervention consists of activities related to promoting entrepreneurship. A majority of Member States have SME-related activities that are intended to strengthen the culture of entrepreneurship. In 2000-2006, the ESF will contribute just under € billion to promote entrepreneurship across the EU. Activities will include the development of entrepreneurial skills, business start-ups and the establishment of networks to support entrepreneurship.

The types of activities which are focussed exclusively on SMEs include a 'network of entrepreneurs', the modernisation of work organisation, support for ICT, entrepreneurship and the improvement of competitiveness/productivity. Other activities which do not target SMEs directly but have an impact on SMEs nonetheless include support for qualification systems, development of infrastructure, childcare facilities, support for employment/guidance services and job creation activities. Outcomes expected from this support include the enhancement of business adaptability, the promotion of an entrepreneurial culture, and development of a culture of training and lifelong learning which is particularly important for SMEs.

4.8. Leonardo da Vinci and Socrates support to strengthen entrepreneurship

The education and training programmes Leonardo da Vinci and Socrates (described further below, see heading 7.7 and 7.8, respectively) fund various entrepreneurship-related projects, ranging from promoting an entrepreneurial spirit in schools to supporting master degree programmes in entrepreneurship. In particular the Leonardo da Vinci programme, recognising the importance of SMEs for activities related to vocational training, supports a substantial number of projects and mobility activities with and for SMEs.

5. CHEAPER AND FASTER START-UP

Difficulties experienced in starting up an enterprise can clearly act as a direct break on entrepreneurship. Considerable emphasis has therefore been placed on improving start-up procedures. In response to a call from the Lisbon European Council, the Commission conducted a Best Procedure benchmarking exercise during 2001 with the active participation of Member State experts and officials⁴¹. The exercise established a clear mapping of procedures in each Member State and assembled considerable data on actual practice, including illustrative cases of best practice. A series of benchmarks provide realistic targets for national authorities. The analysis showed that there has been steady progress in reducing

⁴¹ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/start-ups/benchmarking.htm

delays in administrative procedures in recent years, although some of the basic elements of the 1997 Commission Recommendation ⁴² in this area have yet to be implemented.

The main recommendations of the project on start-ups include the following:

- no single administration has yet captured all the potential gains from investment in ICT;
- there are wide variations and scope for improvement as regards the number of individual procedures required to register a company;
- major differences still exist in the time and costs faced by entrepreneurs setting up a private limited company.

Considerable efforts are being made by many Member States to simplify regulatory requirements and to improve the efficiency with which documents are processed. This includes (1) improving the administrative efficiency of current procedures by introducing “Single Access Points” and statutory response times; (2) switching from a system based on authorisation to a system based on self-certification; (3) reducing the number of licences or approvals; and reducing the number of procedures; (4) enhancing the involvement of users through the use of the Internet to provide information, and publicity campaigns; (5) reducing the scale and complexity of the documents required to establish new business; and (6) reducing the level of mandatory costs.

Since the completion of the project in January 2002, attention has been drawn to its conclusions in appropriate international fora.

Contact: Mr Jorge Costa-David, Enterprise DG, tel. (32-2) 299 46 34

6. BETTER LEGISLATION AND REGULATION

6.1. Restructuring, bankruptcy and a fresh start

In 2002, the Commission built on the Seminar on Business failure in Noordwijk in May 2001 and a study on the legal and social consequences of insolvency launched in November 2001 and completed in summer 2002. On the basis of these, the Commission, in the framework of the Best Procedure, started a working group gathering experts from the Member States. This group discusses the results from the study, with a view to establishing benchmarks and guidelines for implementing change on restructuring, bankruptcy and a fresh start⁴³.

In 2002, to raise awareness for the need for action to avoid insolvency, a guide entitled “Helping businesses to overcome financial difficulties”, highlighting the key results was made available in all the Community languages.

Contact: Ms Florencia van Houdt, Enterprise DG, tel. (32-2) 299 12 28

⁴² Commission Recommendation C(97) 1161 of 22 April 1997 on Improving and Simplifying the Business Environment for Business Start-ups, OJ L 145, 5.6.1997, p. 29.

⁴³ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/failure_bankruptcy

6.2. Better regulation

The Better Regulation Package⁴⁴, adopted by the Commission on 5 June 2002, aims at reforming the way in which the institutions, individually or jointly, are legislating at the European level, and how the Member States implement and apply this legislation at the national level.

This ambitious package responds to the request of the Lisbon European Council and aims at simplifying and improving the regulatory environment. It constitutes a political reply to the criticism expressed regularly by some national authorities and stakeholders against an allegedly excessive, less appropriate and too heavy Community legislation.

The Commission is often criticised for the heaviness of the Community regulatory framework. The Commission has thus adopted an Action Plan⁴⁵ containing on the one hand a series of measures that it commits itself to implement rapidly to improve the quality of its legislative proposals, and on the other hand measures to be discussed with the European Parliament, the Council and the Member States (co-responsible for legislative quality).

The Commission has decided to set the example in developing a new culture of “legislative quality” within its services, by launching a series of actions. In accordance with the conclusions of the European Council of Seville, some of the actions proposed in the Action Plan to the European Parliament and the Council are discussed in an inter-institutional group, in view of concluding an agreement. This agreement, which the Seville European Council proposed to be concluded before the end of 2002, would mainly deal with the use of framework directives, co-regulation, self-regulation and an ambitious programme for simplification and reduction of the *acquis communautaire*.

The implementation is dependent on each of the responsible parties, and a good application of these actions will be important for the credibility of the Commission. Among the major measures at Commission level, the following should be noted:

- The Commission envisages the implementation of a programme for simplifying Community law. Simplification exercises will focus on ways to remove burdensome procedures and administrative costs thus making the legislation more user-friendly and easier to apply.
- The definition of general principles and minimum standards for consultation, which have already been the subject of a first public consultation⁴⁶ and then were made definite in December 2002⁴⁷. These standards should guide the services in running their consultations;
- The definition of a new impact analysis instrument⁴⁸ (described further below, under heading 6.3) which will apply progressively as of 2003, distinguishing a preliminary

⁴⁴ European Governance: Better lawmaking, COM(2002) 275 final, 5.6.2002, http://europa.eu.int/comm/governance/suivi_lb_en.htm

⁴⁵ Action Plan “Simplifying and improving the regulatory environment”, COM(2002)278 final, 5.6.2002.

⁴⁶ Consultation document: Towards a reinforced culture of consultation and dialogue – Proposal for general principles and minimum standards for consultation of interested parties by the Commission, COM(2002) 277 final, 5.6.2001.

⁴⁷ Towards a reinforced culture of consultation and dialogue – General principles and minimum standards for consultation of interested parties by the Commission, COM(2002) 704 final, 11.12.2002.

⁴⁸ Communication from the Commission on impact assessment, COM(2002) 276 final, 5.6.2001.

assessment and a more detailed analysis on the main proposals. Guidelines are being issued by end-2002 and early 2003;

- The services should also make an effort to better justify a proposal, in relation to the consultations and the analyses carried out at the preparatory stage, and to the principles of subsidiarity and proportionality. A revised model for the explanatory memorandum will be established;
- Finally, the development of these practices and this new culture will be integrated via a “better regulation network” which gathers the officials responsible for these issues at their respective Directorates-General.

Contact: Mr Olivier Bailly, Secretariat-General, tel. (32-2) 296 87 17

6.3. The Commission’s new impact assessment procedure

As referred to above, the Commission is putting in place a new impact assessment procedure as part of its Action Plan on Better Regulation, that will integrate into a single system all existing impact assessment mechanisms in the Commission. The purpose of the new procedure is to improve the quality of the Commission’s proposals.

By combining elements from both sustainable impact assessment and regulatory impact assessment, this will also achieve a wider objective of contributing to an effective regulatory environment as part of a more coherent implementation of the European Strategy for Sustainable Development.

Impact Assessment will, starting in 2003, be applied to all major initiatives listed in the Commission’s Annual Policy Strategy or its Legislative and Work Programme. The new procedure will provide, for each proposal concerned, a systematic analysis of the problem being addressed, the objective, the alternative options to reach the objective and their likely impacts. The depth of the analysis will be tailored in view of the likely impacts of the measures, ensuring a proportionate approach to policy-making. Consultation of stakeholders on major proposals will form an important part of the process. The results of the analysis will be summarised in Commission proposals and, where an extended assessment is judged necessary, its results will be published.

Contact: Mr Olivier Bailly, Secretariat-General, tel. (32-2) 296 87 17

6.3.1. Business impact assessment in the new impact assessment procedure

Proper assessment of compliance costs and administrative burdens of Community intervention continues to be of high importance to ensure framework conditions that are conducive to entrepreneurial activity, competitiveness and sustainable economic growth.

To this end, the Commission has been conducting business impact assessments (BIAs) on its legislative proposals since 1986. While this system has proved useful over the years, it has had some shortcomings. For example, BIAs have sometimes been carried out on nearly finalised proposals, whereas they should have already intervened during the early drafting process. Moreover, the costs of the proposals for business have rarely been quantified. In addition, the BIA system has only provided for a partial assessment, making it difficult for policy makers to get a complete and equitable picture of all the potential impacts of a proposal upon which to base their decisions.

These shortcomings were addressed in a pilot project, of which the Best Procedure BIA project was part, finalised in February 2002. It reviewed current Commission practices and key elements of the existing BIA system and included an examination of a selected number of draft proposals. The analysis focused on three major elements of the impact assessment process, namely economic analysis, external consultation and organisational structures.

In view of the introduction of a new impact assessment system in the Commission, the final BIA pilot project report⁴⁹ made recommendations, not only on how to ensure a proper analysis of business impacts within an integrated impact assessment system, but also on general success factors for the new procedure, building on the long experience of BIA. It has thus contributed to the development of the Commission's new impact assessment system, in which BIA – and thereby also analysis of impact on SMEs – is integrated as of 2003.

Contact: Ms Mona Björklund, Enterprise DG, tel. (32-2) 299 50 83 / Mr Olivier Bailly, Secretariat-General, tel. (32-2) 296 87 17

6.4. The Business Test Panel

The Commission is currently modernising the Business Test Panel (BTP), created in the 1998 Single Market Action Plan, where the IPM On-line Consultation procedure (see heading 3.4) will be an integral part. The BTP will be expanded to include up to 4 000 businesses drawn from a wide range of sectors and all Member States. These businesses will be consulted on-line when the panel is operational in spring 2003. Small enterprises will constitute an important element of the panel.

Contact: Mr Peter Curran, Internal Market DG, tel. (32-2) 296 09 28

6.5. Legislation in the area of e-commerce

In an emerging area like e-commerce, an important role for research and technological development (RTD) is in supporting the regulatory process. The EU regulatory framework in this field is developing rapidly. Each piece of legislation requires a thorough analysis of the technology impact, and in return technology development and its innovative deployment might affect current and future legislation. Activities under the Information Society Technologies (IST) Programme under the RTD Framework Programmes (described further below, see heading 12.6) contribute to facilitating this two-way flow of information. Promotion of interoperability and standardisation are also important in this respect, as well as cooperation with international initiatives and bodies. See also heading 8.3 on the e-business legal portal and heading 13 on e-business models.

7. AVAILABILITY OF SKILLS

Human capital plays a crucial role in economic growth, and education and training are instrumental in providing the “European human capital” with the right skills and competences for the knowledge society.

⁴⁹ The final BIA pilot project report can be found in all EU languages at <http://europa.eu.int/comm/enterprise/library/enterprise-papers/paper9.htm>

As emphasised by the European Council in Barcelona the current education and training systems in Europe need to evolve and change in order to face the challenges of globalisation, knowledge society, demographics, etc.

Therefore education and training systems in Europe should reach the following goals by 2010:

- the highest quality will be achieved in education and training and Europe will be recognised as a world-wide reference for the quality and relevance of its education and training systems and institutions;
- education and training systems in Europe will be compatible enough to allow citizens to move between them and take advantage of their diversity;
- holders of qualifications, knowledge and skills acquired anywhere in the EU will be able to get them effectively validated throughout the Union for the purpose of career and further learning;
- Europeans, at all ages, will have access to lifelong learning
- Europe will be open to cooperation for mutual benefits with all other regions and should be the most-favoured destination of students, scholars and researchers from other world regions.

7.1. Follow-up of the objectives of education and training systems in Europe

On 14 February 2002, the Council and the Commission jointly adopted a detailed work programme on the follow-up of the objectives of education and training systems in Europe.⁵⁰ It focuses on three strategic objectives, which are broken down into 13 associated objectives: (1) improving the quality and effectiveness of education and training systems in the EU; (2) facilitating the access of all to education and training systems; and (3) opening up education and training systems to the wider world. In order to facilitate the effective implementation of the work, the Commission has proposed a grouping of certain objectives leading to a smaller number of respective working groups. Eight ‘vertical’ working groups and two ‘horizontal’ ones (language, indicators) have been proposed.

The Open Method of Coordination will be used for each of these objectives thereby harnessing their European added value. The Open Method of Coordination will draw on tools such as indicators and benchmarks as well as on comparing best practice, periodic monitoring, evaluation and peer review etc. organised as mutual learning processes.

7.2. Lifelong learning

SMEs play an important role in making the notion of lifelong learning a reality in Europe. They play a key role in Europe’s competitiveness and employ a large part of its workforce. However, employees of SMEs participate less in continuing training than do employees of large enterprises.

⁵⁰ Council document 6365/02, 20.2.2002. The work programme was welcomed by the European Council in Barcelona on 15-16 March 2002. http://europa.eu.int/comm/education/policy_en.html#programme

Therefore, the November 2001 Communication on Lifelong Learning⁵¹ underlines the importance of gaining insight into the learning needs of SMEs, where learning typically takes place in an informal context. Provision has to be flexible, of high quality, and tailored to needs of individual firms. Learning providers, e.g. higher education institutions, should offer courses tailored to these specific needs. SMEs themselves also need to explore fully how to facilitate access to learning (e.g. in partnership with other enterprises through learning networks and competence sharing, and in cooperation with guidance services).

The social partners, at all levels, are invited to agree that each employee should have an individual competence development plan, based on an assessment of his/her individual competences, and in accordance with overall competence development plans at the enterprise level. Such schemes should fully take into account the particular needs and circumstances of SMEs and should provide expert advice on how to assess competence and learning needs. The social partners should also help to raise awareness about the importance of learning and encourage and train employees and managerial staff to act as learning facilitators or mentors for others.

7.3. Enhanced European cooperation in vocational education and training – The “Bruges Process”

Following on from the Communication on Lifelong Learning referred to above, the “Bruges Process”, was launched to improve cooperation in European vocational education and training amongst Member States, EEA EFTA countries, candidate countries and the Commission.

Increased cooperation in European vocational education and training is necessary in order to improve the performance and standing of existing vocational education and training at national and sectoral level, and to help the European citizens to acquire and update the competence and skills needed to benefit of the knowledge economy. The involvement, representation and participation of SMEs are crucial in this context.

This increased cooperation in European vocational education and training should build on the following general principles, all supporting the need for increased transparency and mutual trust: (1) Measures developed through cooperation should be voluntary rather than legislative and based on a bottom-up approach; (2) Initiatives developed through increased cooperation must be focused on the needs of users and citizens; (3) Cooperation should be inclusive and involve Member States, candidate countries, EEA EFTA countries and the social partners; (4) Cooperation should be based on the target of 2010, set by the European Council.

The importance of the process is underlined by the formal adoption by the Council (Education, Youth and Culture) of the Resolution on enhanced cooperation in vocational education and training on 6 December 2002, and the adoption by the European Ministers of Vocational Education and Training (Member States, EEA EFTA countries and candidate countries) of the “Copenhagen Declaration” on enhanced European cooperation in vocational education and training on 30 November 2002⁵².

⁵¹ Making a European Area of Lifelong Learning a Reality, COM (2001)678 final, 21.11.2001, http://europa.eu.int/comm/education/lll_en.html

⁵² http://europa.eu.int/comm/education/copenhagen/index_en.html

7.4. Action Plan on Skills and Mobility

In February 2002, the Commission adopted the Action Plan on Skills and Mobility⁵³, aimed at improving occupational and geographic mobility within the EU. Creating opportunities for citizens to move around the Union for educational or professional purposes and take benefit of the European Single Market will contribute to combat existing and prospective skills deficits in industry and to develop closer links and partnerships between education institutions and business. The action plan encourages social partners to introduce competence development strategies for workers, and promotes various specific measures to effectively support the European labour markets, including a greater focus on the recruitment needs of employers. Annual assessments on implementation will be presented to the Spring European Council.

7.5. The eLearning Initiative and Action Plan

Following up the conclusions of the Lisbon European Council, the “eLearning: Designing tomorrow’s education” initiative⁵⁴, adopted by the Commission in May 2000, sets out the principles, objectives and lines of action of eLearning, defined as the use of new multimedia technologies and the Internet to improve the quality of learning by facilitating access to resources and services as well as remote exchanges and collaboration.

The eLearning Action Plan, covering the period 2001-2004, presents ways and means of implementing the eLearning initiative. The aim is to allow Europe to exploit its strengths and overcome the barriers holding back the uptake of digital technologies. In order to be effective, the introduction of information and communication technologies (ICT) will have to be accompanied by a far-reaching reorganisation of learning structures. It involves education and training players, as well as the relevant social, industrial and economic players, in order to make lifelong learning the driving force behind a cohesive and inclusive society, within a competitive economy. It supports the promotion of the employability and adaptability objectives under the European Employment Strategy (described further below, see heading 16.1), and helps to rectify the shortage of skills associated with new technologies, and to improve social inclusion.

Besides the importance given to the development of eLearning in schools and universities, the eLearning Action Plan also promotes the use of eLearning at the work place. Emphasis is being placed on cost savings and on flexible, just-in-time education and training, which empowers the worker and provides the necessary skills and competence for rapidly changing business needs.

On 19 December 2002, the Commission adopted a proposal for a new eLearning programme⁵⁵. This programme, proposed to run for a period of three years (2004 – 2006), has the overall objective to promote and facilitate the effective use of information and communication technologies in European education and training systems, as an essential element of their adaptation to the needs of the knowledge society and of the European model

⁵³ Commission’s Action Plan for skills and mobility, COM(2002) 72 final, 13.2.2002, http://europa.eu.int/comm/employment_social/news/2002/feb/034_en.html

⁵⁴ e-Learning – Designing tomorrow’s education, COM(2000) 318 final, 24.5.2000, <http://europa.eu.int/comm/education/elearning/index.html>

⁵⁵ Proposal for a Decision of the European Parliament and of the Council adopting a multi-annual programme (2004-2006) for the effective integration of Information and Communication Technologies (ICT) in education and training systems in Europe (eLearning Programme), COM(2002) 751 final, COD 2002/0303, 19.12.2002.

of social cohesion. The specific objectives of the programme are: (1) to explore and to promote ways and means of using e-learning for strengthening social cohesion and personal development, fostering intercultural dialogue, and fighting the digital divide; (2) to promote and develop the use of e-learning as an enabling factor for the implementation of the lifelong learning paradigm in Europe; (3) to exploit the potential of e-learning for enhancing the European dimension in education; (4) to facilitate a more structured cooperation in the field of e-learning between the diverse Community programmes and instruments and Member States actions; and (5) to provide mechanisms for encouraging improvement of quality of products and services and for effective dissemination and for exchange of good practice.

Contact: Ms Patricia de Smet, Education and Culture DG, tel. (32-2) 295 94 21

7.5.1. Information and communication technologies (ICT) skills

The availability of adequate information and communication technologies (ICT) skills is an important condition for the competitiveness of enterprises in the e-Economy and the implementation of the Lisbon strategy. The communication on the e-Economy⁵⁶ emphasises the urgent need to tackle ICT and e-business skills shortages and, in this context, to promote the development of e-learning solutions, in particular solutions that are adapted to the needs of SMEs.

The development of e-business applications is increasing the demand for individuals with creativity and higher-level conceptual skills that will enable enterprises to increase productivity and harness ICT to produce greater economic value. Improving the availability of ICT and e-business skills (e-skills) involves actions both at European Union and national level in several areas: education, training, enterprise and labour policies primarily, but also in other domains such as immigration, outsourcing, taxation and research.

Several actions have been launched in the Member States in the recent years, under different pressures, mainly that of industry. The Commission has supported the industry-led “Career-Space” initiative. Better co-ordination of existing programmes is needed to increase efficiency and to mobilise relevant stakeholders. As a follow-up of the eEurope Go Digital initiative⁵⁷, the Commission established in September 2001 an ICT Skills Monitoring Group with representatives of all Member States and Norway⁵⁸. The objective of the ICT Skills Monitoring Group was to analyse and monitor the demand of ICT and e-business skills and the actions aimed at improving the availability of these skills in the Member States. The work of the ICT Skills Monitoring Group was carried out in the framework of a Best Procedure project.

The final report of the ICT Skills Monitoring Group, “e-Skills in Europe: Benchmarking Member States Policy Initiatives”, was presented at a high-level conference – European eSkills Summit – organised in cooperation with the Danish Presidency and the ICT industry on 17-18 October 2002 in Copenhagen. The eSkills Summit gathered all relevant EU actors in the field of e-skills. The main findings suggest that:

⁵⁶ The impact of the e-Economy on European enterprises: Economic analysis and policy implications, COM(2001) 711, 29.11.2001.

⁵⁷ Helping SMEs to “Go Digital”, COM(2001) 136 final, 13.3.2001, http://europa.eu.int/information_society/eeurope/action_plan/ecommerce/index_en.htm

⁵⁸ <http://europa.eu.int/comm/enterprise/ict/policy/ict-skills.htm>

- a large part of the demand for e-skills comes from user industries, therefore efforts aiming at narrowing these gaps and mismatches should not be reduced due to the structural changes faced by the ICT sector;
- there is still a lack of clear, precise, and commonly agreed methodological framework to define, measure, and forecast the e-Skills demand;
- supply of such skills needs to be sustainable and inclusive of the whole labour pool;
- attracting talents is a key factor to reduce the gaps and mismatches;
- it should be better understood how industry takes part in the university system to transfer skills needs;
- there is a substantial need for reliable surveys and analysis of the use of information technology within organisations and individuals, as well as comparisons between organisations, sectors and countries.

As a complement to the Best Procedure project, an initiative on “Information and Communication Technologies and e-Business skills for User Industries and SMEs” was launched in April 2002, with the objective to identify ICT and e-business skills and job profiles in a number of industry sectors, with a special focus on SMEs. This initiative will help to develop and to adapt ICT skills profiles in response to the specific needs of SMEs.

Contact: Mr Franck Noel, Enterprise DG, tel. (32-2) 296 21 12

7.6. New strategy for learning under the Sixth Framework Programme for RTD

The strategy for the Sixth RTD Framework Programme (described further below, see heading 12.6.2) stresses new ways of learning. The lowering of barriers to technology and better exploitation of the potential of computers and networks should enable individuals, groups and organisations to fully exploit the potential of ambient intelligence⁵⁹. Attention is devoted to the dynamic construction and exchange of knowledge in the intertwined learning process between individuals and organisations. In order to support e-business within education and training, technology platforms will include computer supported collaborative learning (CSCL), interoperable and widely accessible knowledge pools, as well as personal support systems and e-commerce technologies. New learning management systems are expected to emerge, using broadband systems, including 3G mobile platforms, in order to improve the accessibility of services.

7.7. The Leonardo da Vinci programme

Leonardo da Vinci⁶⁰ is the Community Action Programme for the implementation of a vocational training policy in Europe. It aims at developing quality, innovation and a European dimension in vocational training systems and practices and is a key instrument for implementing lifelong learning at European level.

The programme has three main objectives:

⁵⁹ Ambient intelligence is all about putting people first: to design technologies for people rather than making people adapt to technologies. In place of today’s PC-based systems, technology should be invisible, embedded in all kinds of object and everyday environments. Our interaction with technology should be simple and effortless.

⁶⁰ <http://europa.eu.int/comm/education/leonardo.html>

- to improve the skills and competences of people, especially young people, in initial vocational training at all levels, with a view to facilitating their integration and reintegration into the labour market;
- to improve the quality of, and access to, continuing vocational training and the Lifelong acquisition of skills and competences;
- to promote and reinforce the contribution of vocational training to the process of innovation, with a view to improving competitiveness and entrepreneurship, also in view of new employment possibilities.

The second phase of the Leonardo da Vinci programme, 2000-2006, makes provision for five types of measures which can qualify for Community support: (1) mobility, (2) pilot projects, including “thematic actions”, (3) language competencies, (4) transnational networks, and (5) reference material.

Respective calls for proposals make these objectives more operational. The first call, valid for the period 2000-2002, identified six priorities, while the second call for proposals, valid for the period 2003-2004, has, in line with the Commission’s communication on Lifelong Learning, defined a reduced number of new priorities: (1) Valuing Learning, (2) New forms of learning and teaching and basic skills in vocational education and training, and (3) Guidance and Counselling.

The Leonardo da Vinci programme is open to a wide range of European countries, including the Member States, the EEA EFTA countries, and the candidate countries. Proposals may be submitted by private, public or semi-public organisations and institutions involved in vocational training, including undertakings, particularly SMEs, and the craft trade sector, or private or public firms, including businesses active in the vocational training field.

The Committee of the Leonardo da Vinci programme, includes Social Partners, and, among these, representatives from European SME organisations.

The programme gives strong focus to the dissemination and exploitation of results from the different projects. For that purpose, a specific valorisation plan is being implemented, which foresees a number of activities related to SMEs. A number of project results relevant to SMEs from the first phase of Leonardo have been identified, and are being published in a number of specialised brochures, targeted at SMEs.

As to the mobility measures, around 4 800 projects have been selected for the period 2000-2001, with a subsequent 75 500 grants committed to individual beneficiaries for a learning or working experience abroad. Furthermore, a total of 769 pilot projects have been selected in the period 2000-2002; SMEs are involved as promoters/partners in approximately 18% of these projects.

Contact: Mr Peter Baur, Education and Culture DG, tel. (32-2) 299 42 08

7.8. The Socrates programme

Socrates⁶¹ is the Community action programme in the field of education. It aims to contribute to the promotion of a Europe of knowledge, through the development of the European dimension in education and training, by promoting lifelong learning, based on formal and

⁶¹ <http://europa.eu.int/comm/education/socrates.html>

informal education and training. It supports the building up of the knowledge, skills and competences likely to foster active citizenship and employability. The budget available for the period 2000-2006 is € 850 million.

The programme has four main objectives:

- to strengthen the European dimension in education at all levels and to facilitate wide transnational access to educational resources in Europe while promoting equal opportunities throughout all fields of education;
- to promote a quantitative and qualitative improvement of the knowledge of the languages of the European Union, in particular those languages which are less widely used and less widely taught, so as to lead to greater understanding and solidarity between the peoples of the European Union and promote the intercultural dimension of education;
- to promote cooperation and mobility in the field of education;
- to encourage innovation in the development of educational practices and materials including, where appropriate, the use of new technologies, and to explore matters of common policy interest in the field of education.

Eight different actions have been defined for the implementation of the programme. Action 1: School education (Comenius); Action 2: Higher education (Erasmus); Action 3: Adult education and other educational pathways (Grundtvig); Action 4: Teaching and learning of languages (Lingua); Action 5: Open and distance learning; information and communication technologies in the field of education (Minerva); Action 6: Observation and innovation; Action 7: Joint actions; Action 8: Accompanying measures.

The Member States, the EEA EFTA countries, and the candidate countries can participate in the programme. The programme is mainly aiming at (a) pupils, students or other learners; (b) staff directly involved in education; (c) all types of educational institutions specified by each Member State; and (d) the persons and bodies responsible for education systems and policies at local, regional and national level. However public or private bodies cooperating with educational institutions may also take part in appropriate actions under this programme, including companies and consortia, trade organisations and Chambers of Commerce and Industry, social partners and their organisations at all levels, and research centres and bodies.

Contact: Mr Anders Hingel, Education and Culture DG, tel. (32-2) 296 05 55

7.9. European Social Fund support for training

The European Social Fund (ESF) is one of the four Structural Funds (described further below, see heading 19). SMEs are a specific target group for ESF support in all Member States across all the policy fields of the ESF and across all the pillars of the European Employment Strategy.

There are two principal types of intervention aimed at SMEs in the programmed ESF implementation in the Member States for the period 2000-2006.

The first type of intervention is training and human resource development activities. The ESF programmes have strengthened their focus on supporting human resource development in SMEs. Most Member States have activities in which SMEs benefit exclusively or together with other target groups. Generally, support is given in the form of training people working in

SMEs. These can be the managers/owners or employees. Training for spouses of owners is also on offer. In one Member State, SMEs participate in networks which include providers of tertiary-level education and training.

ESF support for lifelong learning is estimated at approximately €12 billion for 2000-2006. Programmes increasingly embody a wider commitment to develop a framework for lifelong learning in the workplace. This includes efforts to recognise qualifications and skills and to develop multimedia training packages and distance learning methods to support ICT skills in SMEs. The ESF will also allocate €1 billion of Community support to promote greater adaptability through, for example, more effective transfer of technology to SMEs and employee training.

The second type of intervention consists of activities related to promoting entrepreneurship, which is described in more detail above, under heading 4.7.

The types of activities which are focussed exclusively on SMEs include training/human resource development, 'network of entrepreneurs', the modernisation of work organisation, support for ICT, and the improvement of competitiveness/productivity. Other activities which do not target SMEs directly but have an impact on SMEs nonetheless include support for qualification systems, development of infrastructure, childcare facilities, support for employment/guidance services and job creation activities. Outcomes expected from this support include the enhancement of business adaptability, and development of a culture of training and lifelong learning which is particularly important for SMEs.

8. IMPROVING ON-LINE ACCESS

8.1. The IDA common portal

IDA (Interchange of Data between Administrations)⁶² is a Commission driven strategic initiative using advances in information and communications technology to support rapid electronic exchange of information between administrations. The objective is *inter alia* to improve Community decision-making, facilitate operation of the internal market and accelerate policy implementation.

One of the major factors leading to smoother decision making and the successful implementation of Community policies in the internal market is the capacity to rapidly exchange large quantities of information between the Community and the Member State administrations, and between these and the private sector. This can only be achieved by means of co-ordinated use of modern technologies.

Initially, IDA helped administrations set up infrastructure, establish common formats and adopt new ICT based business processes. It is now focusing on improving network interoperability, services, tools and security, and promoting convergence towards a common telematic interface. IDA is also extending the benefits of the administrative networks to EU

⁶² Council Decision 95/468/EC of 6 November 1995 on a Community contribution for telematic interchange of data between administrations in the Community (IDA), OJ L 269, 11.11.1995, p. 23. Decision of the European Parliament and of the Council 1999/1719/EC of 12 July 1999 on a series of guidelines, including the identification of projects of common interest, for trans-European networks for the electronic interchange of data between administrations (IDA), OJ L 203 of 3.8.1999. Decision of the European Parliament and of the Council 1999/1720/EC of 12 July 1999 adopting a series of actions and measures in order to ensure interoperability of and access to trans-European networks for the electronic interchange of data between administrations (IDA), OJ L 203 of 3.8.1999.

enterprises and citizens, thus contributing to the achievement of the eEurope Action Plan (described further below, see heading 13.1). The programme is opening up to more sectoral areas, and very soon, the EEA EFTA and candidate countries.

The IDA work programmes for 2001 and 2002 put more emphasis on actions that provide direct benefits to enterprises at European level, starting with a survey of the requirements of enterprises for pan-European services with public administrations. In order to foster the offer of online services with relevant cross-border dimension, the IDA Programme in 2001 launched an initiative for the creation of the portal public-services.eu (also called Portal of the EU Administration). This portal, currently in a pilot phase, aims at becoming a single access point for all public online information and services available to assist Europe's citizens and enterprises carry out cross-border activities.

8.2. Gate2Growth – The European portal for growth businesses

The ultimate objective of the Gate2Growth Initiative is to support innovative entrepreneurs in Europe. It provides a common portal⁶³ for technology entrepreneurs, innovation professionals and intermediaries. The initiative focuses on helping important support players to improve their capacity to assist entrepreneurs by networking and exchanging experience and good practice at European level. These include early stage technology venture capital investors, managers of technology incubators, managers of industrial liaison and technology transfer offices linked to universities and research centres, academics in entrepreneurship, finance research and teaching. Gate2Growth thus provides tools, infrastructure and support services directed to innovative entrepreneurs as well as to their supporters. In response to a request by the European Parliament⁶⁴, this one-stop-shop risk capital website will be further developed in 2003, in cooperation with regional and national initiatives in order to give these an additional European scope.

Contact: Mr Marc Verlinden, Enterprise DG, tel. (32-2) 293 41 94

8.3. The e-business legal portal

An "e-business legal portal" is being established, which will be operational in spring 2003. It is developed and managed by a network of 16 Euro Info Centres in 13 European countries. The objective is to provide an on-line information service, providing an overview of relevant e-commerce legislation and self-regulatory initiatives and to offer personalised legal advice on specific, frequently asked questions in the field of e-business. This will also help the Commission to identify the most important legal problems faced by companies when they conduct business on-line. An extension of these information services to all Member States and possibly the candidate countries is foreseen at a later stage. See also headings 6.5 and 18.3.

Contact: Ms Maria Perogianni, Enterprise DG, tel. (32-2) 295 81 93

8.4. The e-learning portal

A multilingual e-learning portal is currently being developed and will be operational in February 2003⁶⁵. Its aim is to provide an easy access⁶⁵ to e-learning information and events, best practices, projects at community, national and regional level, as well as an extensive directory.

⁶³ <http://www.gate2growth.com>

⁶⁴ European Parliament, Resolution of 11.4.2002, Report A5-0020/2002, point 17.

⁶⁵ <http://www.elearningeuropa.info>

Contact: Mr Eugenio Riviere Gomez, Education and Culture DG, tel. (32-2) 299 19 83

8.5 EURES – Access to skilled workers

EURES⁶⁶ exists to help employers find skilled workers and to help workers find jobs across the EEA. It links together the Public Employment Services of the Member States and other partners (including employer and trades union organisations) to exchange vacancies and encourage jobseekers to put their CVs online. The system is backed up by an extensive human network, including at cross-border level, to provide advice and assistance to employers and jobseekers.

9. MORE OUT OF THE SINGLE MARKET

The Commission's current Internal Market Strategy is a five year programme last reviewed in April 2002⁶⁷ which focuses attention on those areas where progress is most urgently needed in order to make EU businesses more competitive and able to take better advantage of the opportunities offered by the Single Market.

9.1. Intellectual property protection

In respect of intellectual property protection, SMEs could be stimulated to be innovative if there was an adequate Intellectual Property protection system. The Commission's proposal for a Regulation creating the Community patent⁶⁸, a priority target in the Internal Market Strategy, is under discussion in the Council. A unitary patent will enable companies to adapt their production and distribution activities to the EU dimension and to take up innovation and competitiveness challenges towards the US and Japan. Community patents should be affordable in terms of cost and should guarantee legal certainty adapted to the needs of companies, and SMEs in particular.

Contact: Ms Mirjam Söderholm, Internal Market DG, tel. (32-2) 295 93 29

Furthermore, on 20 February 2002 the Commission presented a proposal for a directive on the patentability of computer-implemented inventions⁶⁹, harmonising and clarifying provisions in this area.

Contact: Mr Anthony Howard, Internal Market DG, tel. (32-2) 299 54 81

The Commission has also launched several other initiatives aimed at supporting innovation by SMEs. In 2001, it launched a study on the "Role of national patent offices, the European Patent Office as well as the Japanese and US patent offices in promoting the patent system". The aim of this study is to identify best practice amongst national patent offices in the area of innovation promotion. The final report of the study is expected early in 2003. Moreover, the Commission launched in 2001 another study on the "Possible introduction of an insurance scheme for costs for litigation in patent cases". The final report of this study should also be available early in 2003. Such an insurance system covering the costs incurred in legal proceedings would give companies, in particular SMEs, a fair chance to defend their patent

⁶⁶ <http://europa.eu.int/eures>

⁶⁷ 2002 Review of the Internal Market Strategy: Delivering the promise, COM (2002) 171, 11.4.2002.

⁶⁸ Commission proposal, of 1 August 2000, for a Regulation of the Council on the Community patent, COM(2000) 412 final, CNS 2000/0177, Official Journal C 337 E/45, 28.11.2000, p. E/278.

⁶⁹ COM(2002)92 final, COD 2002/0047, 20.2.2002, http://europa.eu.int/comm/internal_market/en/indprop/comp/index.htm

rights effectively and thus strengthen their confidence in the patent system. This subject was also addressed at a conference organised by the Danish Presidency, with the support of the Commission, on 28-29 October 2002 in Aalborg.

Contact: Mr Anthony Howard, Internal Market DG, tel. (32-2) 299 54 81 (patent offices) / Mr David Ellard, Internal Market DG, tel. (32-2) 296 31 81 (insurance scheme)

9.2. Mutual recognition

In July 2002, the Commission adopted its second biennial report on the Application of the Principle of Mutual Recognition in the Single Market⁷⁰. The main purpose of the report is to assess the progress made in the application of mutual recognition⁷¹ in the single market since 1999 and to highlight the fields in which mutual recognition continues to pose problems. In order to facilitate the application of mutual recognition for products between economic operators and national administrations, the Commission will adopt guidelines on this subject in a Communication to the Member States and economic operators. The Communication will explain the rights and obligations of the parties concerned in cases where the principle of mutual recognition needs to be applied. Practical guides by sector or group of sectors and seminars will probably remain effective tools for increasing familiarity with and improving the operation of the principle, not only in the Member States but also in the candidate countries.

Contact: Mr Hans Ingels, Internal Market DG, tel. (32-2) 296 64 41

9.2.1. Prior notification of technical regulations

Directive 98/34/EC⁷² establishes a system of prior notification of technical regulations concerning all products and information society services, before these are enacted by the Member States⁷³. This system allows the Commission and the Member States to verify the conformity of national draft technical regulations with the rules of the Internal Market and in this context to check the correct application of the mutual recognition principle. It is a valuable instrument for SMEs to gather information about planned legislation in other EU countries. In 2001, the Commission received 530 draft technical regulations from the Member States. In a number of cases, the Commission and the Member States have reacted due to the involvement of enterprises. Many enterprises have thus taken advantage of the possibility of intervention in national legal processes, offered under the Directive. They have emphasised the problems to trade created by certain national drafts, which have led the Commission and the Member State governments to react in order to safeguard their competitiveness.

Contact: Mr Christoph Kautz, Enterprise DG, tel. (32-2) 295 23 71

9.2.2. Conformity assessment

In the conformity assessment field, multiple testing and certification within the EU is still common, despite efforts to encourage mutual recognition of test results, marks and certificates

⁷⁰ COM(2002) 419 final, 23.7.2002.

⁷¹ Mutual recognition means that if a business (large or small) can sell its products legally in its home market it can sell these products anywhere in the European Union.

⁷² Directive 98/34/EC laying down a procedure for the provision of information in the field of technical standards and regulations, OJ L 204, 21.7.1998, as amended by Directive 98/48/EC, OJ L 217, 5.8.1998, p. 18.

⁷³ All notified draft technical regulations are easily available to SMEs in all official languages at: <http://europa.eu.int/comm/enterprise/tris>

between conformity assessment operators. This results in increased costs to businesses, in particular for SMEs, which are required to pay for more than one conformity evaluation procedure. In order to obtain a preliminary picture of the situation in this field, a Best Procedure project was launched in autumn 2002, aiming to produce case studies on a number of sectors across the EU. These case studies will (1) compare details of conformity assessment procedures and their economic impact in the selected sectors, and (2) develop indicators to measure the economic impact of conformity assessment on manufacturing enterprises, including SMEs, e.g. time, cost, percentage of product price, and perceived value for money. The selected sectors include both products covered by Community legislation and products not covered. Case studies should, as far as possible, use factual data, based on real-life experience of enterprises operating in the Single Market. In addition, the case studies should collectively have the widest possible geographical coverage. This is a short preparatory study, intended to identify the economic impact of multiple testing and certification by providing reliable data, and to develop indicators for future use. On the basis of the study results, a future project involving Member States may be proposed.

Contact: Ms Rita L'Abbate, Enterprise DG, tel. (32-2) 295 67 60

9.3. SOLVIT – Problem Solving Network

While the Internal Market generally works well, sometimes businesses (and citizens) run into problems resulting from possible misapplication of Internal Market rules by public administrations in other Member States. SOLVIT, a network set up by the Commission, is based on a network of SOLVIT Centres (one in the national administration of each Member State and EEA EFTA country)⁷⁴. SOLVIT has been set up to resolve problems in relation to the misapplication of rules which might happen in various aspects of business life e.g. market access of goods and services, public procurement, taxation, or the starting-up of a company.

SOLVIT will rest on two pillars. The first pillar is a user-friendly online database which will allow the SOLVIT Centres to register cases and exchange information between each other. The second pillar is a set of working principles for the SOLVIT Centres which define their respective responsibilities and deadlines for cases to be resolved (in principle, within 10 weeks)⁷⁵. The Internal Market Council, in its Resolution of 1 March 2002, confirmed the commitment of Member States to the effective operation of the system and to the outlined principles.

The SOLVIT network, which formally opened for businesses on 22 July 2002, will be an important contribution to making the Union more operational and practical for businesses (and citizens), in particular small businesses.

Contact: Mr Sebastian Bohr, Internal Market DG, tel. (32-2) 295 13 46

⁷⁴ Effective Problem Solving in the Internal market (“SOLVIT”), COM (2001) 702, 27.11.2001. http://europa.eu.int/comm/internal_market/solvit/index_en.htm

⁷⁵ See Commission Recommendation of 7 December 2001 on Principles for using ‘SOLVIT’ - the Internal Market Problem Solving Network, OJ 15.12.2001, L 331, p. 79

9.4. Cross-border payments

A significant development is the adoption of the Regulation on cross-border payments in euro to achieve a single payments area.⁷⁶ The regulation provides for the principle of non-discrimination to apply to bank charges for national and cross-border payments in euros, to be implemented by 1 July 2002 for card payments and cash dispensers, and by 1 July 2003 for credit transfers. Commission studies have indicated persistently high and variable levels of charges on cross-border payments, with little change since 1993, despite repeated exhortations to banks to eliminate the practice.⁷⁷ According to the Regulation, cross-border payments should not differ from national ones, hence uniform charges should apply irrespective of distance.⁷⁸ The Commission does not however anticipate a rise in bank charges as a result of the implementation of this Regulation.

Contact: Mr Jean Allix, Internal Market DG, tel. (32-2) 296 31 79

9.5. Combating late payments

Estimates suggest that one out of four insolvencies arise due to late payment, resulting in the loss of 450 000 jobs, and receivables worth €23.6 billion every year. Late payments have been a major problem for SMEs. Following its adoption by the European Parliament and the Council in June 2000, the deadline for Member States to transpose the Directive combating late payments in commercial transactions⁷⁹ was 8 August 2002. Only half the Member States met the deadline, and at the end of 2002 five transpositions were still outstanding. Infringement proceedings have been opened in respect of those. The Directive provides a common European minimum legal framework with provisions for payment periods, due dates and a statutory interest rate, as well as rights for creditors for adequate compensation when they are paid late. Of particular benefit to SMEs will be the rights accruing to business associations to pursue legal actions against debtors on behalf of their members.

Contact: Ms Anne Wilkinson, Enterprise DG, tel. (32-2) 295 57 97

9.6. Services

The functioning of the Internal Market in services is of particular importance to SMEs. This is because SMEs are predominant in the service sector and services are hit harder than goods by regulatory and non-regulatory barriers. SMEs are less able than larger firms to cope with the compliance costs which result from these barriers to the cross-border provision of services.

The wide range of barriers affecting the cross-border provision of services and cross-border establishment was revealed in a Report⁸⁰ produced as part of the Commission's Internal

⁷⁶ Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro, OJ L 344, 28.12.2001, p. 13, http://europa.eu.int/comm/internal_market/en/finances/payment/area/index.htm

⁷⁷ European Commission MEMO/01/294.

⁷⁸ European Commission Press Release IP/01/1084.

⁷⁹ Directive 2000/35/EC of the European Parliament and of the Council of 29 June 2000 on combating late payment in commercial transactions, OJ L 200, 8.8.2000, p. 35, http://europa.eu.int/comm/enterprise/regulation/late_payments/index.htm

⁸⁰ Second biennial Report on the Application of the Principle of Mutual Recognition in the Single Market, COM(2002) 419, 23.7.2002, see heading 9.2 above.

Market Strategy for Services⁸¹. In following up this Report, the Commission will bring forward legislative and non-legislative proposals to address key remaining barriers.

For SMEs providing on-line services, further opportunities in the Internal Market should be provided as a result of the E-commerce Directive⁸², which is likely to have been transposed in all Member States by the end of 2002.

Contact: Mr Ian Catlow, Internal Market DG, tel. (32-2) 295 08 61

9.7. Regulation and development of co-operatives, mutuals and associations

In December 2001, the Commission services launched a consultation document on “Co-operatives in Enterprise Europe”⁸³. The document made the case that co-operatives require a legislative environment adapted to their specific characteristics. It identified European policies and initiatives with an impact on co-operatives and those where co-operatives could make an active contribution. 46 responses were received, representing all sectors of co-operative enterprise. The results of the consultation will be incorporated into a Communication for publication in 2003. The Communication will propose future actions of the Commission in the field of co-operative enterprise and make recommendations to Member States. During 2002 a document on mutuals in Europe was prepared to serve as the basis for a similar consultation exercise.

Throughout 2000 and 2001, discussions continued in the Council working groups on the Commission’s proposal for a Statute for a European Co-operative Society⁸⁴. This resulted in an agreement on the text for the Statute in the Council of 3 June 2002. The Statute has now been sent to the European Parliament under the consultation procedure. The Statute, which consists of a Regulation and a Directive, parallels the Statute for a European Company⁸⁵, but is specifically tailored to the co-operative form of enterprise. Work has now begun on preparing the text of the Commission’s proposal for a Statute for a European Association.

Contact: Mr William Neale, Enterprise DG, tel. (32-2) 299 67 10

10. TAXATION

10.1. Direct taxation

In October 2001, the Commission presented the Communication “Towards an Internal Market without tax obstacles - A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities”⁸⁶ and a detailed study on “Company Taxation in the

⁸¹ COM(2000)888, 29.12.2000. The Strategy was itself a response to a call from the Lisbon summit for action to improve the Internal Market in services

⁸² Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce), OJ L 178, 17.7.2000, p. 1.

⁸³ <http://www.europa/comm/enterprise/entrepreneurship/coop/index.htm>

⁸⁴ Amended proposal COM(93) 252 final – SYN 388 and SYN 389, OJ C 236, 31.8.93, p. 1.

⁸⁵ Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE), OJ L 294, 10.11.2001, p. 1, and Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees, OJ L 294, 10.11.2001, p. 22.

⁸⁶ COM(2001)582 final, 23.10.2001, http://europa.eu.int/comm/taxation_customs/taxation/company_tax/policy_proposals.htm

Internal Market”⁸⁷. The Communication and Study addressed current problems relating to company taxation in the Internal Market and also included an analysis of the situation of SMEs in this regard.⁸⁸

For instance, the effective tax burden of partnerships, as opposed to that of incorporated businesses, was analysed for those countries where partnerships provide a common legal form for running SMEs. It was found that, in principle, businesses in comparable situations usually face a comparable tax burden, regardless of the legal form. In some instances, partnerships even seem to be in a more favourable position, at least in a purely domestic context. In an international context, corporations appear to bear a smaller tax burden than partnerships for their foreign investments. Moreover, larger companies seem to have easier access to (international) tax planning which tends to reduce their tax burden.

Both documents also address the obstacles to cross-border economic activities. While the obstacles are essentially the same for SMEs and large companies, the costs and risks associated with complying with more than one system may in particular discourage SMEs from engaging in cross-border activity. The underlying cause of these obstacles, i.e. additional tax and compliance burdens, is the existence within the Internal Market of 15 separate tax systems.

The Communication presents a two-track strategy consisting both of targeted measures in the short-term and work towards a ‘comprehensive’ solution as a long-term objective.

As to the measures targeted at SMEs, the administrative tax formalities, bookkeeping requirements, etc. for SMEs should be less demanding than for larger companies, also in cross-border situations. There are good reasons to grant SMEs proportionate simplification and standardisation arrangements for reducing their resulting tax compliance cost. Depending on the type of measure, such initiatives are either appropriate at national level, or should, as for instance currently in the area of VAT, explicitly be supported on EU level. Moreover, the difficulties with cross-border offsetting of losses hit SMEs particularly hard and therefore seem to deserve a specific remedy. Generally speaking it should, however, be noted that only few of the measures proposed by the Commission are geared specifically towards larger or SMEs. It follows from the nature of the problems and their effects that internationally active small and medium-sized enterprises will also benefit from the removal of the tax obstacles.

As regards the possibilities for tackling the various tax obstacles in an all-embracing systematic way, via a ‘comprehensive’ solution which would provide companies with a consolidated corporate tax base for their EU-wide activities, among the various technical models which are available for achieving such a common EU corporate tax base, that of “Home State Taxation” seems to be of particular attraction to SMEs. Under this approach, a company could opt for computing its (consolidated) tax base according to the rules of the Member State where its headquarters is based. At the large “European Conference on Company Taxation” of April 2002 in Brussels the idea to devise an appropriate pilot scheme for SMEs met with considerable support and is currently being followed up by the Commission.

Contact: Mr Rolf Diemer, Taxation and Customs Union DG, tel. (32-2) 296 10 75

⁸⁷ SEC(2001)1681, 23.10.2001.

⁸⁸ http://europa.eu.int/comm/taxation_customs/taxation/directtaxationindex_en.htm

10.2. Value added tax (VAT)

Two directives have recently been adopted in the field of Value added tax (VAT)⁸⁹, which have significant impact for the SMEs as they make it easier for these companies to trade cross border and they alleviate the obligations they face for VAT in terms of invoicing requirements. The Invoicing Directive⁹⁰ provides for new harmonised rules on the content, transmission and storage of invoices. This simplification will decrease the administrative cost of producing and archiving invoices, by making it possible for example to outsource and dematerialise the invoicing obligations. This is valid for all companies but it is even more important for SMEs, for which the administrative cost of invoicing is relatively higher. The Tax representative Directive⁹¹ abolishes the obligation falling on foreign companies to appoint a tax representative in Member States where they are not established. As such an obligation was a very expensive one, the directive will decrease the administrative cost of VAT on companies having cross-border activities. This is valid for all companies but it is even more important for SMEs, for which the administrative cost of VAT is relatively higher.

Next to these two Directives, the Commission is currently making a study on VAT obligations, with the intention to make proposals designed to modernise and simplify those obligations (registration, declarations, payment), mainly for SMEs.

The Council is currently discussing the Commission proposal for further harmonisation of the rules governing the right to deduct the input VAT (for cars, restaurant services, hotels, fuel) and simultaneously allowing the traders a cross border right to deduct the input VAT. This implies that traders will be allowed to deduct input VAT they incurred in another Member State in their own VAT return, to be submitted in the Member State where they are established. As the 8th Directive⁹² refund procedure is experienced by SMEs as a major cause for concern, the adoption of this proposal would considerably ease the burden on SMEs.

The Commission is currently discussing with the Member States (not at Council level as no formal proposal has been drafted yet) the modification and simplification of the rules governing the special scheme of distance sales. This special scheme is also experienced by SMEs as very problematic and therefore the Commission is looking for a way to simplify these rules.

Contact: Mr Ludwig De Winter, Taxation and Customs Union DG, tel. (32-2) 299 04 08

10.3. Employee stock options

Employee stock options are rights granted to the staff of a company to buy the company's shares at the current price at some time in the future (e.g. within the next ten years) but not before a certain blocking (vesting) period (e.g. three years). Employee stock options are often used in bigger companies to align the interest of the managers to the interest of the capital owners in an increase in the value of their shares. However, employee stock options are also of great interest for smaller start-ups. These companies often compete with larger firms for

⁸⁹ http://europa.eu.int/comm/taxation_customs/taxation/vatindex_en.htm

⁹⁰ Council Directive 2001/115/EC of 20 December 2001 amending Directive 77/388/EEC with a view to simplifying, modernising and harmonising the conditions laid down for invoicing in respect of value added tax, OJ L 15, 17.1.2002, p. 24.

⁹¹ Council Directive 2000/65/EC of 17 October 2000 amending Directive 77/388/EEC as regards the determination of the person liable for payment of value added tax, OJ L 269, 21.10.2000, p. 44.

⁹² Eighth Council Directive 79/1072/EEC of 6 December 1979 on the harmonization of the laws of the Member States relating to turnover taxes - Arrangements for the refund of value added tax to taxable persons not established in the territory of the country, OJ L 331, 27.12.1979, p. 11.

qualified staff but have not yet the cash flow to pay competitive wages. Stock options are a possibility to compensate staff for lower current cash wages with potentially high future gains.

In 2002-2003, the Commission carried out a study on employee stock options in the EU and in the USA⁹³. One part of the study analysed the advantages and potential problems of this relatively new instrument of remuneration. A second part described the legal and administrative environment (in particular taxation) for employee stock options. The reports were discussed in a group of experts, scheduled to complete its work in spring 2003 with a report on the subject. The expert group will also put forward conclusions and recommendations how Member States could improve their systems to better promote employee stock options.

The study on legal and administrative systems showed that, despite some convergence over the last years, Member States' systems are still very much varied. Not all Member States levy the same taxes on the income from stock options (wage taxes or capital gains taxes) and the timing of taxation still differs between the countries. Moreover, some countries have introduced preferential tax schemes but the conditions for these schemes vary. Other rules than tax laws also are rather heterogeneous (labour law, data protection, security rules etc.). As a consequence, companies that operate in more than one country are obliged to draft a new plan for each Member State which creates rather substantial administrative costs and is a reason why in particular smaller companies often cannot afford stock option plans.

Contact: Mr Thomas Jaegers, Enterprise DG, tel. (32-2) 299 15 87

10.4. Transfer of businesses

In 2000, the Commission set up an expert group on transfer of business to help monitor the implementation of the 1994 Recommendation on the transfer of businesses⁹⁴. The group was part of the Best Procedure project on the transfer of businesses and consisted of experts from 12 Member States. The tasks of the group included identification of new legal, tax and support measures taken since the 1998 Communication on the transfer of small end medium-sized enterprises⁹⁵, assessment of the measures taken, analysis of the provision of support measures and proposals for further action.

According to the final report of the expert group, published in July 2002, barely half of the recommendations set out in the Commission Recommendation are in place. In all, the experts identified 53 core support measures, and the report looks at 34 of these measures in detail. However, all are listed in the database on Support Measures and Initiatives for Enterprises (SMIE)⁹⁶ (described further below, see heading 14.1).

The experts pinpointed the following trends as common to all EU Member States: (1) growing importance of business transfers as a policy issue, due to the high and rising number of transfers; (2) more transfers from families to third parties; (3) more entrepreneurs moving between businesses and spending less time with each; (4) more transfers for personal reasons (early retirement, change of profession, interests or family situation, etc.); and (5) a changing competitive environment (changing markets, new products, new distribution channels, etc.).

⁹³ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/taxation/work-com.htm

⁹⁴ OJ L 385, 31.12.1994, p. 14, and the accompanying Communication containing the motivations of the Recommendation, OJ C 400, 31.12.1994, p. 1.

⁹⁵ OJ C 93, 28.3.1998, p. 2.

⁹⁶ <http://europa.eu.int/comm/enterprise/smie>

With these trends in mind, the expert group recommended:

- creating a “European Business Transfer Centre”, to co-ordinate information gathering, share best practices across Europe, and facilitate cross-border cooperation,
- creating a European sellers and buyers database/market place, to link up existing national databases and encourage countries that do not yet have such data bases to set them up,
- holding regular seminars/meetings/fora on specific transfer questions at European level to exchange best practice and using the results of these events as input for seminars and meetings at national, regional and local level,
- developing alternative or additional tailor-made training and management tools for existing and future owner-managed and small family-owned businesses,
- launching publicly initiated support programmes and research on business transfers, and
- giving as much attention to transfers as to start-ups.

The results of the project and examples of good practice in the different Member States were presented at the European Seminar on the Transfer of Businesses in Vienna, Austria, on 23-24 September 2002. In October 2002, the Commission has launched a new project on the transfer of businesses to act on the expert group’s proposals and help Member States make further progress in implementing measures in key areas of the Commission recommendation.

Contact: Ms Kirsi Ekroth-Manssila, Enterprise DG, tel. (32-2) 295 07 08

11. FINANCIAL MATTERS

11.1. Risk Capital Action Plan

Four years after its adoption, and even as the risk capital market is experiencing a severe correction, major progress is being made in the implementation of the Risk Capital Action Plan (RCAP).

Risk capital is a key source of financing for new and innovative enterprises. The Community’s strategy on risk capital is embodied in the 1998 Risk Capital Action Plan⁹⁷. Successive European Councils have acknowledged its importance and called for its implementation by 2003. The RCAP identifies a range of policy areas in which action is required to promote the development of an efficient and integrated market for venture capital in the EU. These are (1) integration of national markets; (2) institutional and regulatory reform; (3) tax reform; (4) promotion of high-tech SMEs; (5) development of appropriate human resources; and (5) fostering of an entrepreneurial culture. Responsibility in these policy areas is shared to a varying extent between the Community and the Member States. The Community has a particular responsibility in respect of measures to foster market integration, while the Member States bear the main responsibility for measures to address

⁹⁷ Based on Commission Communication “Risk Capital: A key to Job Creation in the European Union”, SEC(1998) 522, April 1998.

institutional and regulatory barriers and tax reform. Responsibility for actions in respect of SMEs, human resources and entrepreneurship is more evenly shared.

Since the second half of 2000, the EU risk capital market has experienced a severe correction. The correction reflects the continuing deflation of the bubble in technology, media, and telecommunication investment which, together with a global economic slowdown has depressed equity markets and reduced incentives for venture capital investors. But the venture capital industry has matured and is now significantly better equipped to weather economic downturns.

Eliminating the remaining regulatory and administrative barriers will be essential in the revival of the venture capital market. As stressed by the fourth progress report on the implementation of the RCAP⁹⁸, significant progress is being made in its implementation. Decisive steps have been completed in most of the financial regulatory measures of the RCAP, taken up in the Financial Services Action Plan (FSAP, see below, heading 11.2): the Regulation on the application of International Accounting Standards in the EU⁹⁹ has been adopted and the Commission has adopted an amended proposal for a Directive on prospectuses¹⁰⁰, two decisive head-ways towards more integrated financial markets and easier cross-border capital raising. Political agreement has also been reached on the Commission's proposal for a Directive on the activities and supervision of supplementary pension funds¹⁰¹, making it possible for pension funds to invest in risk capital. As fiscal reforms are the responsibility of Member States, the Commission has undertaken a number of studies to analyse structural barriers and specific obstacles to cross-border activities. The Commission has also taken a number of measures to support entrepreneurship and R&D investments. Finally, the Commission has adopted a Communication on state aid and risk capital clarifying the conditions for compatibility of public funding. This is further described below, see heading 15.1.

Contact: Ms Delphine Sallard, Economic and Financial Affairs DG, tel. (32-2) 299 35 47

11.2. Financial Services Action Plan

Building an integrated EU capital market is of major importance for bringing real benefits for European citizens in terms of increased confidence, economic growth, more jobs and sustained prosperity. A series of policy objectives and specific measures to improve the Single Market for financial services by 2005 (for the securities field in 2003) were outlined in an Action Plan adopted by the Commission in May 1999¹⁰². The Financial Services Action Plan (FSAP) suggests indicative priorities and time-scales for legislative and other measures to tackle three strategic objectives, namely (1) ensuring a Single Market for wholesale financial services, (2) open and secure retail markets, and (3) state-of-the-art prudential rules and supervision.

⁹⁸ Communication on implementation of the Risk Capital Action Plan (RCAP), COM(2002) 563 final, 16.10.2002.

⁹⁹ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, OJ L 243, 11.9.2002, p. 1.

¹⁰⁰ Amended proposal for a Directive of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, COM(2002) 460, COD 2001/0117, 9.8.2002.

¹⁰¹ Proposal for a Directive of the European Parliament and of the Council on the activities of institutions for occupational retirement provision, COM(2000) 507 final, COD 2000/0260, 11.10.2000.

¹⁰² "Financial services: Implementing the framework for financial markets: Action Plan", COM(1999) 232 final, 11.5.1999, http://europa.eu.int/comm/internal_market/en/finances/actionplan/index.htm

In March 2002, the Barcelona European Council reaffirmed the objectives of the FSAP as a key priority of the Lisbon economic reform agenda, and set clear deadlines for the adoption of eight specific measures in 2002. The seventh progress report on the FSAP¹⁰³ showed that almost all measures identified have been adopted by the end of 2002, or will be in their final phases of adoption. Progress has also been made on a wider front: 32 of the 42 original measures have now been finalised, including the agreement on the European Company Statute¹⁰⁴.

The FSAP is well on the way to completion. As the measures come into force, the focus should shift more to their correct and timely implementation, application and enforcement.

Contact: Mr Gerben Everts, Internal Market DG, tel. (32-2) 299 62 62

11.3. European Code of Conduct for banks and SMEs

In March 2002, work began on preparing a possible European Code of Conduct for banks and SMEs that was requested by the Industry Council in December 2001. The project involves the three main European banking associations (the Banking Federation of the European Union, the European Savings Banks Group, the European Association of Co-operative Banks) and the three main SME organisations (UNICE, UEAPME, Eurochambres), plus the European Federation of Accountants, with the Network of European Funding Institutions as observers. All Associations agreed, in principle, to participate in the drafting of the Code. The Commission services reviewed a number of existing codes of conduct both within the EU and beyond. After two meetings on strategy, a committee with one representative each of SMEs, banks and the Commission was given the task of preparing an outline of the code.

Contact: Mr Jean-François Aguinaga, Enterprise DG, tel. (32-2) 295 14 42

11.4. Microlending

A joint working group on microlending with experts from the Member States, candidate countries, SMEs, banking and SME organisations met in July and October 2002. 23 experts from the EU Member States and candidate countries participated in the exercise, which reflected the high level of interest in the subject of financing the creation and development of very small enterprises. Each expert was invited to present examples from his country or financial institution. As part of the exercise, a questionnaire was sent to the experts in September, the replies to which will be used to produce an interim report. The final report will be presented before the end of 2003.

Contact: Mr Jean-François Aguinaga, Enterprise DG, tel. (32-2) 295 14 42

11.5. Fourth Round Table of Banks and SMEs

The Fourth Round Table of Banks and SMEs, which was launched in October 2000, continued its work during 2001 and 2002 with meetings in nine candidate countries, bringing together local and EU financing experts to discuss a wide range of access to finance issues, to

¹⁰³ Financial Services – Meeting the Barcelona Priorities & Looking Ahead: Implementation, SEC(2002) 1314, 29.11.2002.

¹⁰⁴ Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE), OJ L 294, 10.11.2001, p. 1, and Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees, OJ L 294, 10.11.2001, p. 22, http://europa.eu.int/comm/internal_market/en/company/company/news/01-314.htm

exchange best practices and to highlight the particular access to finance problems faced by SMEs in each country. It is already clear that there is generally a lack of credit available to the private sector in these countries, that banks have very limited experience of lending to SMEs and that collateral requirements for loans are often high. The opening to the candidate countries of the financial instruments managed by the EIF of the Multiannual programme for enterprise and entrepreneurship should help to alleviate this situation. The Round Table meetings will finish in 2003 and a final report will be published.

Contact: Mr Jeremy Heath, Enterprise DG, tel. (32-2) 295 16 76

11.6. Business angels

To promote business angel financing, the Commission, in the framework of the Best Procedure, in November 2002 published a report on benchmarking business angel policies in the Member States¹⁰⁵. The report noted that the supply of start-up and early-stage equity finance has become more and more dependent on business angels, who are wealthy individual investors. The reasons for this include changes in the banking sector, which have made lending unattractive for banks due to low margins and high overhead costs. In addition, venture capital funds are also often not able to accommodate the large number of small deals with heavy due diligence requirements. Business angel networks bring together angels and increase the efficiency of the matching of angels and entrepreneurs by making it likelier that angels find suitable entrepreneurs. The report made the following main recommendations:

- regular surveys should be conducted in the business angel marketplace to increase the ability to make informed decisions;
- sustained awareness raising campaigns are needed in many Member States and in the candidate countries to present the benefits of the business angel market for potential angels and entrepreneurs;
- business angel network operations often need public sector support, and particularly local and regional authorities should consider supporting the business angel marketplace this way;
- the Member States should pay attention to the effects of taxation on business angel activity; and
- at European level, a business angel panel should be created to discuss topical issues affecting the angel community.

Contact: Mr Vesa Vanhanen, Enterprise DG, tel. (32-2) 299 21 51

Furthermore, the results of a project on informal investors and high-tech entrepreneurship, which was part of the Finance-Innovation-Technology programme, were published in 2001¹⁰⁶. The project showed that the start-up of a new technology-based firm is often financed by the founder, friends and family, with the help of bank loans. Although loan guarantees can help, as the firm grows, the risk often outgrows the bank's limits. As institutional venture capitalists seldom invest less than €400,000, business angels can fill this equity gap. They provide advice and contacts in addition to finance, and can be grouped into

¹⁰⁵ Benchmarking business angels, Enterprise DG, November 2002, <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/index.htm>

¹⁰⁶ European Commission, Innovation/SMEs Programme, EUR 17030.

six types depending on their experiences and preferences. Business angels need an exit strategy for their investment. This can be a sale to a venture capital company, a sale to another company, or a public offering in a stock exchange.

Contact: Mr Marc Verlinden, Enterprise DG, tel. (32-2) 293 41 94

11.7. A pan-European database of investment opportunities – Gate2Growth

To close existing risk capital matching gaps and complement existing regional initiatives, business angel networks, investment forums, business plan competitions, etc., the Commission supports a pan-European database of investment opportunities, www.Gate2Growth.com, in order to help innovative entrepreneurs and SMEs access existing networks of financiers, corporate growth and incubator experts and patent officers. The service is managed by a team of investment analysts with a venture capital or entrepreneurial background and offers financing guides, templates and business plan diagnostic methodologies.

Contact: Mr Marc Verlinden, Enterprise DG, tel. (32-2) 293 41 94

11.8. Preparation of SMEs for the euro

The Commission supported the preparations of the SME sector for the introduction of the euro. It organised meetings with SMEs, Euro Info Centres and Member States to monitor their awareness-raising actions and to discuss best practices that were subsequently communicated to SMEs. The Commission also launched six Eurobarometer surveys to monitor regularly the preparations and use of the euro by European enterprises, especially SMEs. In spite of generally late preparation by SMEs, the introduction of the euro took place without major problems, but a follow-up study will be carried out to find best practices for future use.

Contact: Mr Patrick Klein, Enterprise DG, tel. (32-2) 296 58 71

11.9. Basel capital accord

The Commission has closely followed the possible effects on SMEs of the Basel Committee negotiations on the new Capital Adequacy Framework for banks, which aims to make the world financial system safer by ensuring that the price of a loan more closely reflects the risk to the lender. In the consultation rounds, the Commission and the Member States have addressed the issue of SME finance in particular, and the Basel Committee has taken note of this and has adjusted its proposals so that the outline for SME loan treatment presented in July 2002 was significantly more favourable. However, independently of the reduced capital requirements under the new capital accord, banks will launch internal rating methods that could present additional challenges for SMEs. The solutions proposed by the Basel Committee recognise the significance of SMEs in the economy, and will be included in the new Capital Adequacy Directive to be proposed in 2004.

Contact: Mr Vesa Vanhanen, Enterprise DG, tel. (32-2) 299 21 51

11.10. Access to finance and to credit

In October 2001, the Commission published the paper “Enterprises’ access to finance”¹⁰⁷. This paper argued that Europe’s SMEs are gradually switching from loan finance to other

¹⁰⁷ SEC(2001) 1667, 19.10.2001.

instruments (such as equity, debt-equity combinations, leasing, and guaranteed loans and equity). Reasons for this include the withdrawal of some banks from the low-margin SME lending, and the development of financial markets allowing the expansion of alternative instruments. This will not change the fact that at least for the next decade the supply of enterprise finance will continue to be dominated by bank lending. The alternative instruments, although relatively small when considered individually, as a whole can play a significant role in fostering flexibility and choices that better reflect the needs of enterprises throughout their development and growth phase.

The changes in finance also require flexibility from SMEs. The diversification of finance and the use of a set of instruments from several sources, as well as the reform of banking regulations, will require SMEs to become more open and transparent in providing information on their activities and finances to banks and financial institutions. In addition, the gradual increase in the use of external equity and hybrid forms of financing will mean that the suppliers of risk capital will want to participate in the decision-making process of the company. This implies a major change in the entrepreneurial behaviour and culture in Europe.

The discussions and conclusions of the Belgian Presidency conference “Financing SMEs – the European approach” closely reflected the arguments presented in the working paper. These were formalised in the Industry Council conclusions on access to finance on 5 December 2001, which invited the Commission to continue its analysis.

Contact: Mr Vesa Vanhanen, Enterprise DG, tel. (32-2) 299 21 51

11.11. Financial instruments

Progress was made over the last few years to improve the availability of finance and credit for SMEs through the provision of loans, guarantees and venture capital.

The European financial institutions, the European Investment Bank (EIB) and the European Investment Fund (EIF), have increased their operations for SMEs¹⁰⁸. Furthermore, the financial instruments foreseen under the Growth and Employment Initiative¹⁰⁹ have been extended under the Multiannual programme for enterprise and entrepreneurship, which gave them a new legal basis. The latter includes four schemes: the European-Technology-Facility-Start-up, the SME Guarantee Facility, the Seed Capital Action and the Joint European Venture programme (JEV), which are presented below.

11.11.1. Loans

The European Investment Bank (EIB), owned by the Member States, directly aims to further develop the objectives of the European Union by making long-term finance available for sound investments.

11.11.2. EIB global loans

The EIB finances SME investments indirectly via global loans and the importance of this activity has increased both in terms of volume and as a percentage of the EIB’s total lending within the European Union over the last five years, from €6 billion and 26% respectively in

¹⁰⁸ EIB site <http://www.bei.org/index.htm> and EIF site <http://www.eif.org/sme/default.htm>

¹⁰⁹ Council Decision 98/347/EC of 19 May 1998 on measures of financial assistance for innovative and job-creating small and medium-sized enterprises (SMEs) – the growth and employment initiative, OJ L155, 29.5.1998, p. 43.

1997 to €10.5 billion and 34% in 2001. Over the past five years the EIB provided the partner institutions acting as intermediaries for those loans with a total of €45 billion. SMEs represent the first priority of the global loan activity, and about half of this amount benefited SMEs (nearly 100 000) among which two-thirds had fewer than 100 employees.

11.11.3. Guarantees

Guarantee instruments consist of providing guarantees to financial institutions that cover credits to SMEs. Guarantees are mainly provided by the European Investment Fund (EIF).

11.11.4. Guarantee operations for SMEs based on the EIF's own resources

So far and without taking into consideration the totality of the SME Guarantee Facility activity (see below), guarantee operations in favour of SMEs amount to €1 382 million of which €649 million for the “Growth and Environment” scheme.

11.11.5. Growth and Environment scheme

The Growth and Environment scheme is a guarantee scheme designed to facilitate the access of smaller businesses to loans for the purpose of financing environmentally friendly investments. This is achieved by allowing financial institutions to grant loans with favourable conditions to SMEs. The Commission provides budgetary support to cover the cost of the guarantees for these loans.

The Growth and Environment scheme is a programme sponsored by the Commission and managed by the European Investment Fund (EIF). By the end of 2001, EIF had committed the total available budget.

As at June 2002, the EIF had signed 39 contracts with financial intermediaries covering all Member States¹¹⁰. The EIF's total guarantee commitment under this project amounts to €649 million, which will result in loans of up to €1.3 billion.

11.11.6. SME Guarantee Facility

This Facility was launched in 1998 under the Growth and Employment initiative and extended within the framework of the Multiannual programme for enterprise and entrepreneurship.

The following four types of guarantee are available under the facility:

- Loan Guarantees: to support enterprises with growth potential and up to 100 employees. Under this window, the EIF issues partial guarantees to cover portfolios of loans;
- Micro-credit Guarantees: to support micro-loans for very small enterprises with up to 10 employees;
- Equity Guarantees: counter or co-guarantees of eligible guarantee schemes to cover equity investments in SMEs with fewer than 250 employees (no direct guarantees to venture capital funds);

¹¹⁰ List available at <http://www.eif.org/sme/g&e/listinterm.htm>

- ICT Guarantees: to cover portfolios of loans for the financing of IT equipment, software and training to promote the use of the Internet and e-commerce. Priority will be given to small enterprises with up to 50 employees.

The facility is managed by the EIF on a fiduciary basis. The EIF provides counter-guarantees or, where appropriate, co-guarantees for guarantee schemes and direct guarantees in the case of the European Investment Bank or any other appropriate financial intermediary. Under the SME Guarantee Facility the Community provides budget allocations for the purpose of covering the cost of guarantees issued by the EIF. There is always a risk-sharing arrangement between the EIF and the financial intermediaries. Losses covered by the guarantees will be fully covered by budget allocations, up to a pre-determined cap.

As at September 2002, the EIF had signed contracts with 25 financial intermediaries covering a maximum guarantee portfolio amount of €6.6 billion.

11.11.7. Venture capital

Venture capital instruments consist of equity investments in venture capital funds and business incubators that support SMEs. The EIB group's venture capital instruments are mainly provided by the EIF.

11.11.8. Venture Capital operation on the EIB and EIF's own resources

In 1997, the EIB mandated the EIF to administer €25 million under a programme called the European Technology Facility (ETF) which has now been fully invested. In 2000, the EIF signed another agreement with the EIB (ETF2) and takes in charge all its venture capital activity. As of today, the EIF manages, on behalf of the EIB, more than €2.2 billion, which have been committed to more than 150 funds in 20 European countries.

11.11.9. ETF Start-up

The EFT Start-up Facility was launched in 1998 under the Growth and Employment initiative and extended within the framework of the Multiannual programme for enterprise and entrepreneurship. The Facility supports the establishment and financing of SMEs in their start-up phase by investing in relevant specialised Venture Capital Fund and Business Incubators.

The ETF Start-up facility is managed on a trust basis by the European Investment Fund (EIF). Within the framework of this facility, the EIF invests in specialised venture capital funds, particularly in seed funds, smaller funds, funds operating regionally or funds focussed on specific sectors or technologies, or venture capital funds financing the exploitation of R&D results, e.g. funds linked to research centres and science parks which in turn provide risk capital for SMEs.

As at September 2002, the EIF had approved contracts with 23 financial intermediaries for a total amount of €180.2 million. So far, the EIF had signed contracts with 18 financial intermediaries for a total amount of €121.2 million. These venture capital funds have raised an amount of €543.7 million providing a substantial leverage to Community funds.

11.11.10 Seed Capital Action

The Seed Capital Action (SCA) was launched in 2001 within the framework of the Multiannual programme for enterprise and entrepreneurship. It aims to stimulate the supply of capital for the creation of innovative new businesses with growth and job-creation potential,

including those in the traditional economy, through support for seed funds, incubators or similar organisations in which the EIF participates. The action provides support for the long-term recruitment of additional investment managers to reinforce the capacity of the venture capital industry to cater for investments in seed capital.

The Seed Capital Action is managed on a trust basis by the European Investment Fund (EIF). The grants provided under SCA will support new funds or incubators that include seed capital in their global investment programme and are aimed at covering management costs (up to €100 000 per manager newly recruited and for a maximum of 3 new staff per beneficiary).

As at September 2002, the EIF has approved grants under Seed Capital Action in five financial intermediaries for a total amount of €0.9 million.

In September 2002, the Commission published a report on progress under the CREA Seed Capital Action, financed by the Third Multiannual programme for SMEs (1997-2000), which supported recently created seed capital funds with at least €4 million of investment capital, as a way of overcoming the early-stage financing gap. The 19 active funds that were selected in 1998-1999 after a call for proposals, have invested €2.7 million in 140 companies, creating 1 985 new jobs. The majority of these funds invest locally or regionally in new enterprises that are created in information technology, communications, electronics and life sciences.

11.11.11. Joint European Venture: JEV

The JEV programme was launched as a pilot initiative in November 1997 and extended within the framework of the Growth and Employment initiative, and later by the Decision on the Multiannual programme for enterprise and entrepreneurship, to encourage SMEs to create transnational joint ventures within the European Union. JEV was extended to the EEA EFTA countries by a Decision of the EU-EFTA joint committee in June 1999. The SMEs of Liechtenstein, Norway and Iceland are thus also eligible.

In its first phase, JEV finances 50% of all the eligible costs arising from the conception and setting-up of the joint venture (up to a maximum €50 000). After that phase, the two or more SMEs involved decide whether and in what form the joint venture should be established. Once the joint venture has been set up, it may receive a grant payment of up to 10% of the investment made. Total support for each JEV project is limited to €100 000. SMEs submit their projects to a network of 73 financial intermediaries in the Member States¹¹¹ and Norway.

Up to 30 September 2002, 265 JEV applications have been received. Of these, 196 projects have been supported and a further 15 are currently being evaluated for eligibility. The first joint ventures under the JEV programme are now being set up. So far, investment grants have been awarded to six of the joint ventures established, and further grant applications are being processed.

Contact: Mr Giorgio Chiarion-Casoni, Economic and Financial Affairs DG, tel. (32-2) 293 64 04

¹¹¹ <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/index.htm>

11.12. Financing of innovation

11.12.1. Innovation and Technology Equity Capital Pilot Project – I-TEC

The I-TEC (Innovation and Technology Equity Capital) pilot project started in 1997 in cooperation with the EIF and a number of contracts are still ongoing. It aimed to encourage economically viable, high-quality early-stage investments in technologically innovative European SMEs, by building lasting capacity within venture capital operators to appraise and manage such investments. €1 million was set aside for 28 venture capital firms. In addition to financial aid, I-TEC offered participating firms access to the Eurotech Data information service, which on demand prepares, within two weeks, a dossier on a technology, market sector or product. Finally, I-TEC participants were invited to a series of half-day meetings to build up a network of contacts, with a view for example to syndicating investments among them or exchanging experience and good practice by discussing topical subjects such as the current exit climate.

The results of the interim assessment of the I-TEC pilot project were published in 2001¹¹². It was found that I-TEC complements other schemes, uniquely supporting the cost of managing venture capital, rather than investing directly in equity or providing guarantees. A very high proportion of I-TEC deals were syndicated, indicating a trend for venture capitalists to seek reciprocal transnational syndication of investments as a way of spreading risk. I-TEC participants make more cross-border investments than venture capitalists generally. The industry as a whole has benefited from a long-term increase in capacity resulting from the engagement and training of new staff.

By June 2002, 25 I-TEC participants had committed some €603 million to 354 start-up companies in all 15 Member States.

11.12.2. I-TecNet

I-TecNet is a pan-European network of early stage technology venture capital investors, launched in 2002. It is part of the Commission's Gate2Growth Initiative (described above, see heading 8.2) and builds on the achievements of I-TEC. I-TecNet aims to improve the capacity of European venture capital operators to invest in early stage technology SMEs. The activities of the network include good practice workshops for investment managers from across Europe, with outside experts, a structured visit programme to high-tech cluster locations in Europe, and an internship programme for high-flying business and technology graduates. The network also provides promotion and networking opportunities in workshops, seminars, conferences and partnering events organised across Europe in the context of the Gate2Growth Initiative, as well as access to databases on investment and syndication opportunities. Finally, it provides access to service providers from the Gate2Growth Community in a range of fields and to Eurotech Data, a specialised information service for the venture capital profession. Thanks to I-TecNet, entrepreneurs can access a network of around 70 capable venture capital investors, interested in business projects with a high degree of innovation in technology, product, service or process and which exhibit a potential for high growth and new job creation.

11.12.3. Guarantee mechanisms for financing innovative technology

The Commission published in 2001 the results of the Finance-Innovation-Technology (FIT) project on guarantee mechanisms for financing innovative technology¹¹³. The project found that a guarantee is often vital to ensure access to finance in a climate where banks are hesitant

¹¹² European Commission, Innovation papers No 14, EUR 17033.

¹¹³ European Commission, Innovation papers No 15, EUR 17041.

to support high-risk, low-profit ventures with only intangible assets. However banks are beginning to realise that contrary to common assumption, new technology-based firms (NTBFs) may present a *lower* financial risk than SMEs in general, because they usually have a core of very highly educated, mid-career professionals, even though they may lack management and marketing experience. Most existing schemes guarantee loans, but those targeting NTBFs, who are keen to benefit from fast growth, often guarantee venture capital equity. Guarantee schemes face a failure rate of between 3% and 10% of the sums guaranteed. Guarantees do not tend to reduce the interest charged on loans. Some governments are building private sector capacity by supporting mutual guarantee societies. One of the main problems facing guarantee schemes is how to make themselves better known to SMEs. Guarantee schemes are more effective when part of an integrated programme of financial and advisory support measures.

11.12.4. Funding of new technology based firms by commercial banks in Europe

According to the study on the funding of new technology based firms by commercial banks in Europe¹¹⁴, published by the Commission in 2000, almost all banks use the same assessment criteria for new technology-based firms (NTBFs) as for other SMEs. Specific approaches to NTBFs are more common among British banks, patchy in other parts of northern Europe, and rare in southern Europe. Overall, only 15% have special packages for start-up companies, and only 27% recognise the existence of an identifiable category of NTBFs. No bank accepts intangible assets such as intellectual property as security for a loan. The major barriers to increased bank lending to NTBFs are the limited flow of applications, high risk, under-capitalisation of applicants, and lack of bank expertise.

11.12.5. Corporate venturing in Europe

According to the survey on corporate venturing in Europe¹¹⁵, published by the Commission in 2001, corporate investments of €1.2 billion per year amount to 10% of total European venture capital, but 40% of early-stage investing. About three-quarters is invested in Europe. Corporate venturing is spread evenly through the EU's major economies, with the exception of Italy. Five sectors – communications, utilities, food, drink and tobacco, metal manufacturing and air transport – account for 44% of Europe's corporate venturers. Most corporations making a venture capital investment are primarily motivated by the strategic goal of forging a link with a new technology or market that might prove crucial to its future. Allowing entrepreneurial staff the scope to develop their ideas through SME spin-outs also gives a corporation the opportunity to exploit in-house R&D quickly and cheaply. Investee SMEs gain credibility from the endorsement of their investor, as well as forms of support that would otherwise be beyond their reach.

Contact: Mr Marc Verlinden, Enterprise DG, tel. (32-2) 293 41 94

12. STRENGTHENING THE TECHNOLOGICAL CAPACITY OF SMALL AND MEDIUM-SIZED ENTERPRISES

In March 2002, at the Barcelona European Council, which reviewed progress towards the Lisbon goal, the Heads of State and Government agreed that RTD investment in the EU must be increased, with the aim of approaching 3% of GDP by 2010, up from 1.9% in 2000. They also called for an increase in the level of business funding, which should rise from its current level of 56% to two-thirds of total RTD investment, a proportion already achieved in the US and some European countries. The Commission Communication "More research for Europe:

¹¹⁴ European Commission, Innovation/SMEs Programme, EUR 17025.

¹¹⁵ European Commission, Innovation/SMEs Programme, EUR 17029.

Towards 3% of GDP”¹¹⁶, adopted in September 2002 aimed at launching a debate on the ways and means of reaching these objectives.

Prospective policy approaches will be more co-ordinated and bundled under the European Research Area conception¹¹⁷, while it is also clear that SMEs, the backbone of European industries, need to be involved pro-actively in this knowledge conversion process.

12.1. Technology transfer institutions

The Best Procedure project on technology transfer institutions (TTI), launched in 2002, aims to contribute to the improvement of technology transfer from research to enterprises by:

- improving knowledge about dissemination and typology of technology transfer institutions in the EU, the candidate countries and associated countries;
- developing a methodology to classify and evaluate such institutions;
- link framework conditions to existence and performance of TTI;
- developing indicators for monitoring progress in this important channel of technology transfer;
- recommending good practices and policy approaches, thus providing, together with the indicators the necessary information for a benchmarking process and the setting of targets;
- developing a self-evaluation tool for TTI to assess their performance and develop strategies for the improvement of their institution; and
- identifying systematic success factors and – framework-related – strategies for the improvement of TTIs.

Some of these results will contribute to parallel activities (e.g. ProTon Europe, described below, see heading 12.2). The project will relate to various earlier and on-going activities in the area of industry-science relations, in particular issues on IPR, mobility of researchers, and spin-offs.

In addition to an expert group with delegates from the participating countries and the Commission, a study by external experts is foreseen. The publication of the final report and the executive summary of the study, as well as the report of the expert group are scheduled for the first quarter of 2004.

Contact: Mr Christian Lettmayr, Enterprise DG, tel. (32-2) 299 50 99

12.2. ProTon Europe

ProTon Europe is a pan-European network of Technology Offices linked to Public Research Organisations and Universities, launched in 2002. It is supported by the Commission as part of its Gate2Growth Initiative (described above, see heading 8.2). A significant amount of world-class research is undertaken in universities and research institutions in Europe, which has actual or potential commercial relevance. To capitalise fully on the potential of these

¹¹⁶ COM(2002) 499 final, 11.9.2002.

¹¹⁷ http://europa.eu.int/comm/research/era/index_en.html

public research organisations (“PRO”), it is essential that commercialisation becomes an integral part of the research process and that alternative approaches to the ownership and exploitation of intellectual property rights (IPR) are suitably explored. The interface between PROs and industry is tended by technology interface structures of various natures referred to in many countries as “Transfer Office” (TO). ProTon Europe aims to build up a membership of at least 250 PROs throughout Europe.

The ultimate objective of ProTon Europe is to boost the commercial uptake of publicly funded R&D throughout Europe by further developing the professional skills of those working in this field. This should contribute to the creation of new products, processes and markets, improve the management of innovation and thereby stimulate sustainable and high value economic growth, competitiveness and employment. The working methods of ProTon Europe include benchmarking of technology commercialisation activities across Europe, and the collection and dissemination of good practice in managing and commercialising IPR.

Contact: Mr Marc Verlinden, Enterprise DG, tel. (32-2) 293 41 94

12.3. Learning on the mechanisms to create new innovative firms

The results of an 18-month pilot phase¹¹⁸ demonstrated the feasibility of PAXIS (Pilot Action of Excellence on Innovative Start-ups) as a tool for the support of the Community innovation policy. The operational objective of PAXIS was to contribute – through a practical approach – to the identification, analysis, validation and dissemination of local conditions of excellence for the creation of innovative firms. The main concern of PAXIS was to mobilise and foster an effective participation by local support organisations in a learning process about successful schemes for the creation of innovative firms, either by sharing knowledge with other local organisations or by validating specific cases of good practice. The main outcomes were indirect support to the creation of innovative start-ups, and enhanced knowledge on mechanisms facilitating the setting-up and development of innovative firms at European level. The project also provided a sound basis for the definition of the Community innovation policy.

Contacts: Mr Tomás Botella Yaquero, Enterprise DG, tel. (32-2) 293 71 16 / Ms Charlotte Avarello Enterprise DG, tel. (32-2) 293 80 21

12.4. Enterprise clusters and networks

A project on Enterprise clusters and networks was launched in April 2002. It aims to take stock of existing knowledge on clusters and networks in Europe, and make an analysis of policy initiatives taken by the Commission, the Member States, the candidate countries, Norway and Iceland, with a view of identifying good practices and future actions in this field. A group of experts appointed by the countries concerned will help collect information. The final report is expected for spring 2003.

Contact: Ms Nathalie Oghlian, Enterprise DG, tel. (32-2) 295 60 52

12.5. Promoting creation and development of sustainable employment in the rare crafts sector

In 2000, the Commission presented the survey “Promoting creation and development of sustainable employment in the rare crafts sector”¹¹⁹. Artistic craft entrepreneurs are often

¹¹⁸ PAXIS final report (Results and policy recommendations). To be published.

¹¹⁹ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-studies/rarecrafts.htm>

faced with specific difficulties in maintaining and developing their enterprises, in particular the problem of transfer of expertise and knowledge. Given their unique contribution to the European cultural heritage and the local economies, the survey aimed to identify the organisations (networks) and the methods for transferring expertise and knowledge in the rare crafts sector in the EU and some candidate countries. The survey resulted in a number of recommendations aimed at promoting the development of small businesses in this particular sector, through the preservation of rare crafts and supporting programmes.

Contact: Ms Francesca Tudini, Enterprise DG, tel. (32-2) 296 38 33

12.6. European RTD Programmes: Tools for innovation and internationalisation

The European Union policy for research and technological development (RTD) is implemented through multiannual Framework Programmes which constitute a coherent instrument covering all EU-funded RTD activities.

The RTD Framework Programme (FP) bring together partners such as enterprises, universities and research centres from different countries, creating links between different national business and research communities. The RTD FP is for many SMEs an excellent instrument to address the challenges to which they are confronted, such as an increased competition resulting from globalisation and a growing demand from larger companies for which they often work as sub-contractors. To meet these challenges and to remain competitive, SMEs need to innovate constantly.

The Fifth Framework Programme (FP5) covered the period from 1998 to 2002, and the current Sixth Framework Programme (FP6) is running from 2002 to 2006.

12.6.1. The Fifth Framework Programme

Special measures for SMEs were developed in the Fifth Framework Programme (FP5)¹²⁰. They were implemented through open calls for proposals, meaning that proposals could be submitted at any time of the year. The measures included a network of specialised SME National Contact Points, and a single entry point, a centre common to all Community RTD programmes, to which SMEs could address all their questions, ideas and proposals. Exploratory awards were available, i.e. financial grants allowing two SMEs from different Member States or associated countries to prepare a project proposal under any of the four main thematic programmes. The Co-operative research (CRAFT) scheme enabled at least three independent SMEs from two different Member States or associated countries, facing common problems but without sufficient RTD capabilities, to entrust the bulk of the required research to a third party (the RTD performer). At the end of the project, SMEs would own the results of the research. Economic and technological intelligence accompanying measures allowed existing networks of service providers and SME associations to identify relevant information (e.g. technological trends) for their SME members or clients, and where appropriate help these to prepare a proposal for a Community RTD programme.

Besides these measures, SMEs were encouraged to take part in the other project types offered by FP5, together with other companies, universities and research institutions. This mainly attracted SMEs with high research capabilities.

¹²⁰ Decision No 182/1999/EC of the European Parliament and of the Council of 22 December 1998 concerning the fifth framework programme of the European Community for research, technological development and demonstration activities (1998 to 2002), OJ L 26, 1.2.1999, p. 1.

Under FP5, each of the five thematic programmes (Quality of Life, Information Society, Growth, Energy & Environment, and Innovation) had the objective of allocating a minimum of 10% of their budget to SMEs. This objective was reached in already in spring 2001.

The Innovation and SME Programme

Within FP5, the “Innovation and SME Programme”, at the crossroads of EU policies on research, innovation and SMEs, promoted innovation at Community level and encouraged SME participation in FP5. The programme supported European businesses to innovate, to develop, market and integrate new technology and to manage change more effectively. More specifically, it supported European SMEs to fully participate in FP5 actions and to optimise their advantages from such participation. The programme also aimed at contributing to a more innovation-friendly environment in Europe, improved conditions for the creation and development of new companies, the diffusion of new technologies, the emergence of new economic activities and at fostering the “innovation culture” in Europe. The overall budget of this specific programme in FP5 was almost €400 million.

Contact: Jean-Claude Venchiarutti, Enterprise DG

SME participation in the Fifth Framework Programme

The total SME participation (the data is still incomplete) amounts to nearly 12 000. In particular, as regards the SME specific measures, 2 713 Exploratory Awards were submitted, involving 5 760 SMEs. 1 151 projects were selected, involving 2 455 SMEs. As regards Co-operative Research (CRAFT), 2 494 project proposals were submitted, involving 13276 SMEs, of which 884 were selected for funding, involving 4 841 SMEs. More than half of the submitted project proposals were made under the Competitive and Sustainable Growth thematic programme. However, in general, proposals were more spread across programmes than in FP4.

Table 2: SME participation by project type in FP5

Thematic Programme	Exploratory Awards	Co-operative Research (CRAFT) projects	RTD projects other than Explanatory Awards and CRAFT*	TOTAL
Quality of Life	790	1 169	526	2 485
Information Society	314	409	1 901	2 624
Growth	996	2 618	1 366	4 980
Energy & Environment	347	645	822	1 814
Innovation	8	0	0	8
TOTAL	2 455	4 841	4 615	11 911

*Data covering April 1999 to April 2002; except * April 1999 to December 2001*

It should be highlighted that 77% of the SMEs participating in the SME-specific measures were small enterprises (10-49 employees), and 32% micro enterprises (0-10 employees). Considering Exploratory Awards only, micro enterprises represented 42% of the SMEs taking part.

Table 3: Distribution of SME participation by size in FP5

Type of project	Exploratory Awards		Co-operative Research (CRAFT)	
	SMEs in submitted projects	SMEs in selected projects	SMEs in submitted projects	SMEs in selected projects
No employee (self-employed)	289	120	377	13
1 – 9	2 283	914	3 918	1 386
10 – 49	2 173	950	5 716	2 090
50 – 249	1 015	471	3 265	1 229
TOTAL	5 760	2 455	13 276	4 841

12.6.2. The Sixth Framework Programme

The Sixth Framework programme (FP6)¹²¹ intends to have a structuring effect on research and technological development and to contribute significantly to the establishment of the European Research Area and innovation. It will also provide an important input to the development of scientific and technical excellence and to the co-ordination of European research.

FP6 attaches great importance to the participation of SMEs. The new programme devotes the highest ever budget to SMEs (nearly €2.2 billion). SMEs, including small and micro enterprises as well as craft enterprises, will be encouraged to participate in all areas and all instruments set out for FP6. All the initiatives already established under FP5 aimed at simplifying administrative procedures, reducing bureaucracy and helping SMEs are maintained and further improved.

FP6 will put special emphasis on the needs of SMEs aiming to strengthen their technological capabilities and will encourage their development in the knowledge society as well as the use of their economic potential in an enlarged and better integrated EU.

At least 15% of the budget (approximately €1.7 billion) relating to the seven Priority Thematic Areas of Research of the Integrating and Strengthening the European Research Area Specific Programme of FP6 will be dedicated to SMEs. The Priority Thematic Areas are (1) genomics and biotechnology for health; (2) information society technologies; (3) nanotechnologies and nanosciences; (4) aeronautics and space; (5) food safety; (6) sustainable development; (7) and economic and social sciences. The main route for SMEs to participate in the Priority Thematic Areas will be through Networks of Excellence (NoE), Integrated Projects (IP) and Specific Targeted Research Projects. A special effort will have to be made to facilitate the SME participation in these new instruments.

¹²¹ Decision No 1513/2002/EC of the European Parliament and of the Council of 27 June 2002 concerning the Sixth Framework Programme of the European Community for research, technological development and demonstration activities, contributing to the creation of the European Research Area and to innovation (2002 to 2006), OJ L 232, 29.8.2002, p. 1.
http://europa.eu.int/comm/research/fp6/index_en.html

In addition, two specific schemes for SMEs (with a total budget of €430 million) in the form of Horizontal Research Activities will be set up: Collective Research and Co-operative Research (CRAFT). These will primarily address the large community of SMEs with a capacity for innovation but with limited research capability. Any research topic or field in the area of science and technology in which the SMEs concerned have specific identifiable needs can be addressed by these schemes.

Measures to encourage the participation of SMEs in the Priority Thematic Areas

A number of different measures have been foreseen to encourage the participation of SMEs in the Priority Thematic Areas. The participation of SMEs in NoEs and IPs will be actively encouraged in a number of ways. Proposers will be asked to indicate to what extent the strategic impact in terms of increasing the competitiveness of SMEs and the opportunity for a real involvement of SMEs have been adequately addressed to achieve the objectives of the project, and these will be sub-criteria for evaluating the quality of the consortium in IPs. In addition, areas of particular relevance to SMEs will be given special attention and may also be the subject of targeted calls at a later stage. The formation of SME associations or groupings will also be encouraged as an alternative route for SMEs that might not be able to participate on their own in the new instruments. These SME groupings have a broad knowledge of their sector and this will bring added value to a project.

As technology take-up measures should be included, in IPs in particular, wherever appropriate in order to promote the early or broad application of state-of-the-art technologies, this will offer ideal platforms for presenting SMEs with the results of the research undertaken and encouraging the transfer of these results. In many cases, due to the nature of the project results, SMEs to be involved in these activities may only be identified in the latter stages of a project. In these cases the consortium would be permitted to provide for these activities when calculating the project budget and the relevant part of the Community contribution agreed during contract negotiations would be set aside. The increased flexibility of FP6 also means that running projects could have additional financial contribution in order to expand their scope to cover new activities, which may involve new SME partners, for example for exploitation and take up of results. This will be done via competitive calls.

The Specific Targeted Research Projects will aim at improving European competitiveness and will be sharply focused. They will be similar to the FP5 RTD and Demonstration Projects, where SME involvement was already very significant. One of the criteria for evaluating this type of proposals, as regards the quality of the consortium, will be to which extent the involvement of SMEs is optimal to achieve the objectives of the project.

Specific support actions will also be funded under each of the seven Priority Thematic Areas of FP6 with the aim of stimulating, encouraging and facilitating the participation of SMEs and SME Groupings/Associations in the new instruments. They will involve for example conferences, seminars, studies and analyses, working groups and expert groups, operational support and dissemination, information and communication activities, or a combination of these, as appropriate in each case. In addition, Economic and Technological Intelligence (ETI), one of the activities envisaged within the Research and Innovation part of the Specific Programme on Structuring the European Research Area will be stepped up (with an approximate total budget of €35 million). ETI will be implemented via Specific Support Actions and Co-ordination actions. The projects should address a specific research theme or industrial sector with a view to facilitating the participation of SMEs/SME groupings in the FP6, particularly through IP and NoE. These projects may include technology audits to identify SME needs and direct SMEs towards the most appropriate instruments under the FP6, and actions to create bridges between the innovation players (notably SMEs, researcher-

entrepreneurs and investors). The identification and dissemination of best practice will be encouraged. The typical duration of ETI projects would be one to three years.

Horizontal research activities involving SMEs

Co-operative Research projects have been successful for a long time. The strength of this type of project is to allow SMEs, eager to innovate but without research capacities, to benefit from the main advantages that the research activity may offer. Under the Co-operative Research scheme, a minimum of three SMEs from two different Member States or associated candidate countries having specific problems or needs can outsource a significant part of the required research to two or more RTD performers, while retaining exclusive ownership of the results. Projects are relatively short term, between one and two years and may address any research topic or field, based on the specific needs and problems of the SMEs concerned. They should include research and innovation-related activities as well as consortium management activities. Other enterprises and end-users will be able to participate in Co-operative Research projects, on condition that they do not assume a dominant role, and have restricted access to the results.

Collective Research is a new scheme under FP6. The objective of this type of project is to expand the knowledge base of larger communities of SMEs that face common challenges. These range from pre-normative research issues to technological problems of whole industrial sectors that could not possibly be addressed by Co-operative research projects. The pilot action under FP5 clearly proved the high interest and considerable attention from the European associations and SME groupings for this type of project. Collective Research is a scheme where research is undertaken by two or more RTD performers on behalf of a minimum of two industrial associations: groupings or one European industrial association / grouping. The projects will be substantial, during two to three years', and conducted on a European basis. Ownership of the results lies with the industrial associations or industry groupings. Collective Research projects can address any subject across the whole field of science and technology, which is of interest to large communities of SMEs. They can include research and innovation-related activities as well as training activities. An SME core group with a minimum of two SMEs from two different Member States or associated countries should contribute to the project, from its definition phase to the dissemination of the results obtained and will benefit from the use of these results.

Information and assistance

Under FP5, all Member States and associated countries set up a system of National Contact Points (NCPs)¹²². For the new structures and instruments of FP6, providing appropriate information and assistance to potential SME participants is even more vital. In FP6, the SME NCP systems will vary from highly centralised to decentralised networks, involving very different actors, from ministries to universities, research centres and special agencies to private consulting companies. This reflects the different national traditions, working methodologies, research landscapes and funding schemes. However, they will all ensure a coherent approach and a high level of service.

The Commission will maintain a Single Entry Point, to facilitate the participation of SMEs in FP6, by providing them with information and assistance. This help is offered through a website and an SME Helpdesk. The Website¹²³ gives all the general information needed to encourage SMEs to participate in EU RTD Programmes under FP6. It provides contact details

¹²² <http://www.cordis.lu/fp5/src/ncps.htm>

¹²³ <http://sme.cordis.lu>

for the SME NCPs, which should be able to provide, at the local level, specific detailed advice and assistance, and the SME Helpdesk replies to queries made by telephone, fax or e-mail.

Contact: SME-Helpdesk, tel. (32-2) 295 71 75, fax (32-2) 295 71 10, e-mail research-sme@cec.eu.int

12.7. Assisting SMEs on Intellectual Property Right (IPR) matters

The Intellectual Property Rights Helpdesk (IPR Helpdesk) assists an important number of European SMEs (among others) participating in Community funded RTD projects. It was launched in 1998 as a Commission pilot project and will continue its operation until December 2004 under a new contract co-financed by the Commission. The project maintains a multilingual portal¹²⁴ that facilitates access to a large range of IPR materials. A Representative Office in Brussels has also been established, to which any actors wishing to discuss relevant matters directly with IPR experts can turn.

Contact: Mr Nikos Pantalos, Enterprise DG, tel. (32-2) 293 80 61

12.8. Facilitating transnational technology transfer – The Innovation Relay Centre (IRC) Network

The mission of the Innovation Relay Centres (IRCs)¹²⁵ is to support innovation and transnational technological cooperation in Europe with a range of specialised business support services. IRC services are primarily targeted at technology-oriented SMEs, but are also available to large companies, research institutes, universities, technology centres and innovation agencies. The first Innovation Relay Centres were established in 1995, with the support of the Commission. The aim was to create a pan-European platform to stimulate transnational technology transfer and promote innovation services. Today, 68 regional IRCs span 31 countries - all the EU Member States, the candidate countries, and Iceland, Israel, Norway and Switzerland.

Most IRCs are managed by a consortium of qualified regional organisations such as Chambers of Commerce, Regional Development Agencies and university Technology Centres. Altogether, almost 250 partner organisations are involved, ensuring wide geographic coverage, and having access to over 1 500 innovation professionals. Among other results, the IRC Network has achieved 136 Technology Transfer Agreements in 2000-2001 and 282 in 2001-2002. In addition, two operational agreements were recently concluded with the European initiative EUREKA and the European Space Agency (ESA) for the promotion and dissemination of RTD results through the IRC Network. The IRC Network will continue its operation within the Sixth Framework Programme for RTD (described above, see heading 12.6) for the period 2002-2006.

Contact: Mr Nikos Pantalos, Enterprise DG, tel. (32-2) 293 80 61

12.9. Promoting innovation within European regions

The Regional Innovation Measures aim to encourage regions to act in an international context by facilitating the exchange of experience between those regions that are involved in innovation actions. The new generation of innovative actions for 2000-2006, financed under the Structural Funds (see below, heading 19), are particularly relevant for SMEs and their

¹²⁴ <http://www.ipr-helpdesk.org>

¹²⁵ <http://irc.cordis.lu>

involvement in the knowledge-based economy. Three themes have been chosen for this period: (1) a regional economy founded on knowledge and technological innovation (to assist the least developed regions in developing competitive tools and implementing partnerships between the public sector, enterprises, research organisations and universities); (2) *eEurope-regio*: the Information Society and regional development (to assist projects in the digital technology service sector in order to lessen the handicaps of, for example, peripheral regions); and (3) regional identity and sustainable development (to encourage regions to build on their cultural assets or specific competences to improve the professional environment in the regions). A total budget of €400 million is available for these programmes.

During 2001, 80-odd regions have begun implementing their regional programmes of innovative actions, mainly in the fields of technological innovation and the information society, with EU co-financing at over €200 million. For 2002, another approximately 40 regional programmes were approved by the Commission.

The Network of Innovating Regions in Europe (IRE) is the joint platform for collaboration and exchange of experience in the development of regional innovation policies and schemes. The IRE Network is open to all European regions, including those in Central and Eastern Europe and Cyprus, which can demonstrate good practice in the promotion of innovation. The network aims to enable regions to access new tools and schemes for innovation promotion and to create an inter-regional learning process. It also seeks to put innovation at the top of the regional policy agenda¹²⁶. During the years 2001-2002, 16 innovation strategy projects in the Newly Associated Countries (IRE-NAC projects) have been launched with the objective of developing and implementing regional innovation strategies. At the same time, 14 Thematic Networks bringing together over 250 innovation stakeholders throughout Europe have been set up to exchange good practice on specific regional innovation policy topics.

Contact: Mr Nikos Pantalos, Enterprise DG, tel. (32-2) 293 80 61 (for IRE)

13. SUCCESSFUL E-BUSINESS MODELS

The concept of “e-business” refers to both e-commerce (buying and selling online) and restructuring business processes to make the best use of digital technologies. It is when information technologies transform traditional business procedures, products and services that e-business fulfils its potential. Clearly the responsibility for both activities lies with industry, but governments determine the regulatory environment that can either stimulate or undermine the development of e-businesses¹²⁷. See also heading 6.5 and 8.3.

Information and communication technologies (ICTs), and particularly e-business, offer many opportunities for SMEs to grow and prosper. While some are embracing change very successfully, for the most part European SMEs find the opportunities presented by ICTs difficult to grasp. The obstacles are well documented. They include lack of technical and management skills in SMEs, lack of appropriate e-business solutions, the high cost of ownership of ICT equipment, concerns about security and privacy, and complex regulatory frameworks for e-commerce. Most significantly of all, many SMEs are not yet convinced of the appropriateness of e-business for their particular circumstances. They are seeking highly

¹²⁶ <http://www.innovating-regions.org>

¹²⁷ For an overview of relevant legislation at European level, see http://europa.eu.int/information_society/topics/ebusiness/ecommerce/8epolicy_elaw/law_ecommerce/index_en.htm

specific information on which to build a business case, and so make informed and realistic investment decisions.

13.1. The eEurope Action Plan

In May 2002, the Commission adopted a follow-up Action Plan to eEurope 2002¹²⁸, eEurope 2005¹²⁹, running from 2003 to 2005 (see also heading 18.3.2). eEurope 2002 proved to be a successful format. The new eEurope Action Plan will build on these successes and maintain eEurope as the symbol of European Union policy to develop the information society. It identifies the need to promote “a dynamic e-business environment”, and proposes a comprehensive set of actions in relation to legislation, e-skills, interoperability, and trust and confidence, with specific reference to SMEs. Key measures include a European e-business support network, fostering of clusters of online SMEs, sharing of good practice, and promotion of guidelines and standards.

While the two programmes have different time horizons, SME-related actions under the Sixth RTD Framework Programme (described above, see heading 12.6.2) will continue to inform and support this process.

13.2. Go Digital

As a follow-up of the eEurope 2002 Action Plan, and, more specifically, of the Commission’s Communication and Action Plan “Helping SMEs to *Go Digital*”¹³⁰, the Commission services have launched specific actions to address the needs of SMEs with regards to the adoption of information and communication technologies (ICT) and e-business. A summary of the progress achieved in the different actions is provided by the Commission Staff Working Paper “Go Digital Progress Report 2001-2002”¹³¹.

A Go Digital Awareness Campaign was launched in April 2001. It aimed to encourage multiplier organisations to launch Go Digital events and workshops at European, national and regional level, in order to demonstrate the potential benefits of adopting e-business, to promote the efficient use of e-business by SMEs and to provide them with practical assistance on how to participate in the e-Economy and take full advantage of it.

So far, more than 70 events have taken place across Europe in 2002 in the context of regional and national campaigns, mainly organised by SME organisations and other business organisations. A report analysing the results of the Go Digital Awareness Campaign will be published in 2003.

Contact: Ms Georiga Chioni, Enterprise DG, tel. (32-2) 295 34 89

13.3. Benchmarking national and regional policies in support of e-business for SMEs

The Best Procedure benchmarking initiative on national and regional policies in support of e-business for SMEs was conducted by the Commission in close cooperation with all Member

¹²⁸ eEurope 2002: An information society for all, 14.6.2000, http://europa.eu.int/information_society/eeurope/action_plan/index_en.htm

¹²⁹ eEurope 2005: An information society for all, COM(2002) 263 final, 28.5.2002.

¹³⁰ COM(2001) 136 final, 13.3.2001.

¹³¹ SEC(2002) 566, 13.5.2002.

States and Norway. It resulted in June 2002 in a final report¹³² which identified 19 examples of good national and regional policies for helping small businesses to “go digital”.

The intermediate report¹³³, published in February 2002, identified more than 150 policies in the participating countries, specifically designed to help SMEs to adopt e-business practices. They mainly concerned framework policies in support of e-business, raising awareness and training, promoting support networks for SMEs and promoting Internet platforms for SMEs.

The selected examples demonstrate that a large number of well-defined and promising e-business policies in support of SMEs exist at regional and national level and that there is sufficient evidence of good practice in support of e-business for SMEs. The report suggested that efficiency gains could be reaped by learning from each other and sharing experience and information material. Consequently, the Commission has recently established an “European e-business support network for SMEs” to improve cooperation among existing e-business policy initiatives in Europe. Participation in this network is open, based on willingness to share experience and information material, and the Commission published a call for expression of interest in November 2002¹³⁴.

Besides highlighting good practice, the report set out 15 lessons that can be learnt from existing specific SME policies in this field. These lessons are meant to highlight important principles in policy design and implementation that should be applied in the future, and included the following:

- sound policy intervention should be underpinned by solid data and research;
- continuous and broad consultation with the business community is needed and must result in flexible and adaptable e-business policies;
- various policy instruments are available but they should be used in a co-ordinated and consistent manner;
- e-business policies and initiatives should meet the needs of different regions and sectors;
- public-private partnerships are crucial to promote e-business;
- SMEs need and highly value independent advice;
- SMEs can benefit from sharing good business practice;
- specific e-business policies should not last forever;
- the benefits of e-business policy initiatives should be sustainable.

Contact: Ms Iordana Eleftheriadou, Enterprise DG, tel. (32-2) 299 02 56

¹³² The final benchmarking report is available at <http://europa.eu.int/comm/enterprise/ict/policy/benchmarking.htm>

¹³³ The intermediate synthesis report is available at <http://europa.eu.int/comm/enterprise/ict/policy/benchmarking.htm>

Further information on the European e-business support network for SMEs, as well as the related invitation for expression of interest is available at <http://europa.eu.int/comm/enterprise/ict/policy/e-bus-snfsme.htm>

14. TOP-CLASS BUSINESS SUPPORT TO SMALL AND MEDIUM-SIZED ENTERPRISES

14.1. Benchmarking of business support services

For some time, the Commission, working with the Member States, has been promoting improvements in the quality of business support services, mainly on the basis of identifying and promoting the exchange of good practice. A range of public and semi-public support organisations provides the assistance to businesses, but whatever the form of the organisation providing the assistance, enterprises have the right to expect that the services they receive be of the highest quality.

Under the Best Procedure, a project was carried by the Commission in conjunction with the Member States, which aimed to provide an analysis of good practice relating to business support presented in earlier events organised under the Concerted Action programme. It also aimed to define a series of guidelines for establishing the top class business support that is promised by the European Charter for Small Enterprises.

The conclusions of the Best Procedure project, completed in December 2001, set out fifteen guidelines for best practice¹³⁵. These included the need for:

- a reaffirmation of the importance of client-orientation;
- the establishment of coherent and co-ordinated support services;
- more professional services based on a methodology that aims to assist enterprises to build all aspects of their own management capacity;
- the development of support organisations' own capacity to provide services, tailored to the individual needs of clients, through a process of regional competence planning;
- reinforce human and physical resources (in particular ICT) and greater professionalism among staff: training and staff development structures;
- the creation of an evaluation culture that feeds back into the design and operation of support services;
- effective promotion.

Although the use of business support services can considerably enhance an enterprise's business performance, the project highlighted that probably less than 15 % of enterprises make use of them, and that provision of business support has developed in an uncoordinated way. Support organisations face major challenges in responding to enterprises' needs in a global, knowledge-based economy, adapting to the opportunities presented by ICT, and developing professional standards in service delivery.

In the framework of the Best Procedure project, a study on "Support services for micro, small and sole proprietor businesses" was also carried out¹³⁶. This initiative aimed at identifying and analysing external support services for the smallest businesses and at assessing existing gaps between the needs of micro, small and sole proprietor businesses and the supply of tailor-

¹³⁵ Creating Top-class Business Support Services, SEC(2001) 1937, 28.11.2001.
http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/top-class/best-proc.htm

¹³⁶ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-studies/craft-supportserv.htm>

made support services for these enterprises in the EU. The information on existing support services was gathered through a comprehensive analysis of literature, personal interviews with SME representatives and private consultants specialised in very small businesses, a telephone survey in 1200 businesses and 64 personal interview case studies. This study provided comprehensive elements for future policy actions aimed at supporting and reinforcing tailor-made support services for micro, small and sole-proprietor businesses.

Following the Best Procedure project on business support services, the Commission presented at a European seminar in Vienna on 11-12 April 2002 the results of the work on support services, with a focus on micro, small and sole proprietor businesses.

Contact: Mr Jorge Costa-David, Enterprise DG, tel. (32-2) 299 46 34 (main project) / Mr Fabien Durand, Enterprise DG, tel. (32-2) 299 67 54 (study on support services for small businesses)

The Support Measures and Initiatives (SMIE) databases are an important reference tool both on business support measures for SMEs and good practices in this area. The database on support measures includes more than 2 500 measures from 25 European countries (Member States, EEA EFTA countries and six candidate countries). It is being regularly updated through a collaborative effort of a dedicated contractor and national contact points. The database on good practices assembles together more than 100 successful business support cases that have been showcased in various EC fora. Besides offering a user-friendly information tool, the databases also aim at facilitating comparative analysis, benchmarking and evaluation of business support measures across Europe.

Contact: Ms Tina Zournatzi, Enterprise DG, tel. (32-2) 295 60 92

14.2. Benchmarking of business incubators

The importance of business incubators is twofold. Firstly, they favour the setting up of new companies and, secondly, they provide the appropriate business support needed to increase the chances of their survival and growth.

In the framework of the Best Procedure, the Commission carried out a benchmarking project, focusing on the management and the promotion of incubators¹³⁷. The aim was to identify indicators of their performance, including operational benchmarks. The work involved experts from the Member States, who are all managers of business incubators in their respective country.

The Best Procedure project, concluded in January 2002, found that 90 % of all start-ups set up inside a business incubator are still active three years later, and that the public cost of creating jobs inside incubators is €4 000, which is very low compared with other public means and programmes. The 850 European business incubators assist in creating 29 000 new sustainable jobs every year in enterprises that are more viable than those set up outside incubators. The project concluded that the number of incubators varies considerably according to the Member State, and that there are significant differences between the way in which EU and non-EU, particularly US, incubators operate. There is therefore scope for sharing experience. The project also showed that the quality of the management team is crucial to performance. Finally, the project showed that business incubators should be encouraged to benchmark

¹³⁷

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

themselves against the best practice standards identified. In this regard, particular attention should be given to:

- ensuring that incubator operations are integrated into wider regional development strategies and supported by partnerships;
- clearly defining the target market and adopting admission criteria that focus on projects where an incubator can genuinely add value;
- placing particular emphasis on developing high quality business support services (entrepreneur training, business advice, technology support, financing, etc);
- ensuring that incubators are managed in a business-like manner with the aim of maximising value for money.

It seems that networking and benchmarking between business incubators and connecting at a European level are needed to maximise the impact from business incubators towards the Lisbon goals. In conclusion, with a sustained effort to support business incubators over the next eight years, the business incubators can contribute considerably towards the Lisbon goal of achieving 15 million new jobs.

Since the completion of the project, attention to the conclusions have been drawn in appropriate fora, such as the ACE Forum in Paris in March 2002, the annual (16th) International American National Business Incubation Association (NBIA) conference in Toronto, Canada, in April 2002, as well as on a number of other meetings such as the Third Forum for Innovative Enterprises in Stockholm, Sweden.

In parallel, the Commission has promoted the availability on-line of a European-wide (including EU, associated and candidate countries) business incubator database where any business incubator of the participating countries can register¹³⁸. It is hoped that this database will help the business incubator community in their networking and mutual support. The database is being constantly improved.

Contact: Mr Jorge Costa-David, Enterprise DG, tel. (32-2) 299 46 34

14.3. The Gate2Growth Incubator Forum

The Gate2Growth Incubator Forum is a pan-European network of professional managers of technology incubators and incubators linked to research institutes and universities, launched in 2002. It is supported by the Commission as part of its Gate2Growth Initiative (see heading 8.2). It aims to contribute to raising professional standards and to the exchange of experience and good practice among incubators and business support services at European level. Gate2Growth Incubator Forum members can participate in good practice workshops with incubator managers from across the continent, high tech cluster visits and human resources development. They get access to Eurotech Data, a specialised information service, and can compete for the Gate2Growth Incubator Forum Awards for outstanding professional incubator management.

Membership is open to professional, dedicated incubator and business support organisations, based in the EU, in the candidate countries, the EEA EFTA countries or Israel, under a number of conditions, including less than two years' existence, or the accompaniment of less

¹³⁸ <http://europa.eu.int/comm/enterprise/bi/index.htm>

than 20 start-up or spin-off projects since inception. The operation should be linked to higher education or research institutes, and it should have a 50% focus on early stage technology. Associate membership is open to older and larger incubation structures, as long as they otherwise fulfil the criteria for full membership as described above. The network aims to have 150 incubator members by 2005.

Contact: Mr Marc Verlinden, Enterprise DG, tel. (32-2) 293 41 94

14.4. University spin-outs

The Commission published in 2002 the results of the Finance-Innovation-Technology (FIT) project on “university spin-outs in Europe – overview and good practice”¹³⁹. The exercise resulted in the description of good practices and examples of successful spin-out programmes. It found that there are over 300 spin-out programmes across the EU. A possible way to increase entrepreneurship and mobility between universities and industry might be to offer academic staff who attempt a spin-out the right of return should the venture fail. The variety of approaches in evidence across Europe can be distilled into a four-fold classification: top-down, network, incremental multi-layer and technopole. The network approach is considered the most effective, as it elicits greater economies of scale and builds critical mass quickly, particularly in isolated regions that cannot readily access innovation finance or management expertise. Spin-out development cannot be left to venture capitalists, as their investment criteria are too restrictive. Public subsidies are essential to ensure that the widest possible choice of projects is considered. Intellectual property rights should not be handed over too early to investors, and are perhaps best dealt with on a cross-licensing basis with investors, start-ups and universities sharing ownership. The resulting suggestions have been taken up in the Gate2Growth Initiative (see heading 8.2).

Contact: Mr Marc Verlinden, Enterprise DG, tel. (32-2) 293 41 94

14.5. The Euro-Info-Centre network

Privileged link between Europe and SMEs, the Euro-Info-Centre (EIC) network consists of some 300 members in 38 countries and 14 correspondence centres¹⁴⁰. The network was extended in 1998 to cover the candidate countries (50 EICs have been set up) and with the accession of these countries to the Multiannual programme for enterprise and entrepreneurship (see below, heading 21.2), the network will count some 230 EICs in the course of 2003 (including new countries such as Turkey, Cyprus, and Malta.)

The geographical coverage of the EIC network makes it quite unique. It is located in public, private and semi-public bodies directly related to SMEs (chambers of commerce, local development agencies and banks). Entirely dedicated to businesses, the EICs have many purposes. They inform businesses, initiate them, advise them and help them in all fields concerning Community programmes and policies.

14.5.1. Euro-Info-Centres - the backbone of Community support for SMEs

European SMEs need simple, clear and efficient access to the European Union - its legislation, programmes and opportunities. EICs serve as a local contact point for SMEs, a place where they can find simple, pragmatic answers to their requests, either directly or indirectly by being directed to the relevant specialists for more details.

¹³⁹ European Commission, Innovation papers No 21, EUR 17046.

¹⁴⁰ <http://Europa.eu.int/comm/enterprise/networks/eic/eic.html>

By developing partnerships with other SME intermediaries (e.g. host structures, local, regional, national, professional and sector partners) the EICs are promoting synergy and preventing the duplication of tasks and skills, whilst respecting the principle of subsidiarity.

To guarantee the quality of their services, the EICs are permanently subject to special training programmes and to an independent audit.

The Info-service

As disseminators of information, the EICs make a large number of documents available to businesses. As organisers of seminars and conferences, they actively organise or participate in major events on priority issues in the Member States, the Central and Eastern European countries and Mediterranean countries. As part of the 1999-2000 information campaign on the euro, the EICs organised over 270 events for SMEs. In 1998, the EICs continued the awareness-raising campaign launched in 1997 on health and safety at work in SMEs. The EICs are participating in awareness-raising actions under the eEurope "Go digital" initiative (described above, see heading 13.2), which aims to provide access to as many e-commerce SMEs as possible, and are participating in three different campaigns to help SMEs in relation to the future enlargement.

Help and advice

The EICs offer support for the various stages of development of a business. They give advice on the European financing schemes for businesses, such as Community research and technological development programmes and the Structural Funds, European policy on quality, standardisation and certification, and environment policy.

The EICs also provide support for the maintenance and consolidation of new markets. This includes their activities relating to the Europeanisation and internationalisation of businesses by providing them with better information on all the markets of non-member countries and the EU programmes concerning them, and the promotion of cooperation between businesses both within the EU and with non-member countries by using other Community networks and instruments.

In these various fields, the collective expertise of the network depends on the EIC expert groups, which develop products and services for the rest of the network.

The flow of information from SMEs

The Commission is aware of the privileged place occupied by the EICs for informing it of the particular problems faced by SMEs in implementing legislation or participating in certain Community programmes. This feedback takes the form of direct consultation of EICs or surveys of SMEs conducted in their region. The EICs are continuing the work on the Single Market, begun in 1994, using a now well established feedback procedure as well as the compiling of success stories. The EICs have also participated in open consultation panels on a number of Green Papers: in 1999 they contributed to the drafting of the "Green Paper on Public Sector Information in the Information Society"¹⁴¹.

¹⁴¹ COM(1998) 565 final, 20.1.1999.

14.5.2. The Euro Info Centre network and other European business support networks

Since 1999 the members of the EIC network are placing more and more importance on cooperating at the local level with their counterparts in a number of other European business support networks, such as the Business Innovation Centres (BICs – regional policy), the Innovation Relay Centres (IRCs – innovation policy), National Contact Points (NCPs – research and telecommunication policies), as well as with some of their local national counterparts.

This cooperation is being progressively installed in order to assist SMEs at the local level to understand where to go to obtain the assistance they really need. Such cooperation also has the ambition to contribute transparency and coherence to business support services at the local level.

Taking this initiative one step further the Commission is examining to what extent closer cooperation and closer rationalisation of the different networks and their support structures can be developed and to what extent their further integration is possible. This closer cooperation is being organised on the basis of the EIC network constituting the major central pillar of the initiative.

Contact: Mr Jacques McMillan, Enterprise DG, tel. (32-2) 295 24 75

PART IV: ACTIVITIES IN OTHER POLICY AREAS

15. COMPETITION POLICY

Over the period of the past three years there have been great efforts on the part of the Commission to modernise its competition rules, make procedures more efficient, increase their transparency and hence facilitate their application. This policy trend has a direct bearing on SMEs.

15.1. State aid control

15.1.1. Reorientation of aid

In the area of State aid control, one of the chief objectives of modernisation is the reorientation of State aid from sectoral and regional to horizontal objectives, the latter including the promotion of SMEs. This objective was first endorsed by the Lisbon European Council in March 2000, reinforced at the Stockholm European Council in March 2001 and most recently at the Barcelona European Council in March 2002.

15.1.2. Block exemption regulation on SMEs

As far as the introduction of more efficient and transparent procedures is concerned, in 2001 the Commission adopted the first block exemption regulation in the field of State aid. On 12 January 2001, Regulation (EC) No 70/2001 on the application of Articles 87 and 88 of the EC Treaty to state aid to small and medium-sized enterprises¹⁴² was adopted, thereby replacing the Community guidelines on state aid for small and medium-sized enterprises of 1996.

For SMEs, the regulation exempts investment aid (15% of eligible costs for small enterprises, and 7.5% for medium-sized enterprises; in regionally assisted areas higher aid ceilings apply, in order to counter both the regional and the SME-specific disadvantage), aid for consultancy (50% of eligible costs) and aid for participation in fairs and exhibitions (50% of eligible costs). The regulation provides that aid fulfilling all the conditions laid down in the regulation does not have to be notified to the Commission, unless it exceeds certain thresholds set by it. If the aid goes beyond these thresholds, it must be notified and it will be assessed on the basis of the criteria laid down in the regulation.

The new regulation strikes the balance between minimising competition distortion and the objective of facilitating the development of economic activities of SMEs. It was adopted with the intention of simplifying administration. It decentralises control over State aid to SMEs and thereby facilitates the granting of this type of aid. In particular it should allow Member States to grant such aid to SMEs more quickly.

15.1.3. Regulation on de minimis aid

On the same day, the Commission also adopted a regulation¹⁴³ clarifying its approach towards de minimis aid which can be granted without prior notification. While de minimis

¹⁴² OJ L 10, 13.1.2001, p. 33.

¹⁴³ Commission Regulation (EC) No 69/2001 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid, OJ L 10, 13.1.2001, p. 30.

aid, i.e. aid of up to EUR 100 000 per beneficiary over three years, is not limited to SMEs, aid of such size can be expected to serve the needs of small companies in particular.

15.1.4. State aid and risk capital

Another important development in the modernisation of State aid rules and simultaneously creating a better business climate for SMEs has been the adoption of the Communication on State aid and risk capital in 2001¹⁴⁴. The Communication is intended to strike a balance between its objective of addressing the capital market imperfections currently existing in Europe that affect SMEs negatively (especially in comparison to their US counterparts) and at the same time to maintain a careful control on State aid within the EU.

The Communication makes clear that governments can take many measures to promote risk capital which do not constitute State aid. On the other hand, where public intervention does constitute State aid, the Commission will now be prepared to apply different criteria from the link to eligible costs when assessing that intervention under the State aid rules. These criteria include the size of the enterprises targeted by the measure (preference for small, start-up and early stage enterprises); the existence of safeguards to reduce distortion of competition between investors; and the fact that investment decisions should be profit-driven. It will insist that the measure is addressing an identified market failure. This condition will be assumed to be met at lower transaction levels (€500,000, rising to €750,000 or €1,000,000 in regions eligible for regional aid under Articles EC 87(3)(c) and (a) respectively).

15.2. Anti-trust rules

15.2.1. Rules on vertical agreements

The modernisation of the anti-trust rules has also taken account of the interests of SMEs. The first cornerstone of this reform was the new “block exemption” Regulation exempting certain categories of vertical agreements and concerted practices from the prohibition of restrictive agreements in Article 81 145 and the corresponding Guidelines¹⁴⁶. The Regulation takes into account the interest of small and medium sized companies. In fact, SMEs generally benefit of the safe haven created by the new block exemption (market share threshold of 30%) and they are no longer obliged to assess the validity of their agreements under the Community competition rules. The Guidelines make it clear that vertical agreements between SMEs are generally considered unlikely to have an appreciable effect on trade between Member States and, as such, falling outside the scope of application of Article 81.

On 17 July 2002, the Commission adopted the new block exemption regulation for vertical agreements in the motor vehicle sector¹⁴⁷. Based on this regulation, SMEs will have better opportunities to compete in the markets for the distribution of new motor vehicles: dealers, most of which are SMEs, will no longer be obliged to both sell new vehicles and to provide after sales services; in future they will be able to specialise in either of these areas. The new rules also facilitate the sale of different brands by the same dealer and allow dealers to expand

¹⁴⁴ Commission Communication on State aid and risk capital, OJ C 235, 21.8.2001, p.3.

¹⁴⁵ Commission Regulation (EC) No 2790/1999 of 22.12.1999 of 22 December 1999 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices, OJ L 336, 29.12.1999, p. 21.

¹⁴⁶ Commission Notice – Guidelines on Vertical Restraints, OJ C 291, 13.10.2000, p. 1.

¹⁴⁷ Commission Regulation (EC) No 1400/2002 of 31 July 2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector, OJ L 203, 1.8.2002, p. 30.

their businesses by opening secondary sales and delivery outlets. As regards after sales servicing, the new regulation will no longer allow manufacturers that will impose qualitative criteria for their authorised repairers to limit the numbers. This opens up the market for after sales servicing, by allowing any qualified SME to join a vehicle manufacturer's authorised repair network. Furthermore the new regulation provides that independent repairers, most of which are SMEs, must get full access to technical information, training and special tools in order to allow them to provide all types of repair and maintenance services and to compete effectively with the authorised repairers belonging to a manufacturer's network.

15.2.2. *Rules on horizontal cooperation agreements*

On 29 November 2000, the Commission adopted a new regulatory framework for horizontal cooperation agreements. This consists of two block exemption regulations - on the application of Article 81(3) of the Treaty to categories of specialisation agreements and to categories of research and development agreements¹⁴⁸ - and guidelines on the applicability of Article 81 to horizontal cooperation agreements¹⁴⁹. The adoption of these texts reduces the compliance burden for companies by making the applicability of Article 81 to horizontal agreements more predictable and less burdensome. These advantages are particularly evident in respect of SMEs.

15.2.3. *De minimis notice*

The new de minimis notice adopted in December 2001 by the Commission¹⁵⁰ clarifies that agreements between SMEs in general fall outside Article 81(1), as they do not affect trade between Member States.

16. EMPLOYMENT AND SOCIAL POLICIES

16.1. The European Employment Strategy and the entrepreneurship pillar

In response to Title VIII of the Amsterdam Treaty on Employment, Member States agreed on a joint employment strategy for the EU and acknowledged the benefit of co-ordinating employment policies according to common objectives. The European Employment Strategy (EES) was launched at the Luxembourg Jobs Summit in 1997, with the aim of combating unemployment. The latest Joint Employment Report, based on the assessment of the Employment National Action Plans 2002, is an important milestone since it marks the 5th year of implementation of the European Employment Strategy.

The employment guidelines, which make up the core of the process, are focused on four pillars: employability, entrepreneurship, adaptability, and equal opportunities for men and women.

¹⁴⁸ Commission Regulation (EC) No 2658/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of specialisation agreements, OJ L 304, 5.12.2000, p. 3, and Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements, OJ L 304, 5.12.2000, p. 7.

¹⁴⁹ Commission Notice – Guidelines on the applicability of Article 81 to horizontal cooperation agreements, OJ C 3, 6.1.2001, p. 2.

¹⁵⁰ Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1) of the Treaty establishing the European Community (*de minimis*), OJ C 368, 22.12.2001, p. 13.

The second pillar is devoted to Entrepreneurship and the conditions which favour the creation of new jobs. It aims at facilitating the development of an environment favourable to start-ups and business growth and at exploiting effectively the employment potential of the knowledge society and of the services sector. It places emphasis on employment friendly taxation and better access to finance for enterprises, and also has the objective of stimulating action for employment at regional and local level.

The gender equality dimension should be integrated into all pillars of the Employment Strategy, including the pillar on entrepreneurship¹⁵¹. In addition, the adaptability pillar is also directly relevant to SMEs. It calls for encouraging adaptability of businesses and their employees, seeking a balanced approach between flexibility and security. This means fostering the modernisation of work organisation and the renewal of skill levels in enterprises. In particular, social partners are invited to negotiate agreements at all levels to modernise the organisation of work and, Member States are called to examine the possibility of incorporating in their laws more adaptable types of contract.

An evaluation of the European Employment Strategy was adopted in summary form in the Commission Communication "Taking Stock of Five Years of the European Employment Strategy"¹⁵². The evaluation looks at the performance of the labour market over the last five years and also gives some pointers to the future shape of the EES. The evaluation will provide input to the political debate on the future of the Strategy, which will lead to a proposal from the Commission for a new generation of Employment Guidelines. The evaluation was made jointly by Member States and the Commission, using national evaluation studies as a main input. The Communication, as well as the thematic technical analysis, cover several areas of relevance of SMEs like entrepreneurship, lifelong learning, tax-benefit reform and taxation of labour. A number of specific policy changes have taken place, many which also benefit small enterprises. Among these is a shift towards more employment friendly taxation, a stronger emphasis on lifelong learning policies and to make education and training systems increasingly in line with labour market needs. Moreover, a number of specific measures have been reported by the Member States to the requirements under the entrepreneurship pillar in the Employment Guidelines for administrative simplification for entrepreneurship and small enterprises.

The latest Joint Employment Report¹⁵³ refers to a large number of Member States initiatives to improve entrepreneurship, although employment growth in small businesses, in services and in self-employment was adversely affected in 2001 by the general economic slowdown. Particular emphasis has been placed on measures to facilitate *business registration*, to encourage *self-employment* and to develop an *entrepreneurial culture*, notably amongst women. New initiatives were taken to create job opportunities in *knowledge-based services* and the *environmental* sector. Most Member States have implemented or announced new initiatives to combat *undeclared work*. In spite of these positive developments, more targeted support is called for to make entrepreneurship a driver for growth and employment. More action would seem to be necessary with respect to the facilitation of start-ups, notably through access to finance. The trend in the tax burden on labour has been reversed but *labour taxes remain high*, even for low-paid workers and insufficient attention has been given to the employment impact of social security contributions.

¹⁵¹ For more details, see Council Decision 2002/117/EC of 18 February 2002 on guidelines for Member States' employment policies for the year 2002, OJ L 60, 1.3.2002, p. 60.

¹⁵² COM (2002) 416 final, 17.7.2002, http://europa.eu.int/comm/employment_social/news/2002/may/eval_en.html

¹⁵³ Draft Joint Employment Report 2002, COM(2002) 621 final, 13.11.2002, http://europa.eu.int/comm/employment_social/news/2002/nov/jer2002_en.html

16.2. Corporate social responsibility

The EU's commitment to the promotion of corporate social responsibility (CSR) has to be seen in the wider context of the strategic Lisbon goal and the EU Strategy on Sustainable Development¹⁵⁴. Both the CSR and sustainable development concepts are based on a balanced interaction of the three pillars of economic growth and competitiveness, environmental and social responsibility.

In July 2002, the Commission published a new strategy on CSR¹⁵⁵, which aims to take forward the contribution of business to sustainable development. It builds on over 250 replies received in response to the Green Paper¹⁵⁶ consultation launched a year before. CSR is defined as *a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*. An important operational element of the EU's CSR strategy is the creation of a Multi-Stakeholder Forum, launched in October 2002, which aims at fostering a dialogue between the business community, trade unions, civil society organisations and other stakeholders. Its overall aim is to promote innovation, transparency and convergence of CSR practices and tools.

Initially driven by large businesses, the issue of CSR is increasingly seen as highly relevant for SMEs. The Commission Communication recognised that many SMEs are already engaged in the CSR agenda¹⁵⁷ without being familiar with the concept, while CSR practices and instruments may need to be adapted to the specific situation of SMEs.

Exploratory work is carried out in this area. A project entitled "Responsible Entrepreneurship for SMEs" was launched in 2002 in order to improve knowledge about SMEs' current involvement in socially and environmentally responsible practices¹⁵⁸. It also aims at taking stock of existing support initiatives and tools for SMEs and to publish a series of case studies illustrating responsible entrepreneurship practices. The project, due to finish in mid-2003, is carried out with the help of an expert group composed of EU, EEA EFTA and candidate country specialists.

The issue of "Fostering CSR among SMEs" will also be the subject of a Round Table, which will start its work in early 2003 in the framework of the EU Multi-Stakeholder Forum on CSR, referred to above. It will bring together EU level representative organisations of employers, including SME organisations, trade unions and civil society, as well as other business networks.

Contact: Ms Claudia Gintersdorfer, Enterprise DG, tel. (32-2) 29 9 31 52

¹⁵⁴ <http://europa.eu.int/comm/environment/eussd/index.htm>

¹⁵⁵ Communication from the Commission concerning Corporate Social Responsibility : A business contribution to sustainable development, COM(2002) 347 final, 2.7.2002, http://europa.eu.int/comm/enterprise/csr/official_doc.htm

¹⁵⁶ Green Paper: Promoting a European Framework for Corporate Social Responsibility, COM (2001) 366 final, 18.7.2001.

¹⁵⁷ Observatory of European SMEs 2002/No. 4 European SMEs and social and environmental responsibility, http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/doc/smes_observatory_2002_report4_en.pdf

¹⁵⁸ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/responsible_entrepreneurship/index.htm

17. ENVIRONMENTAL POLICY

17.1. Promoting environmental management systems in small and medium-sized enterprises

In 2002, the Commission launched a Best Procedure project on Member State initiatives to promote environmental management systems (EMSs) in SMEs. The project, defined in response to a call by the May 2001 Industry Council and carried out in close cooperation with Member State experts, examines and compares relevant factors, policies and initiatives in this area, with a view to identifying and exchanging good/best practices. It looks at national and regional initiatives, both in relation to formal (ISO 14001 and EMAS, further described below, heading 17.3) and less formal EMSs, which can be stepping-stones to these more formal systems. The project is expected to result in a number of specific recommendations for policy at European and national level.

Contact: Mr Julius Langendorff, Enterprise DG, tel. (32-2) 299 88 29

17.2. The 6th Environmental Action Programme 2001-2010

Covering the period 2001 to 2010, the 6th EAP entitled “Environment 2010: Our Future, Our Choice”¹⁵⁹ gives a strategic direction to the Commission’s environmental policy over the next decade, as the Community prepares to expand its boundaries. It identifies four priority areas: climate change, nature and bio-diversity, environment and health and natural resources and waste.

To achieve improvements in these areas, the new Programme sets out five key approaches: (1) to ensure the implementation of existing environmental legislation; (2) to integrate environmental concerns into all relevant policy areas; (3) to work closely with business and consumers to identify solutions; (4) to ensure better and more accessible information on the environment for citizens; and (5) to develop a more environmentally conscious attitude towards land use.

The 6th EAP recognises that a wider audience must be addressed, including business. The Programme seeks new and innovative instruments for meeting complex environmental challenges. Legislation is not abandoned, but a more effective use of legislation is sought together with a more participatory approach to policy making.

In order to ensure the implementation of existing environmental legislation, and to work in partnership with business, a compliance assistance programme will be developed, with specific help for SMEs. In close cooperation with industry groups, the Commission will develop a range of tools aimed at helping business understand EC environmental requirements and how they should be met. These will include, for example, guidelines on complying with different legislation, summaries of legislation, ‘notebooks’ on best practices and cleaner technology in different business sectors, etc. Specific attention will be given to tailoring these tools to the needs of SMEs. For example, the Commission will look at the possibility of developing a scheme to encourage SMEs to audit or self-audit their compliance and improve their environmental management systems.

¹⁵⁹ Decision No 1600/2002/EC of the European Parliament and of the Council of 22 July 2002 laying down the Sixth Community Environment Action Programme, OJ L 242, 10.9.2002, p. 1, <http://europa.eu.int/comm/environment/newprg/index.htm>

As mentioned above, climate change has been identified as a priority area in this new action programme, and, with a view to meeting the targets established by the Kyoto Protocol, means to assist SMEs to adapt, innovate and improve performance will also be developed.

Contact: Ms Marie-Hélène Terlinden, Environment DG, tel. (32-2) 295 73 38

17.3. Eco-Management and Audit Scheme (EMAS)

The Eco-Management and Audit Scheme (EMAS)¹⁶⁰ is a voluntary scheme designed for companies and other organisations that are willing to commit themselves to evaluate, manage and improve their environmental performance. The scheme was launched in 1993 and revised in 2001. The revision added several new features to the scheme, including access for organisations from all sectors (service businesses, public administrations, etc.), a new attractive EMAS logo, the integration of EN/ISO 14001 as the management system of EMAS, and the involvement of employees. Improving participation of SMEs in the Community's EMAS programme is one of the objectives mentioned in the 6th EAP.

The EMAS Regulation and related guidance documents of the Commission recognise the needs and specific characteristics of SMEs. First, the revised Regulation itself was designed to take into account the needs of SMEs explicitly. Its Article 11 requires Member States to promote organisations' participation in EMAS, in particular SMEs, by (1) facilitating access to information, support funds, public institutions and public procurement; (2) establishing or promoting technical assistance measures, especially in conjunction with initiatives from appropriate professional or local points of contact (e.g. local authorities, chambers of commerce, trade or craft associations); (3) ensuring reasonable registration fees; (4) allowing for local authorities, in participation with industrial associations, chambers of commerce and interested parties, to provide assistance in the identification of significant environmental impacts; and (5) designing step by step approaches which will eventually lead to EMAS registration.

In line with Article 11, the Commission is currently carrying out a Best Procedure benchmarking project on the promotion of Environmental Management Systems in SMEs (see heading 17.1 above). In addition, it recently created a working group under the EMAS Regulatory Committee in order to discuss options for regulatory relief and other incentives with a view to identifying best practices and making recommendations for further action. Such recommendations will address a broad target group of organisations, but it will be ensured that SMEs benefit from the results as much as other organisations. Co-ordination between the activities of the working group and those carried out in relation to the Best project will be ensured.

Another recognition of the needs of SMEs in relation to EMAS is the guideline on the verification of SMEs, in particular small and micro businesses, which was adopted in the form of a Commission Recommendation in September 2001¹⁶¹. This guideline is targeted at EMAS verifiers who verify the achievements of a SME with a view of granting EMAS registration and the right to use the EMAS logo to demonstrate their environmental performance. The

¹⁶⁰ Regulation (EC) No 761/2001 of the European Parliament and of the Council of 19 March 2001 allowing voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), OJ L 114, 24.4.2001, p. 1, <http://www.europa.eu.int/comm/environment/emas>

¹⁶¹ See annex IV of Commission Recommendation No 2001/680/EC of 7 September 2001 on guidance for the implementation of Regulation (EC) No 761/2001 of the European Parliament and of the Council allowing voluntary participation by organisations in a Community eco-management and audit scheme (EMAS).

guideline recommends ways to reduce the administrative burden on SMEs when adopting EMAS, for example in the area of documentation and auditing.

The Commission is also planning to update the successful EMAS tool kit for SMEs¹⁶², which explains to SMEs how to implement EMAS. Results of this work are expected to be published by the end of 2002.

Contact: Mr Matthias Fritz, Environment DG, tel. (32-2) 299 04 01

17.4. The Community Eco-label award scheme

The Community Eco-label award scheme aims to promote products which have a reduced environmental impact during their life cycle and to provide consumers with better information on the environmental impact of products. It is a third-party certification scheme which takes into account the whole life cycle of a product from “cradle to grave”. For a given product group, ecological and fitness-for-use criteria are established which are used to assess whether a given product can be awarded the eco-label and therefore bear the eco-label “flower” logo¹⁶³. Criteria have been established for a range of consumer goods. The scheme now also covers services and the work on first service group, tourism accommodation, will be finished this year. Several hundred products from more than 120 manufacturers have so far been awarded the eco-label.

The number of products bearing the Flower is increasing sharply. In 2001, 98 companies sold 54 million eco-labelled articles, with a retail sales value of €10 million. The equivalent figures for 2000 were 17 million articles produced by 58 companies. More than 80% of eco-label holders are SMEs.

In establishing criteria for a product group, considerable effort is made to involve the participation of representatives of manufacturers in the working groups, via the various sector federations. Representatives of SMEs are specifically invited, via UEAPME.

The eco-label working plan adopted by the Commission in 2001¹⁶⁴ set in place an active marketing programme aimed at increasing the market penetration of eco-labelled products. A ten-year anniversary promotional event was held in Brussels at the end of 2002.

Looking to the future, cooperation and co-ordination with other eco-labelling schemes is being actively pursued to make the best possible use of resources available. Synergies with the EMAS scheme and other types of environmental labelling are under development, and contacts have been established with candidate countries in preparation for the scheme’s expanded role in guiding the purchasing choices of some 490 million consumers.

The eco-label gives an opportunity for SMEs to market and distinguish their products on the basis of their environmental excellence. Moreover, in the new Eco-label Regulation, provision is made to reduce fees for SMEs: 25% reduction for the application and annual fees.

¹⁶² See <http://www.inem.org/emas-toolkit> for more information on the first version of the tool kit.

¹⁶³ Detailed information can be found on the eco-label web-site <http://europa.eu.int/ecolabel>, including the product-related criteria and the contact information for the national Competent Bodies administering the scheme.

¹⁶⁴ Commission Decision 2002/18/EC of 21 December 2001 establishing the Community eco-label working plan, OJ L 7, 11.1.2002, p. 28, http://europa.eu.int/comm/environment/ecolabel/background/pm_workingplan.htm

Since 2002, a helpdesk is available for all companies interested in the eco-label at the following address: ecolabel@cec.eu.int

Contact: Mr Simon Goss, Environment DG, tel. (32-2) 299 12 00

17.5. Financial instrument for the environment: LIFE

The LIFE programme – Financial Instrument for the Environment – was launched in 1992¹⁶⁵. Dedicated to sustainable development, it aims to contribute to the elaboration, the implementation and the updating of the community policy and legislation in the environmental field. This instrument works towards implementation of the community policy as set out in the 6th Environmental Action Programme.

LIFE has been implemented in three phases, the first phase, 1992-1995, with a budget of €400 million, the second phase, 1996-1999, with a budget of €450 million, and the current phase LIFE III, 2000-2004, with a budget of €640 million.

Between 1992 and 2001, a total of 1 855 LIFE projects were co-financed, of which 630 were in the LIFE-NATURE area, 1 080 in the LIFE-ENVIRONMENT area, and 145 in the LIFE-THIRD-COUNTRIES area.

SMEs are the main beneficiaries of the LIFE programme, and especially of the LIFE-ENVIRONMENT area. The specific objective of this area is to contribute to the development of innovative and integrated techniques and methods and to the further development of Community environment policy, through the co-financing of demonstration projects.

Five intervention areas are defined: (1) land-use development and planning; (2) sustainable management of groundwater and surface water; (3) minimisation of the environmental impact of economic activities; (4) waste management; and (5) reduction of the environmental impact of products through an integrated approach. Applications for funding can be presented each year (around September).

Contact: Mr Federico Nogaran, Environment DG, tel. (32-2) 298 46 50

18. ENERGY, TRANSPORT AND TELECOMMUNICATIONS POLICIES

18.1. Energy

18.1.1. Legislation of relevance to SMEs

The most direct and concrete positive impact energy policy may have on SMEs stems from the improvement of conditions for competition, making energy available at competitive prices. The Electricity and Gas Directive, currently under adoption (amending the Gas¹⁶⁶ and Electricity¹⁶⁷ Directives), will benefit SMEs, which will become eligible for market opening. The implementation of the Gas and Electricity Directives has allowed customers exceeding certain thresholds to choose their suppliers. This has led to competitive pressure in the

¹⁶⁵ Additional information on the LIFE Programme and its applications are available at <http://europa.eu.int/comm/environment/life>

¹⁶⁶ Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998 concerning common rules for the internal market in natural gas, OJ L 204, 21.7.1998, p. 1.

¹⁶⁷ Directive 96/92/EC of the European Parliament and of the Council of 19 December 1996 concerning common rules for the internal market in electricity, OJ L 27, 30.1.1997, p. 20.

generation and supply of electricity and gas which benefits small businesses eligible for market opening. Reductions of 20% in electricity bills have been recorded in a number of Member States as a result. The Commission has proposed new measures¹⁶⁸ to allow all businesses to choose their suppliers and to facilitate cross border exchanges of electricity. These measures, due to be adopted in 2003, would ensure that the benefits of competition are passed on to the smallest consumers. Member States that have already adopted this approach have recorded large reductions in bills; e.g. 15% in Austria for small commercial electricity use.

Contact: Mr Christopher Jones, Energy and Transport DG, tel. (32-2) 296 50 30

Adoption of the proposed Directive on the energy performance of buildings¹⁶⁹ is expected to lead to the creation of jobs in SMEs, in particular in the sectors of building energy performance and certification, as well as of the installations of more energy-efficient equipment, boilers and air conditioners. Adoption of the proposed Directive on the promotion of use of biofuels¹⁷⁰ is expected to create jobs for SMEs in rural areas, cultivating crops and processing raw materials into biofuels.

Contact: Mr Luc Werring, Energy and Transport DG, tel. (32-2) 296 84 51

18.1.2. Trans-European Networks in the energy sector

In December 2001, the Commission proposed to revise the Guidelines for the Trans-European Networks in the Energy sector (TEN-Energy)¹⁷¹ to identify 12 priority axes for the further development of the energy networks. Projects on these axes are expected to strongly contribute to the security of energy supply and/or to the competitive operation of the internal energy market. They will alleviate congestion on the electricity grids and lead to increased competition among energy suppliers, to the benefit of the European economy and SMEs. The revision is due to be adopted in the beginning 2003.

Contact: Mr Ioannis Galanis, Energy and Transport DG, tel. (32-2) 295 39 04

18.1.3. Energy programmes ALTENER and SAVE

The ALTENER and SAVE programmes to promote, respectively, renewable energies and energy efficiency greatly benefit SMEs. Both ALTENER and SAVE support pilot actions

¹⁶⁸ Amended proposal for a Directive of the European Parliament and of the Council amending Directives 96/92/EC and 98/30/EC concerning common rules for the internal market in electricity and natural gas, COM(2002) 304 final, COD 2001/0077, COD 2001/0047, 7.6.2002, <http://europa.eu.int/comm/energy/en/internal-market/int-market.html>

¹⁶⁹ Amended proposal for a Directive of the European Parliament and of the Council on the energy performance of buildings (presented by the Commission pursuant to Article 250 (2) of the EC Treaty) COM(2002) 192 final, COD 2001/0098, 16.4.2002.

¹⁷⁰ Communication on alternative fuels for road transportation and on a set of measures to promote the use of biofuels; Proposal for a Directive of the European Parliament and of the Council on the promotion of the use of biofuels for transport; Proposal for a Council Directive amending Directive 92/81/EEC with regard to the possibility of applying a reduced rate of excise duty on certain mineral oils containing biofuels and on biofuels, COM(2001) 547 final, COD 2001/0265, CNS 2001/0266, 7.11.2001.

¹⁷¹ Communication on European energy infrastructure; Proposal for Decision of the European Parliament and of the Council amending Decision No 1254/96/EC laying down a series of guidelines for trans-European energy networks; Report on the implementation of the guidelines for Trans-European Energy Networks in the period 1996-2001, COM(2001) 775 final, COD 2001/0311, 20.12.2001, http://europa.eu.int/comm/energy_transport/en/tn_en.html

proposed by enterprises and other legal persons of the Member States and the EEA EFTA countries. They finance up to 50% of the eligible cost of each project.

With a budget of €31 million for 2000 and 2001¹⁷², ALTENER¹⁷³ focuses on the promotion of Renewable Energy Sources (RES). The programme aims at increasing the uptake of RES in the EU and at increasing trade in renewable products, equipment and services in order to reduce CO₂ and other greenhouse gases' emissions. The renewable energy industry consists predominantly of SMEs, who are therefore the main beneficiaries of the programme. ALTENER was opened to the candidate countries in 2001. With a budget of (€25 million for 2000 and 2001¹⁷⁴), SAVE¹⁷⁵ aims at promoting the Rational Use of Energy (RUE), by creating an environment in which investments in energy efficiency will be accelerated and energy efficiency will be recognised as a market opportunity.

As part of the wider Multiannual Energy Framework Programme (1998-2002) in 1999¹⁷⁶, ALTENER and SAVE are due to continue under a new programme called "Intelligent Energy for Europe" running from 2003 to 2006¹⁷⁷, pending a decision of the Council and the European Parliament in the first half of 2003. SMEs are mentioned in the "Work Programme for SAVE and ALTENER Calls 2001-2002¹⁷⁸" under the measures "Replication of Good Practice" and "Local and Regional Action".

18.1.4. Energy in the Fifth Framework Programme for RTD

"Energy & Environment" was one of the thematic programmes under the Fifth Framework Programme for RTD. Information on the participation of SMEs in this programme is given above, see heading 12.6.1.

18.2. Transport

18.2.1. Legislation of relevance to SMEs

As of 23 March 2005, the Directive on the organisation of the working time of persons performing mobile road transport activities¹⁷⁹ imposes restrictions on the working time of employed drivers. Self-employed drivers - a large part of the SMEs in the road-transport

¹⁷² The indicative budget for 2002 is €18 million.

¹⁷³ Decision No 646/2000/EC of the European Parliament and of the Council of 28 February 2000 adopting a multiannual programme for the promotion of renewable energy sources in the Community (Altener) (1998 to 2002), OJ L 79, 30.3.2000, p. 1, http://europa.eu.int/comm/energy/en/pfs_altener_en.html

¹⁷⁴ The indicative budget for 2002 is €10 million.

¹⁷⁵ Decision No 647/2000/EC of the European Parliament and of the Council of 28 February 2000 adopting a multiannual programme for the promotion of energy efficiency (SAVE) (1998 to 2002), OJ L 79, 30.3.2000, p. 6, http://europa.eu.int/comm/energy/en/pfs_save_en.html

¹⁷⁶ Council Decision 1999/21/EC, Euratom of 14 December 1998 adopting a multiannual framework programme for actions in the energy sector (1998-2002) and connected measures, OJ L 7, 13.1.1999, p. 16.

¹⁷⁷ Proposal for a Decision of the European Parliament and of the Council adopting a multiannual programme for action in the field of energy: "Intelligent Energy for Europe" Programme (2003-2006) COM (2002) 162 final, COD 2002/0082, 23.4.2002.

¹⁷⁸ Notice 2002/C 6/08 "SAVE — Call for proposals for the promotion of energy efficiency in the European Community 2002", OJ C 6, 9.1.2002, p. 12, and Notice 2002/C 6/09 "Altener — Call for proposals for the promotion of increased use of renewable energy sources in the European Community 2002", OJ C 6, 9.1.2002, p. 13.

¹⁷⁹ Directive 2002/15/EC of the European Parliament and of the Council of 11 March 2002, OJ L 80, 23.3.2002, p. 35.

sector - have a supplementary delay of 4 years to adapt to the Directive¹⁸⁰. After this period they will benefit from protection provisions within the Directive¹⁸¹.

The Regulation on a driver attestation¹⁸² aims to avoid distortions of competition resulting from Community transport enterprises using non-Community drivers under non-Community conditions of employment. To put an end to these practices, the Regulation establishes a driver attestation issued by the competent authorities in the Member States certifying drivers' conditions of employment. This measure protects all hauliers – particularly SMEs - against disloyal practices. SMEs generally do not make use of non-Community workforce.

Important legislation in the field of rail transport, such as the interoperability Directives (for high-speed rail systems and for conventional rail systems)¹⁸³, is likely to have an indirect effect on SMEs. Harmonised technical specifications for interoperability and European standards will help in opening up markets. This will enable SMEs to specialise their production further and to establish relationships with several rail systems producers. Consequently, SMEs will be likely to have a better market access thanks to higher transparency.

Contact: Mr Dirk Van Vreckem, Energy and Transport DG, tel. (32-2) 296 84 39 (road) / Mr Jean-Arnold Vinois, Energy and Transport DG, tel. (32-2) 296 84 75 (rail)

In the regulation setting up the joint undertaking for the Satellite radio-navigation programme GALILEO¹⁸⁴, specific provisions for SMEs are foreseen. SMEs can subscribe a minimum of €250 000 instead of €5 million for other undertakings.

Contact: Mr Olivier Onidi, Energy and Transport DG, tel. (32-2) 295 60 40

18.2.2. Trans-European Networks in the transport sector

On average, approximately €16-20 billion are invested every year in the Trans-European Network (TEN) whose guidelines were adopted in 1996 by the European Parliament and the Council¹⁸⁵. A significant part concerns contracts granted to SMEs, which play a role in executing the works necessary to create or extend parts of transport infrastructure (road, rail, sea ports, inland waterways).¹⁸⁶ Community financial aid in the field of trans-European transport network is allocated, as a general rule, to the public authority responsible for the preparation and implementation of the infrastructure project. Private companies, which have been granted a concession for the implementation of certain projects, can also directly benefit from financial aid.

¹⁸⁰ They will be subject to the rules as from 23 March 2009 at the earliest.

¹⁸¹ Except if this exclusion would be prolonged.

¹⁸² Regulation (EC) No 484/2002 of the European Parliament and of the Council of 1 March 2002 amending Council Regulations (EEC) No 881/92 and (EEC) No 3118/93 for the purposes of establishing a driver attestation, OJ L 76, 19.3.2002, p. 1.

¹⁸³ Council Directive 96/48/EC of 23 July 1996 on the interoperability of the trans-European high-speed rail system, OJ L235, 17.9.1996, p. 6, and Directive 2001/16/EC of 19 March 2001 on the interoperability of the trans-European conventional rail system, OJ L 110, 20.4.2001, p. 1.

¹⁸⁴ Council Regulation (EC) No 876/2002 of 21 May 2002 setting up the Galileo Joint Undertaking, OJ L 138, 28.5.2002, p. 1. Article 1, point 4, third paragraph of the Annex.

¹⁸⁵ Decision No 1692/96/EC of the European Parliament and of the Council of 23 July 1996 on Community guidelines for the development of the trans-European transport network, OJ L 228, 9.9.1996, p. 1, http://europa.eu.int/comm/energy_transport/en/tn_en.html

¹⁸⁶ Detailed data on the share of SMEs in the implementation of transport TEN projects are however not available to the Commission.

The transport TEN will have an indirect impact on SMEs by unblocking major routes and thus increasing market opportunities, in particular for enterprises in more remote areas, which will gain from improved links to central European markets. The Commission has recently proposed to revise the guidelines in order to concentrate the Community actions on measures to reduce bottlenecks, and hence improve the overall benefits for the economy¹⁸⁷.

Transport infrastructure works, generally executed under the responsibility of public authorities, are subject to the Community rules on public procurement which apply equally to SMEs and large companies.

18.2.3. Transport in the Fifth Framework Programme for RTD

Research projects in the area of rail transports have a direct effect on SMEs. Participation in these projects enables SMEs to broaden their technological knowledge base and to improve their skills. This tends to improve the competitiveness of these firms on technology and skill driven markets. Under the Fifth Framework Programme for RTD (described above, see heading 12.6.1), the available annual budget was approximately €15 million to promote research in rail-related areas such as improving rail infrastructure (PROMAIN), measures to reduce rail noise emissions (STAIRRS), developing an urban rail traffic management system (UGTMS), optimisation of timetabling under a cost constraint (PARTNER) and the development of tools for railway capacity and access management (IMPROVERAIL).

Contact: Mr Jean-Arnold Vinois, Energy and Transport DG, tel. (32-2) 296 84 75

18.3. Telecommunications

18.3.1. Liberalisation and the current regulatory framework

On 1 January 1998, telecommunications networks and services were liberalised in almost all EU Member States¹⁸⁸. The developments in technology, innovation in service offerings, lower prices and improvements in quality brought about by the introduction of competition have provided the basis for Europe's transition to the Information Society. The achievements of the current regulatory framework are documented in the seventh implementation report¹⁸⁹.

18.3.2. The eEurope initiative and the new regulatory framework

The Commission launched the basic outline for eEurope in November 1999¹⁹⁰. Subsequent action plans have set out roadmaps of what needs to be done by when. There have, so far, been two action plans, the eEurope Action Plan 2002¹⁹¹ and the eEurope Action Plan 2005¹⁹²

¹⁸⁷ Proposal for a decision of the European Parliament and of the Council amending Decision No 1692/96/EC on Community guidelines for the development of the trans-European transport network, COM(2001) 544 final, COD 2001/0229, 2.10.2001.

¹⁸⁸ Initially, Greece, Ireland, Luxembourg, Portugal, and Spain received a derogation. Only Greece benefited from a derogation until 31.12.2000.

¹⁸⁹ Seventh Report on the Implementation of the Telecommunications Regulatory Package, COM(2001) 706 final, 26.11.2001, http://europa.eu.int/information_society/topics/telecoms/implementation/annual_report/7report/index_en.htm

¹⁹⁰ eEurope: An information society for all, Communication on a Commission Initiative for the Special European Council of Lisbon, 23 and 24 March 2000, http://europa.eu.int/information_society/europe/action_plan/index_en.htm

¹⁹¹ eEurope 2002: An information society for all, 14.6.2000, http://europa.eu.int/information_society/europe/action_plan/pdf/actionplan_en.pdf

¹⁹² eEurope 2005: An information society for all, COM(2002) 263 final, 28.5.2002.

(see also heading 13.1). *eEurope 2002* cast its net very wide, successfully putting the Internet at the top of the European political agenda. *eEurope 2005* narrowed the focus, concentrating on effective access, usage and the ready availability of the Internet. It aims to ensure widespread availability and use of broadband networks throughout the Union by 2005, as well as security of networks and information.

One of the top priorities of *eEurope 2002* was to modernise the rules and regulations governing Internet access and to create a single market for all telecommunications services. Conditions for Internet access have been influenced by laws and structures from the past, when most customers depended on just one monopoly telephone company. The liberalisation which had started in the late 1980s did not go far enough. In March 2002, the Council and the European Parliament adopted a new regulatory framework for electronic communications networks and services¹⁹³. The package will simplify and streamline the existing EC legislative framework, cutting the number of laws from 23 down to eight and creating a truly liberalised telecommunications market where competition cuts prices and improves the quality of services. The result will be cheaper and faster Internet access for citizens and business alike. The new regulatory framework for electronic communications, networks and services will be applied in all Member States from 25 July 2003.

18.3.3. Stimulating the use of the Internet

To stimulate Internet take-up, the EU has concentrated on providing a favourable environment in which companies and any other types of organisation can develop digital skills and services. See also headings 7 and 13 concerning skills and e-business, respectively.

In March 2002, the formal decision¹⁹⁴ was taken to create the .eu™ top level domain which will allow European citizens, organisations and businesses to have web-sites and e-mail addresses that end with “.eu” instead of letters indicating a country or “.com”.

18.3.4. Broadband access and security: The important enablers

In the *eEurope 2005* Action Plan, the importance of broadband networks is emphasised. Broadband networks as such will not create our future SMEs, but as part of the transformation, broadband networks can help in providing SMEs with faster and more stable communications. Broadband means faster infrastructure, and will be accompanied by powerful economic and social implications. Broadband will change the use of the Internet by improving its quality and by facilitating rich content, applications and services. The Action Plan seeks to accelerate the rollout of broadband services i.e. the high-speed transmission of voice, data and video signals over fixed or mobile networks. These networks include fixed-wireless, fibre optics and satellite links, and will also include third-generation mobile phones (UMTS) when these become widely used. In 2002, however, the networks most readily available are ADSL and cable modem networks.

The more networks and computers become a central part of business and daily life, the more need there is for data security. Secure networks and information systems are crucial for e-business and a pre-requisite for privacy. To meet this challenge, the EU has already launched a comprehensive strategy based on its communications (strategic policy decisions) on

¹⁹³ http://europa.eu.int/information_society/topics/telecoms/regulatory/new_rf/index_en.htm

¹⁹⁴ Regulation (EC) No 733/2002 of the European Parliament and of the Council of 22 April 2002 on the implementation of the .eu Top Level Domain, OJ L 113, 30.4.2002, p. 1, http://europa.eu.int/information_society/topics/telecoms/internet/eu_domain/faq/index_en.htm

network security and cyber crime, and the data protection Directive on electronic communications.

19. STRUCTURAL FUNDS POLICIES

The European Union's regional policy is based on financial solidarity as part of Member States' contributions to the Community budget goes to the less prosperous regions and social groups. For the 2000-2006 period, these transfers will account for one third of the Community budget, or €13 billion. €95 billion will be spent by the four Structural Funds – the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Financial Instrument for Fisheries Guidance (FIFG) and the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) – and €18 billion will be spent by the Cohesion Fund.¹⁹⁵

The Structural Funds are the Union's main instruments for financial support to SMEs.

The Structural Funds concentrate on clearly defined priorities:

- 70% of the funding goes to regions whose development is lagging behind. They are home to 22% of the population of the Union – Objective 1;
- 11.5% of the funding assists economic and social conversion in areas experiencing structural difficulties. 18% of the population of the Union lives in such areas – Objective 2;
- 12.3% of the funding promotes the modernisation of training systems and the creation of employment – Objective 3 – outside the Objective 1 regions where such measures form part of the strategies for catching up.

There are also four Community Initiatives seeking common solutions to specific problems. They spend 5.35% of the funding for the Structural Funds on (1) cross-border, transnational and interregional cooperation – Interreg III; (2) sustainable development of cities and declining urban areas – Urban II; (3) rural development through local initiatives – Leader +; and (4) combating inequalities and discrimination in access to the labour market – Equal.

There is a special allocation of funds for the adjustment of fisheries structures outside the Objective 1 regions (0.5%). There are also provisions for innovative actions to promote and experiment with new ideas on development (0.51%). These include the regional innovation measures described above, see heading 12.9.

The Structural Funds finance multiannual programmes which constitute development strategies drawn up in a partnership associating the regions, the Member States and the Commission taking into account guidelines laid down by the Commission which apply throughout the Union. They act on economic and social structures to develop infrastructure, such as transport and energy, extend telecommunications services, help firms and provide training to workers, and disseminate the tools and know-how of the information society.

Development initiatives financed by the Structural Funds must meet the specific needs identified on the ground by regions or Member States. They form part of an approach to development which respects the environment and promotes equal opportunities.

¹⁹⁵

http://europa.eu.int/comm/regional_policy/sources/docoffic/official/reglem_en.htm

Implementation is decentralised, which means that it is mainly the responsibility of the national and regional authorities.

One particular fund, the Cohesion Fund, provides direct finance for specific projects relating to environmental and transport infrastructure in Spain, Greece, Ireland and Portugal, as these are still inadequate. The Instrument for Structural Policies for pre-Accession (ISPA) provides assistance along the same lines to the ten Central and Eastern European candidate countries.

Irrespective of the type of assistance, these instruments complement but do not replace national efforts.

19.1. Support to SMEs under the Structural Funds policies

The current Structural Funds programming period is based on the Guidelines issued by the Commission at the beginning of the exercise¹⁹⁶. They asked the Member States benefiting from the Funds to shift the emphasis from capital grants, especially state aid schemes, and increase the sources of risk capital financing, such as reimbursable loans, venture capital funds, guarantee funds, etc. The Commission also asked for improvement of the delivery of the assistance to SMEs, paying special attention to qualitative and organisational aspects and to the productive environment in general.

At the end of 2002, 80% of the Structural Funds available for all sectors during the period 2000-2006, i.e. around €144 billion of the €195 billion foreseen, had been programmed according to these guidelines¹⁹⁷.

A precise comparison with the previous period is not possible, because of the important improvement in the criteria used for distinguishing the aid by sectors, but also because of the fact that the isolation of aid to SMEs always contains an arbitrary element, since SMEs are also affected by areas such as support to tourism, rural development and research.

Nevertheless, an extract of the statistics concerning specific aid to SMEs and the craft sector shows that some €16 billion are dedicated to SMEs, representing 11% of the total Structural Funds budget. Considering the fact that the Structural Funds contribution to investments in enterprises must not exceed 35% of eligible costs in Objective 1 regions and 15% in Objective 2 regions, the Community aid should mobilise at least an equivalent amount of national funds.

In relation to the Commission Guidelines, this programming shows that efforts have been made to increase aid in the form of risk capital, which has almost doubled since the previous programming period. This aid, however, does not represent more than 6% of the total aid to SMEs, while at the same time the aid schemes still constitute a third. Funds dedicated to advisory services and to shared business services, such as incubators, networking, clusters, etc., constitute almost a third of the Community aid to SMEs.

¹⁹⁶ The Structural Funds and their coordination with the Cohesion Fund: Guidelines for programmes in the period 2000-2006, 1.7.1999, http://europa.eu.int/comm/regional_policy/sources/docoffic/official/guidelines/pdf/orientations_en.pdf

¹⁹⁷ Summaries of all the Structural Funds programmes and addresses of the managing authorities: http://europa.eu.int/comm/regional_policy/country/prordn/index_en.cfm; Links to the national sites with the complete programmes: http://europa.eu.int/comm/regional_policy/country/gateway/index_en.cfm; Documentation on the theme "Enterprise" http://europa.eu.int/comm/regional_policy/themes/entrep_en.htm

Table 4: Structural Funds – Community contribution in favour of SMEs

Area of activity	Programming period 2000-2006	
	80 % of available funds <i>million euro</i>	
Assisting SMEs and the craft sector (not allocated to the more specific sub-areas below)	3 126	20%
Investment in physical capital (plant and equipment, cofinancing of state aids)	5 380	34%
Environmentally friendly technologies, clean and economical energy technologies	516	3%
Business advisory services (information, business planning, consultancy services, marketing, management, design, internationalisation)	2 026	13%
Shared business services (business estates, incubator units, stimulation, promotional services, networking, conferences, trade fairs)	2 597	16%
Financial engineering	929	6%
Services in support of the social economy (providing care for dependants, health and safety, cultural activities)	586	4%
Vocational training	843	5%
Total	16 004	100%

19.2. Regional analysis

In the Member States where the Objective 1 regions represent an important part of the territory, specific horizontal programmes in favour of SMEs are foreseen. All other regional programmes foresee investment aid schemes and financing of advisory services and shared structures for start-ups or expansion of existing enterprises.

In Belgium, out of more than €1 billion Community aid to the Objective 1 Hainaut region as well as Objective 2 areas, a quarter is going to SMEs. In Hainaut, the aid mainly goes to direct investment, while in the other areas, most of the aid goes to services.

In Denmark, the Community aid in the various Objective 2 regions is not foreseen for investment aid schemes nor for risk capital measures, but only for financing of advisory services, especially in the marketing sector.

The programming for the intervention in the Objective 1 regions of Germany, i.e. the new *Länder*, foresees that aid to SMEs will be the central action to meet the difficulties in relation to the restructuring of the economy in these regions. The number one priority in the programmes is to encourage the competitiveness of the industry, and especially the SMEs, and an amount of €7 billion is dedicated to this, of which €4 billion is the Community contribution. One of the measures of this priority is to reinforce the industrial potential of SMEs, and this is complemented by measures in support of research, technological development and the information society. On the contrary, in the areas concerned by the Objective 2 programmes, the aid is preferably given to service structures, such as industrial parks, service centres for start-ups, cooperation networks and support for technology transfer.

In Greece, the interregional Competitiveness programme emphasises aid schemes for industrial transformation and industrial development in general, but also contains specific measures for the development of the spirit of entrepreneurship among young people and other minority sectors aiming at their integration in the active population. These measures favour micro enterprises in particular.

In Spain, direct investment aid to SMEs represents less than 30% of the total aid to SMEs, which is around €1.5 billion. In this programming period, services have been given a large importance. The interregional programme for *Improvement of the competitiveness and development of production structures* particularly foresees initiatives to promote the information society and marketing within the Spanish market. Export promotion is stimulated by the creation of consortia of enterprises from different sectors, especially the tourism sector.

In France, of €1 300 million almost entirely set aside for Objective 2 areas, half of the funds are dedicated to aid schemes, in the form of grants, reimbursable loans or grants for interest relief. Advisory services for enterprises are in place via recruited professionals in specialised agencies, which offer a wide range of services to SMEs, in fields such as strategy, organisation, quality, design and market studies. For access to technology, direct aid is available, as well as support structures such as research centres that permit technology transfer.

In Ireland, direct aid to investments in SMEs has been heavily reduced compared to the programming period 1994-1999, and a larger emphasis is put on reimbursable aid as well as on a complete series of support services available to SMEs. Aid is available for improvement of management capacity in the form of training initiatives supported by the ESF and ERDF programmes. An incubator development programme is also foreseen. Measures to improve cooperation between local industries constitute an integrated part of the incubator infrastructure.

In Italy, the Structural Funds programmes dedicate almost €2.5 billion to aid for SMEs, of which more than €2 billion in Objective 1 regions. For both Objectives taken together, 75% of the aid is dedicated to aid schemes for industrial investments, but the financing of risk capital funds has not increased compared to the previous programming period. Services for SMEs include support to advisory services as well as support for service infrastructure.

From €5 million Structural Funds aid, Luxembourg dedicates half to SMEs, particularly for environmentally friendly technologies.

In the Netherlands, from slightly less than €1 billion for all Objective 1 and 2 programmes, the Objective 1 region Flevoland reserves only 18% of the aid for SMEs, while in the Objective 2 areas, SMEs get around a third of the aid.

Also in Austria, from slightly less than €1 billion for Objective 1 and 2, the Objective 1 region Burgenland reserves only 25% of the aid for SMEs, while in the Objective 2 areas, SMEs get a third of the aid.

In Portugal, the aid foreseen for SMEs is substantial, and the horizontal programme for SMEs support the promotion of initiatives in favour of micro enterprises, and the creation of framework conditions for economic activity and networking between enterprises.

In Finland, the contribution of the Structural Funds in favour of SMEs is limited to approximately €300 million, but it mobilises as a result seven times more national public and private funding. The actions are particularly characterised by grants for interest relief on loans for SMEs, granted by a public institution, to which a State guarantee is given for the possible losses.

In Sweden, just over €300 million from the Structural Funds are dedicated to support for SMEs, but these funds mobilise three times more national public and private funds. The various actions focus on a limited number of actions. They deal with areas such as advisory services of business centres. Those offer infrastructure for the installation of SMEs, especially in the sparsely populated areas. Other aspects of the support for SMEs include the creation of cooperation networks between enterprises, environmental certification, and aid for young people and women to start up new initiatives.

The United Kingdom has favoured aid to SMEs, dedicating more than €3.5 billion of Community aid to them. The interventions in favour of SME investments do not only include financing of aid schemes, but concentrate rather on financing through loan funds and risk capital. Another characteristic of the actions in favour of SMEs is the aid for using technologies that respect the environment and the conservation of energy. Here, good practice projects are financed. Services for enterprises are based on advisory services, especially for the dissemination of good practices and improvement of marketing. Particular importance is given to the renewal of industrial sites, especially by providing facilities for telecommunications infrastructures. Different types of financing for micro enterprises encourage the social economy.

20. AGRICULTURAL AND RURAL DEVELOPMENT POLICIES

In March 1999, the Council extended the reform process of the Common Agricultural Policy (CAP) by adopting Agenda 2000¹⁹⁸. As far as price and market policies are concerned, this led to a new decrease in support prices, favourable to the competitiveness of the products and the agricultural holdings. The granting of direct income support compensated for the effects of this decrease on the farmers' standard of living.

The adoption of Agenda 2000 also installed an integrated policy for sustainable rural development, as a "second pillar" of the CAP. According to this new policy, the support of the European Union is no longer limited to agricultural structures, but embraces the totality of components related to rural development. One single Regulation¹⁹⁹ unites the legal framework for rural development, repealing the previous Regulations concerning the EAGGF, Objective 5a, accompanying measures to the CAP reform and structural support to forestry.

¹⁹⁸ http://europa.eu.int/comm/agenda2000/index_en.htm

¹⁹⁹ Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations, OJ L 160, 26.6.1999, p. 80.

Among the rural development measures supported by the Union, support for investment to favour modernisation and diversification of agricultural holdings, support for the processing and marketing of agricultural products, support for training and setting up of young farmers, and support in favour of development of tourist and craft activities are particularly adapted to the characteristics of SMEs, which are the principal beneficiaries. The estimated amount for the European contribution to the financing of these schemes is €155 million for 2000. For 2002, it is estimated at approximately four times as much.

Contact: Mr Panayotis Lebessis, Agriculture DG, tel. (32-2) 295 19 32

PART V: ENLARGEMENT, PRE-ACCESSION AND COOPERATION WITH NON-MEMBER COUNTRIES

21. ENLARGEMENT AND PRE-ACCESSION ACTIVITIES

Since the start of the transition process in the Central European countries, 12 years ago, the Commission has developed an intensive cooperation, firstly with a view to accompany the political and socio-economic transition, and secondly to prepare the candidate countries for EU accession. Much of this cooperation has benefited SMEs in the candidate countries in an indirect way, and some in a direct way. Support has been delivered by acting basically at four levels: (1) adjusting and improving policies, rules and legislation; (2) improving the business environment by investing in both physical and knowledge infrastructure; (3) strengthening business agencies and associations; and (4) some direct support to enterprises. Financial resources are provided from the Phare programme and, as of budget year 2000, also from SAPARD, which is a special instrument created to support agriculture and rural development in the pre-accession period. Also as of the year 2000, investments in environment and transport infrastructure have been co-financed by ISPA, which is another additional pre-accession finance facility.

In addition, the economic and commercial cooperation provided for in the Europe Agreements (establishing associations between each of the Central European candidate countries on the one hand, and of the European Community and its Member States on the other hand) has also been of benefit to enterprises, as has the participation of the candidate countries in various Community programmes. Enterprises in both candidate countries and Member States have benefited from the reciprocal opening of markets for goods, for many services, and for public procurement. They have also benefited from the granting of “national treatment” to enterprises establishing and operating in the territory of the other party to the Agreements, and from the accompanying aligning of legislation in several fields.

The cooperation originally foreseen in the Europe Agreements has been extended, with a view to preparation for EU accession, so as to cover all areas of the Community *acquis*. Thus, the economic systems of the candidate countries have already achieved a far-reaching level of integration into the EU. Also Malta, Cyprus and Turkey, which were already market economies, benefit from similar association agreements (in the case of Turkey, including a customs union) and pre-accession cooperation.

21.1. The candidate countries and the European Charter for Small Enterprises

On 23 April 2002, the thirteen candidate countries endorsed the European Charter for Small Enterprises at the “CC BEST Conference” in Maribor, Slovenia. This event has an important political relevance as these countries recognised the principles of the Charter as the basis for their action to support and develop small enterprises. In addition, the endorsement of the Charter is a step towards their inclusion in the Lisbon socio-economic strategy of the EU.

In May 2002, the monitoring process of the implementation of the Charter started. Bilateral meetings between the Commission and each candidate country took place during the summer. Several Ministries as well as the business community and other actors involved in SME development policy and measures took part in the meetings and have given their contributions

to the national reports, which were sent to the Commission in September the same year²⁰⁰. The Report on the Implementation of the Charter in the candidate countries was adopted by the Commission in January 2003²⁰¹.

21.2. Candidate countries' participation in the Multiannual programme for enterprise and entrepreneurship

Each of the countries that have applied to become members of the EU participate in the Multiannual programme for enterprise and entrepreneurship, in line with the Commission's pre-accession strategy to provide a useful preparation for accession by familiarising the candidate countries with the Union's policies and working methods. This continues the work that began in 1998 with the opening of the Third Multiannual programme (1997-2000) to eleven of the candidate countries²⁰².

The candidate countries' participation in the programme is co-funded by contributions from the national budgets of the countries concerned together with the Phare programme (or equivalent financial sources for the three Mediterranean candidate countries).

The programme enables the candidate countries to participate fully in formulating and benchmarking best practice in enterprise policy, including areas such as industrial clusters, business incubators, business support services, and business transfers (e.g. through participation in expert group meetings). Another important benefit is the possibility to draw from the financial instruments managed for the Commission by the European Investment Fund (EIF), described above, see heading 11.11. Proposals can be submitted to the EIF by appropriate financial institutions in each country.

The programme also continues the support given to 51 Euro Info Centres (EICs) that were opened in the candidate countries under the previous Multiannual programme, together with up to 25 new EICs that will be opened mainly in Hungary, Poland, Romania, Latvia, Lithuania, Malta and Turkey. Twelve will be opened in Turkey, which, together with Malta, is a newcomer to EU programmes to support enterprise policy.

21.3. Phare support of interest to enterprises in candidate countries

Financial support from the Phare programme²⁰³ which is of interest to SMEs has been provided to address, firstly, the designing of appropriate policies, and the adoption of appropriate rules and legislation. There are many areas involved: company law, and various areas of internal market legislation, including health and safety protection, environment and tax policies. The adoption of legislation and rules, as well as the capacity to implement and apply it, receive support. Also, adjustment and strengthening of the judiciary, including in economic and business matters, has received support.

Secondly, further improving the business environment has been supported from Phare, by co-financing of investments in infrastructure and in knowledge. The latter mainly by facilitating SME access to research and new technologies, and also by providing vocational training.

²⁰⁰ The national reports can be found at: http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/charter_ccs_2003.htm

²⁰¹ Report on the implementation of the European Charter for Small Enterprises in the candidate countries for accession to the EU, SEC(2003) 57, 21.1.2003.

²⁰² Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, Bulgaria and Cyprus.

²⁰³ <http://europa.eu.int/comm/enlargement/pas/phare/index.htm>

In the third place, support has been provided to strengthen business promotion agencies and business associations. Official bodies providing various forms of support for enterprises and also development agencies have received support. In this context, Euro-Info Centres have been set up with help from Phare. Business associations set up by enterprises themselves receive Phare support through the “Business Support Programme” (described further below, see heading 21.5) by which such associations in the candidate countries are strengthened through cooperation with counterpart organisations from the EU.

Finally, enterprises benefit directly through various schemes providing co-financing from Phare. These schemes may include co-financing of advisory services to SMEs on various kinds of issues (management, marketing, product development, product quality and respect of standards). In addition, the TAM (Turn Around Management) programme of the EBRD, with Phare support, provides for advice and Technical Assistance to companies on management issues. Provision of grants for investments in combination with bank loans, mainly as part of sectoral restructuring plans or regional development plans, are another example. A third example is the facilitation of access to bank loans and to equity capital through cooperation with commercial banks and equity funds. This Phare support for facilitating access to finance is implemented through the SME Finance Facility (see below, heading 21.4). Since 2000, most of the other direct support to enterprises is delivered through the Phare Economic and Social Cohesion programmes which can be considered as precursors to the EU Structural Funds.

Contact: Mr Joris Declerck, Enlargement DG, tel. (32-2) 295 71 16

21.4. The SME Finance Facility

Agenda 2000²⁰⁴ called on the Commission to set up a Multicountry Facility to induce financial intermediaries in the ten Central and Eastern European candidate countries (CEECs) to expand and to maintain their debt and equity financing of SMEs in the long term. As a result, the SME Finance Facility²⁰⁵ was launched in 1999 with the European Bank for Reconstruction and Development (EBRD), followed by the Council of Europe Development Bank in co-operation with Kreditanstalt für Wiederaufbau in 2000 (CEB/KfW) and, most recently, by the European Investment Bank in 2001.

The Programme combines resources from EIB, EBRD and CEB/KfW in the form of loans and equity capital with non reimbursable Phare support providing incentives for local financial intermediaries to expand their offer of finance to SMEs and to enhance their capacities for new business finance practices such as monitoring and assessment of related risks and management of their exposure.

The Facility offers a range of products to local financial intermediaries through two “windows”, the smaller Equity Window (EW) - Equity-investment funds and management support - and the Loan, Guarantee and Leasing Window (LGLW) - Loan funds, performance fees, guarantees, technical support and other appropriate incentives.

The co-financing parties, i.e. EBRD, EIB and CEB/KfW are responsible for identifying local financial intermediaries and concluding projects with them. Projects include financial packages providing resources from the co-financing partners (loan or equity) together with Phare support. Financing is channelled to those local financial intermediaries that have

²⁰⁴ http://europa.eu.int/comm/agenda2000/index_en.htm

²⁰⁵ <http://europa.eu.int/comm/enlargement/pas/phare/programmes/multi-bene/smefinance.htm>

demonstrated a satisfactory level of financial viability, appropriate management capacity and commitment to SMEs in their lending/investment policy. Local banks or local leasing companies will, in return engage in providing further loans/leases to SMEs and the investment funds will engage in investing in individual SMEs.

The co-financing partners of the Commission are also responsible for supervising the implementation of these Projects and reporting to the Commission. It is expected that, as a result of the SME Facility, financial intermediaries will have expanded capacities to service the financial needs of SMEs and that SMEs, in return, will have gained a better access to finance.

The Commission co-ordinates the SME Finance Facility with the EBRD, CEB/KfW and EIB through one Steering Committee, where each party is represented.

At the beginning of 2002 the total budget committed by the EBRD, EIB and CEB/KfW to the SME Finance Facility is €88 million under the Loan, Guarantee and Leasing Window, and €25 million under the Equity Window.

By September 2002, 59 projects have been approved covering ten candidate countries and corresponding to co-financing partners' credit lines or equity capital of €56 million and Phare resources of €15 million.

In December 2002 the Commission decided to provide a supplementary budget of €50 million to the Facility in combination with a contribution of around €325 million from its co-financing partners (EBRD, CEB/KfW and EIB).

Currently, the Phare budget allocated to the SME Finance Facility is €241million.

Contact: Ms Judith Novak, Enlargement DG, tel. (32-2) 299 85 53; Mr Joseph Salacz, Economic and Financial Affairs DG, tel. (32-2) 293 62 48

21.5. The Business Support Programme

In 1998, the Commission adopted a new multi-country programme in support of private sector development in the candidate countries in Central and Eastern Europe²⁰⁶, as a complement to the support provided to private sector development under the national Phare programmes. The Business Support Programme (BSP) was set up to provide support for strengthening the capacity of business representative organisations to effectively support and represent the business interests of enterprises. It also aims to strengthen their capacity to assist enterprises in preparing for enlargement and the requirements of the legal framework of the Community (*acquis communautaire*). To this end, support is provided for the development of partnership and twinning operations with sectoral and horizontal business representative organisations in the existing Member States.

Under the first BSP programme, grants amounting to a total of €2 million were awarded to 17 projects covering a wide range of business sectors and activities. In addition, €5.7 million was awarded for two specific projects in the fields of industrial property and agriculture. In May 2002, the Commission launched a call for proposals for the second BSP programme, which has a budget of €15 million.

²⁰⁶

<http://europa.eu.int/comm/enlargement/pas/phare/programmes/multi-bene/business.htm>

Contact: Ms Subha Ray, Enlargement DG, tel. (32-2) 299 31 22

21.6. Partnership events for SMEs in EU border regions

In the framework of the Pilot Programme on the Impact of Enlargement in Border Regions²⁰⁷, special support actions are targeted at SMEs on the EU side of border regions and the development of their cross-border cooperation links with the candidate countries. In July 2002, the Commission published a call for proposals entitled “Regional Partnership Events for SMEs in the EU Regions Bordering the Candidate Countries”, inviting Euro-Info Centres located in the EU to present project proposals. The total amount available for these actions is €7.5 million in 2002²⁰⁸. It is foreseen to continue support for SMEs in the context of enlargement during 2003.

Addressing the need of regions and economic sectors particularly affected by enlargement, the Pilot Programme is part of the Community Action for Border Regions²⁰⁹ and aims to strengthen their competitiveness through special support measures for SMEs from an employer and employee perspective. It also addresses the needs of local and regional authorities to prepare for the administrative effects of enlargement and to facilitate cross-border contacts between these authorities.

Contact: Ms Judith Novak, Enlargement DG, tel. (32-2) 296 85 53

21.7. SAPARD

A unique feature to date of the SAPARD instrument, a special instrument created to support agriculture and rural development in the pre-accession period, is that it operates on an exclusively fully decentralised system. This means that all SAPARD beneficiaries have practical experience of the operation of a co-financing system very similar to that used in Member States. For those involved in the associated administration, they too obtain first hand experience in applying that system, as well as provisions widely encountered in market economies such as those relating to public procurement, and to norms such as those relating to the environment, hygiene, animal health and welfare.

Beneficiaries for investments both within and beyond agriculture may be from the public as well as the private sector, generally but not exclusively SMEs. In all cases where there are Community standards to be eligible, investments must respect these standards. Moreover in all cases projects must pass an economic viability test. For all private investments the maximum level of aid is 50% of eligible cost. Consequently the beneficiary, although considerably assisted by the aid, must supply the remaining finance. All of these components play a part in stimulating entrepreneurial activity and initiative.

Contact: Mr Alan Wilkinson, Agriculture DG, tel. (32-2) 295 59 72

²⁰⁷ <http://europa.eu.int/comm/enlargement/borderregions>

²⁰⁸ These funds are not pre-accession funds, since the activities are targeted at SMEs in regions within the EU.

²⁰⁹ Communication on the impact of enlargement on regions bordering candidate countries: Community action for border regions, COM(2001) 437 final, 25.7.2001.

22. INTERNATIONALISATION OF SMES: COOPERATION WITH NON-MEMBER COUNTRIES

22.1. Trade policy

One of the aims of the trade policy of the European Community (EC) is to improve market access through the progressive abolition of unnecessary restrictions on international trade in view of benefiting EC businesses, including internationalised SMEs.

22.1.1. Trade barriers

The so-called Trade Barriers Regulation²¹⁰ (TBR), fully operational since its enforcement on 1 January 1996, represents an important step forward and a useful instrument for those SMEs wishing to expand in new emerging dynamic markets. The TBR's most important procedural innovation is the creation of a so-called "third track". Along with complaints from Member States and European industry sectors, the TBR also envisages complaints of individual companies alleging adverse trade effects, based on multilateral or plurilateral trade agreements.

The Market Access Database, available to all economic operators via the Internet²¹¹, has been fully operational since 1996 with distinct benefits, in particular for SMEs. Its functions comprise (1) to list main trade barriers affecting Community exports by sector and by country and to ensure follow-up and Commission action where necessary; (2) to provide basic information of interest to Community industry and Community exporters, such as the rates of customs duties and internal taxes in key export markets, import licensing requirements, special customs clearance formalities; and (3) to provide an interactive means of communication between business and the European Authorities allowing an exchange of information on-line.

On 21 June 1999, the General Affairs Council gave its full support for the barriers removal programme, following the Commission's Communication on "Serving Europe's exporters in the 21st century: the next phase of the market access strategy"²¹². The barriers removal programme, which focuses the Commission's resources on the elimination of priority barriers in third countries, is particularly relevant to SMEs.

In compliance with the WTO Agreement on Technical Barriers to Trade²¹³, the Commission examines the draft legislation of non-Community countries to guard against obstacles to Community businesses. It encourages Member States to participate actively in the procedure, particularly to give their businesses the chance to benefit from this international instrument of trade. The Commission also notifies the WTO of Community draft legislation containing technical rules.

²¹⁰ Council Regulation (EC) No 3286/94 of 22 December 1994 laying down Community procedures in the field of the common commercial policy in order to ensure the exercise of the Community's rights under international trade rules, in particular those established under the auspices of the World Trade Organization, OJ L 349, 31.12.1994, p. 71.

²¹¹ <http://mkaccdb.eu.int>

²¹² SEC(1999) 601/4, 22.4.1999, http://europa.eu.int/comm/trade/mk_access/index_en.htm

²¹³ OJ L 336, 23.12.1994.

22.1.2. *Mutual recognition*

Mutual recognition is one of the instruments available to reduce regulatory obstacles faced by traders and exporters. Mutual Recognition Agreements (MRAs) of conformity assessment of regulated products have been signed with Japan, Canada, United States, Australia, New Zealand and Switzerland, and a Mutual Recognition Agreement on Good Laboratory Practices, on the safety testing data of all chemicals, has been signed with Israel.

The Commission also pursues other trade facilitating instruments, since the experience of the Commission has led to the view that MRAs are not the only instrument to facilitate trade. Many other measures can be applied to achieve this goal. Indeed, conditions for open trade include compatibility of approach, coherence of regulations and standards, transparency of rules, appropriate levels and means of regulation, impartiality in certification, compatibility of market surveillance measures and an appropriate level of technical administrative infrastructure.

The Commission has identified a “tool box” of instruments to bring these conditions closer in a working paper²¹⁴. These measures include regulatory cooperation, harmonisation, recognition of equivalence, partial or voluntary reduced or less formal types of mutual recognition, international standardisation and technical assistance. The selection of the right instrument will depend on the characteristics of the markets, the regulatory environment in the third country concerned, and the willingness on the part of industries, regulators and other stakeholders to achieve the agreed objectives.

22.1.3. *Multilateral trade policy*

In parallel to bilateral initiatives, the European Community pursues an active market opening strategy at the multilateral World Trade Organisation (WTO) level, which should greatly benefit EU businesses including SMEs.

The successive rounds of GATT negotiations have led to an unprecedented reduction in tariff and non-tariff barriers over the last fifty years. The Community has maintained a constant policy of supporting and enhancing the process of multilateral negotiations and disciplines while securing both the necessary safeguards for our industries and guarantees for our exporters against WTO-incompatible measures. The EC has also been actively engaged in opening markets by promoting the accession of new parties to the WTO (including major players like China and now Russia) as well as fostering the integration of the developing countries, in the world trading system.

The EU facilitates the possibilities of SMEs to source inputs from abroad by low tariffs for imports of industrial goods and preferential access for imports from many countries. The EC grants preferential access to most of its trading partners for some or all imports and in 2002, nine WTO Members are subject to exclusively Most-Favoured-Nation (MFN) treatment in all product categories: Australia, Canada, Chinese Taipei, Hong Kong, China, Japan, Republic of Korea, New Zealand, Singapore, and the United States. These countries accounted for 45.2% of EU's total merchandise imports in 2001.

²¹⁴ Implementing policy for external trade in the fields of standards and conformity assessment: A tool box of instruments, SEC(2001) 1570, 28.9.2001, <http://europa.eu.int/comm/enterprise/international/indexb1.htm>

The EC is a strong supporter of a multilateral, rules-based management of disputes and therefore favours using the WTO dispute settlement mechanisms to ensure that our partners live up to their obligations under the WTO agreements.

The EC supports the ongoing efforts for further development of world trade, through the current multilateral negotiation round of the WTO (the Doha Development Agenda) launched in 2001 at Doha. The EC aims in these negotiations at further improving market access by lowering tariffs and eliminating unnecessary non-tariff barriers for agricultural and non-agricultural goods, and to liberalise services. It also aims at clarifying and strengthening WTO rules, in the fields of existing WTO rules (e.g. anti-dumping, subsidies and regional trade agreements) as well as by agreeing on new rules (competition, investment, trade facilitation and transparency in government procurement).

The result of these negotiations will benefit all companies in the EU, but in particular SMEs, for which barriers in international trade represent a larger obstacle to engaging in trade than for larger or multinational firms. SMEs concerns about integration in global economy and possibilities to export are taken into account in the negotiations, *inter alia* via the EU's proposal for "Trade Facilitation" agenda²¹⁵. This includes proposals such as the simplification of burdensome customs and other trade procedures, the concept of "single window" for all border controls, granting of the status of authorised trader on a non-discriminatory basis, and easier access to and greater transparency of trade regulations. Cutting red tape in international trade will be especially useful for SMEs.

22.2. Cooperation within the European Economic Area (EEA)

The Agreement on the European Economic Area (EEA) associates the EFTA States Iceland, Norway and the Principality of Liechtenstein to the EU Internal Market. The aim of the EEA Agreement, which entered into force on 1 January 1994, is to create a dynamic and homogeneous European Economic Area through common rules and legislation, which apply to both individuals as well as to economic operators. These rules cover the so-called four freedoms, i.e. the free movement of goods, capital, services and persons, plus certain related horizontal areas.

The EEA Agreement also opens up for participation from the EEA EFTA countries in various EU programmes and actions, such as the Multiannual programme for enterprise and entrepreneurship. Furthermore, Norway has accepted an invitation from the Commission to take part in the European Charter for Small Enterprises²¹⁶.

22.3. Cooperation with the United States and Canada

Cooperation with the United States

The Trans-Atlantic Business Dialogue (TABD)²¹⁷, opened in 1995, is a unique business-driven process by which European and American CEOs (Chief Executive Officers) can make

²¹⁵ WTO Trade Facilitation – Strengthening WTO rules on GATT Article V on freedom of transit, 30.9.2002, WTO Trade Facilitation – Improvements to GATT Article VIII on fees and formalities connected with importation and exportation, 11.7.2002, Trade Facilitation : Article X of GATT on the publication and administration of trade regulations, 6.5.2002, <http://europa.eu.int/comm/trade/miti/tradefac/contrib.htm>

²¹⁶ Neither of the remaining members of the European Economic Area, Iceland and Liechtenstein, expressed a desire to participate.

²¹⁷ <http://www.tabd.com>

joint recommendations to the highest levels of governments in the EU and US, thus facilitating transatlantic trade and investment. The TABD's Leadership Team also includes an EU and US small business CEO responsible for providing input, and for recruiting participation from the SME community, and the TABD integrates the views of SMEs in its recommendations.

Cooperation with Canada

Against the background of the EU-Canada Trade Initiative (ECTI)²¹⁸, launched in December 1998, the important role of the private sector in promoting cooperation between SMEs in the EU and Canada has been stressed. The Commission has invited representative federations of SMEs in the EU to cooperate with Canada and a Steering Group on EU-Canada SME cooperation has been set up. The process is business-driven and intended to focus on specific sectors. Also under ECTI, the plans to develop an enhanced dialogue between Government and Business lead to the creation of the Canada Europe Round Table for Business (CERT). It has been set up by the business community, involving some twenty companies both from Canada and the EU. The aim of the participating representatives of the business community is for CERT to become the prime voice of European and Canadian business to advise the Canadian government and the EU and its Member States on bilateral and multilateral trade and investment issues.

22.4. Cooperation with Japan and South Korea

22.4.1 Cooperation with Japan

EU-Japan cooperation was given a new impetus at the EU-Japan Summit in December 2001 with the launch of "Decade of Japan-Europe Cooperation"²¹⁹. This is based on a far-reaching action plan which covers, among other things, the strengthening of economic and trade partnership between the EU and Japan. One of the action plan's objectives is to facilitate and develop the two-way flow of trade and investment so that European companies, notably SMEs, can fully benefit from the existing market potential in Japan.

Against this background, several trade facilitation and industrial cooperation programmes are being implemented either by the Commission services directly or through the EU-Japan Centre for the Industrial Cooperation.

Trade Facilitation: Exprom Japan

The Exprom Japan programme²²⁰ provides tangible support to EU SMEs wishing to enter the Japanese market or develop their business presence there. Exprom Japan consists of two main pillars.

The first pillar is the EU "Gateway to Japan" Export Promotion programme. This multiannual export promotion campaign, running since 1994, allows EU exporting SMEs to participate in Trade Missions to Japan and Trade Fairs in Japan. The third edition of Gateway to Japan was launched in November 2002 and will cover a four-year period during which some 880 SMEs

²¹⁸ <http://europa.eu.int/comm/trade/bilateral/canada/canada.htm>

²¹⁹ http://europa.eu.int/comm/external_relations/japan/intro/summ_index.htm

²²⁰ Council Regulation (EC) No 382/2001 of 26 February 2001 concerning the implementation of projects promoting cooperation and commercial relations between the European Union and the industrialised countries of North America, the Far East and Australasia and repealing Regulation (EC) No 1035/1999, OJ L 57, 27.2.2001, p. 10.

will be selected to participate in 32 trade events in Japan in the following sectors: Construction Materials, Information & Communication Technologies, Environmental Technologies, Outdoor Lifestyle, Interior Lifestyle and Young Fashion/Designers. EU Gateway to Japan provides companies with professional preparation and logistical and marketing support such as: introductory seminars on the Japanese market; briefings and contacts with experienced advisors and business people; market studies on the sectors involved; customised services (arrangement of business meetings, market research, interpretation), as well as some financial support. Companies benefit from a strong promotional campaign in Japan prior to their visit through targeted PR actions, press conferences and the marketing of their products.

The second pillar, the Executive Training Programme in Japan (ETP Japan) is a longstanding management training programme, which was created in 1979 with the objective of rendering EU companies more effective in their dealings in the Japanese market and it is now at its 22nd edition. The programme is designed to help executives from EU companies including SMEs, to understand and better navigate Japan's unique and complex business culture and language. It consists of 12 months intensive Japanese language training, coupled with a programme of weekly seminars on different aspect of the Japanese economy and business environment and 6 months of "in-house training" in one or more Japanese companies. ETP targets EU companies which are already exporting to Japan or have clear plans to do so. Executives of these companies sent on ETP are typically graduates in their twenties or early thirties, with a minimum of two years professional experience.

Industrial cooperation: The EU-Japan Centre for Industrial Cooperation

The purpose of the industrial cooperation with Japan is to reinforce EU industry's presence in fast growing markets and to improve the competitiveness of companies through the exchange of experience and know-how, which should "produce" European industry leaders, scientists and government officials with a substantial understanding of Japan. The EU-Japan Centre for Industrial Cooperation was founded in 1986 as a joint venture between the Commission and MITI (now METI). It provides an effective business information service as well as training programmes. In June 1996, a Brussels office was opened.

Three training programmes are offered. The HRTP – Japan Industry Insight programme aims at managers who have a major role in defining and implementing their companies' policies vis-à-vis Japan. HRTP provides an integrated and in-depth view of Japanese business and industry. The full programme lasts 11 weeks, but there is a shorter 4-week version. SMEs may be eligible for a scholarship from the Commission to help cover living expenses in Japan. The Topical Missions programmes are two-week long programmes in the areas Market & Product Strategy, Meet Asia in Japan, Challenge Towards World Class Manufacturing and Distribution & Business Practices in Japan. The Vulcanus programme, finally, is a training programme for EU students, to familiarise the future management personnel in EU industry with Japanese business culture, economic structure and institutions. It also helps establish the personal networks that are often vital to establishing successful industrial cooperation. There is an equivalent programme which places Japanese students with EU host companies.

The EU-Japan Centre's business information service includes a newsletter, a directory (Johogen) of sources of information on Japanese trade and technology, seminars on Japanese and European markets, a reference library and an on-line enquiry service²²¹.

²²¹

<http://www.eu-japan.com>

22.4.2 *Cooperation with South Korea*

In view of the growing importance of the Korean market for EU companies, the Commission is extending its longstanding Executive Training Programme to South Korea (the Executive Training Programme in Korea – ETP Korea). Following the model established in Japan, ETP Korea offers a six-month period of intensive language training and weekly seminars on different aspects of the Korean economy followed by a three-month internship in Korean companies where participants hone their skills in an actual working environment. Conditions for participation and target groups are identical to those of the Japan programme. The first edition of ETP Korea will start in Seoul in March 2003.

22.5. Cooperation with the Mediterranean, Latin America and Asia

22.5.1. *Cooperation with the Mediterranean*

Since 1992, the Commission has made a considerable contribution to promoting transnational cooperation between SMEs in the European Union and the Mediterranean under the former Med-Invest programme. These initiatives were consolidated throughout 1996 under MEDA²²² financing.

In the framework of the Euro-Mediterranean Partnership, launched in Barcelona in November 1995, a Working Group on Euro-Mediterranean Industrial Cooperation has been set up. One of the priority areas of this group is to improve the climate for development of SMEs. As far as direct business-to-business contacts are concerned, the Medpartenariat Egypt 2000 and similar enterprise meetings co-sponsored by the EU also have helped foster North-South and South-South industrial cooperation.

Furthermore, there are eight Euro Info Correspondence Centres (EICCs) in the Mediterranean countries, to supply SMEs with the information they need on EU activities and programmes.

22.5.2. *Cooperation with Latin America*

AL-INVEST II

After the successful completion of the first phase of AL-INVEST (€1 million for 1996-2000), the Commission launched the AL-INVEST II (€43 million for 2001-2004). AL-INVEST²²³ aims at promoting both the internationalisation and partnership between SMEs from the two regions notably by fostering the yearly organisation of 50 sectoral meetings, which are business-to-business encounters previously prepared by European and Latin-American operators acting together and agreeing on a common agenda. AL-INVEST II is a decentralised programme, meaning that initiatives taking place under its umbrella are primarily endorsed by private operators such as Chambers of Commerce, Industrial Associations and Consultancies, which also submit sectoral meetings' proposals to the Commission for approval. It is also an "output-minded" programme, the Commission financial participation being, in fact, strictly proportioned to the concrete results achieved by the operators involved.

²²² Council Regulation (EC) No 2698/2000 of 27 November 2000 amending Regulation (EC) No 1488/96 on financial and technical measures to accompany (MEDA) the reform of economic and social structures in the framework of the Euro-Mediterranean partnership, OJ L 311, 12.12.2000, p. 1, http://europa.eu.int/comm/external_relations/euomed/meda.htm

²²³ http://europa.eu.int/comm/europeaid/projects/al-invest/index_en.htm

22.5.3. Cooperation with Asia

Cooperation with India

The first EU-India Summit in June 2000 highlighted the need for a joint effort to tap the potential for substantially enhancing trade and investment between India and the EU. In February 2001, the 11th EU Joint Commission encouraged industry to launch the 'Joint Initiative to Enhance Trade and Investment'. Under this 'Joint Initiative', a group of European and Indian consulting companies have carried out general as well as sector-specific studies. Based on the results of the studies, it has developed a set of 'Joint Recommendations' that both Indian and European business associations (CII and FICCI in India, UNICE in Europe) formally put to the political leadership at the occasion of the second bilateral Summit in New Delhi, in November 2001, and, more recently, at the third India-EU Summit, in Copenhagen, in October 2002. The 'Joint Initiative' has produced the most comprehensive survey on Foreign Direct Investment (FDI) in India to date, and set in motion a new type of business dialogue between EU and Indian industry.

Asia-Invest

Asia-Invest²²⁴ is an EU initiative that aims to promote and support business cooperation between the European Union and Asia. The Programme provides assistance to intermediary organisations to facilitate mutually beneficial partnerships, and opportunities for cooperation agreements between companies, in particular SMEs, in the EU, South and South-East Asia and China. The programme is also designed to strengthen framework conditions to increase trade and investment flows between the two regions. The Programme has operated for five years (€35 million for 1997-2002), and a new programme period 2003-2007 has just started, with a budget for project funding of €35 million. Asia-Invest is administered by a Secretariat established in Brussels.

Asia-Interprise and Asia-Partenariat

Ten Asia-Interprise²²⁵ events took place in 2001 (two in Europe and eighth in Asia: China, India and Singapore), and five events in 2002, in the areas of environmental technology, food processing and information technology.

Under the Asia-Partenariat programme²²⁶ three events were organised: (1) The Europartenariat Denmark in June 2002 in Aalborg, where 136 companies from India, Malaysia, the Philippines, Sri Lanka, China and Vietnam attended the meetings; (2) The EU-Malaysia Partenariat in Kuala Lumpur in May-June 2002. The EU-Malaysia Partenariat brought together over 600 Malaysian and EU companies in the selected industry sectors to discuss business cooperation through one-to-one business meetings; and (3) the EU-China Partenariat in Beijing in November 2002 where over 800 European and Chinese SMEs participated in 3000 Business meetings.

22.6. Cooperation with Russia and the New Independent States

One of the structural objectives of the Commission in its dialogue with and technical assistance to Russia and the other New Independent States is to improve the framework

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<http://europa.eu.int/comm/europeaid/projects/asia-invest/html2002/main.htm>

²²⁵

<http://europa.eu.int/comm/europeaid/projects/asia-invest/html2002/asiainterprisescheme.htm>

²²⁶

<http://europa.eu.int/comm/europeaid/projects/asia-invest/html2002/asiapartenariatscheme.htm>

conditions for business activity and investment in these countries (tax system, regulatory environment, administrative and judicial reform, etc). These efforts have an indirect impact on local SMEs, as well as on EU companies exporting to or investing in these countries. The instruments for implementing this objective are diverse, and include dialogue with the regulatory authorities and with business representatives, namely in the framework of the EU-Russia Industrialists' Round Table²²⁷.

As to technical assistance under the Tacis programme²²⁸, a few specific actions aimed directly at SMEs have been implemented during the last years. Examples of Tacis actions with direct impact on local SMEs include the following:

- Tacis Enterprise Support Centres (ESC): The project started in 2000 and finished in 2002, having assisted 12 ESCs in Russia, which are now operating as independent, profitable commercial entities, selling consultancy projects and training services to client-companies.
- Tacis Support to the Development of Small Entrepreneurship: The project was carried out in Russia from 2000 to 2002. It aimed at developing and supporting the implementation of relevant policies for the SME environment.
- Tacis Business Communication Centres (BCCs), which have been set up to provide information for SMEs throughout the NIS. The Centres, usually located within Chambers of Commerce, are a source of local business information both for firms within their regions and for firms from other New Independent States and the EU.
- Support to SME Development Agencies (SMEDAs), which provide advice, counselling and training for new and existing entrepreneurs in the NIS. They assist company managers in drawing up business plans and provide them with the support they need to present information about their company to potential foreign investors. The project was finalised in 2002.

Tacis has recently changed the focus of support to enterprise development in these countries, moving towards a more conceptual support to the modernisation of the legislative and regulatory framework. Some new projects illustrate this orientation, notably the new project on insolvency proceedings (Insolvency II) which focuses on the creation of a better corporate culture via the introduction of effective mechanisms of insolvency and bankruptcy.

22.7. Cooperation with the countries in the Western Balkans

The European Union has offered the prospect of future integration into the EU structures to the countries in the Western Balkans²²⁹. By concluding Stabilisation and Association Agreements (SAAs) with these countries, a framework for political dialogue and the promotion of economic and trade relations is established. The progressive adoption of the *acquis communautaire* is an important element in order to effectively take part in the European integration process, including relevant areas related to industrial and enterprise

²²⁷ http://europa.eu.int/comm/enterprise/enterprise_policy/business_dialogues/russia/russiaoverv.htm

²²⁸ Council Regulation (EC, EURATOM) No 99/2000 of 29 December 1999 concerning the provision of assistance to the partner States in Eastern Europe and Central Asia, OJ L 12, 18.1.2000, p. 1, http://europa.eu.int/comm/external_relations/ceeca/tacis/index.htm

²²⁹ Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and Yugoslavia.

policy. The five countries are in different phases of the stabilisation and association process, with Croatia and the Former Yugoslav Republic of Macedonia in the lead as the only countries which have effectively signed a SAA. Pending the ratification of these SAAs, Interim Agreements, which cover only trade and trade-related matters, have already entered into force. Negotiations with Albania will start in 2003. Bosnia and Herzegovina and Yugoslavia are not yet ready to start SAA negotiations.

The EU's technical assistance programme Cards²³⁰ supports various SME-related measures, including, *inter alia*, support for access to finance, advice and networks (including Business Support Centres and Euro Info Correspondence Centres (EICCs) for SMEs. An ever stronger focus is placed on institution building.

To complement bilateral work with these countries, the Commission works in partnership with (and co-finances) the OECD's Investment, Finance and Enterprise Development Programme for south-eastern Europe (IFED-SEE)²³¹. The unique contribution of IFED-SEE has been to allow for a dialogue that brings in central government actors, together with those of the regional level, including private sector actors. These representatives are confronted with views and policies from both neighbouring countries, as well as with views and experiences from OECD member countries that are further along in terms of enterprise development. The objective of the project is to improve the process of policy design and implementation in the participating countries through policy dialogue. A key outcome of project is a series of enterprise policy reviews. The first detailed country review has already been completed for the Former Yugoslav Republic of Macedonia. Similar Enterprise Performance Policy Assessment (EPPA) reports are to be produced for all other countries.

Policy cooperation on SME-related issues with the countries in the Western Balkans is set to intensify in 2003 through the possible introduction of the European Charter for Small Enterprises to the Western Balkans as well. The Charter could evolve into an umbrella to streamline, rationalise and strengthen enterprise policy in the region and to place it higher on the political agenda.

22.8. Development cooperation – African, Caribbean and Pacific countries

On 23 June 2000, the new Cotonou Agreement²³² was signed as a follow-up to the fourth Lomé-bis Convention (Lomé IV-bis), the agreement constituting the legal basis for development cooperation and covering all political, economic and trade relations between the EU and the 77 associate countries in Africa, the Caribbean and the Pacific (the ACP countries). A heightened dialogue between the public and private sectors, partnership, the creation of a business-friendly environment and access to production factors, above all foreign investment, are the key elements of the new Agreement.

In 1998, the Commission introduced a new strategy to support private-sector development, particularly that of the SMEs, which form the backbone of the private sector in these countries²³³. Since macro-economic stabilisation has in most cases been achieved, now is the time for second-generation reforms incorporating all three levels: the macro level (business

²³⁰ http://europa.eu.int/comm/europeaid/projects/cards/index_en.htm

²³¹ <http://europa.eu.int/comm/enterprise/enlargement/see.htm>

²³² http://europa.eu.int/comm/development/cotonou/index_en.htm

²³³ A European Community strategy for private sector development in ACP countries, COM(1998) 667 final, 20.11.1998.

environment and investment climate), the meso (financial and non-financial) intermediary level, and the micro level (enterprise competitiveness).

For example, the Centre for the Development of Enterprise (CED, formerly CID)²³⁴ supports the creation, extension, diversification and restructuring of ACP manufacturing or service companies and the expansion of expertise and competence on the part of consultants. It also organises ACP-EU business contact meetings and encourages technical, commercial and financial partnerships between ACP and EU entrepreneurs. The CED manages the EU-ACP Partnership Programme for the Promotion of Investment and Technology Flows to the ACP Countries (PROINVEST), with a budget of €12 million for the period 2002-2008.

The European Business Advisory Services (EBAS)²³⁵ programme was designed and launched by the European Union and the ACP countries in 1999 and finished its term in 2002. The aim of EBAS was to support the private sector in eligible ACP countries in order to promote social and economic development and help fight poverty. With a budget of €20 million for the whole programme period, EBAS worked to increase the competitiveness of the ACP private sector by giving grants to companies and professional associations towards the use of management consultancy services. As a matching grant scheme, EBAS paid up to half of the consultancy costs for a company or professional association.

Other specific initiatives aimed at SMEs may take place under the national and regional indicative programmes. In view of their complementary roles, the Commission, the EIB and the CDE cooperate closely in operational terms. The CDE, for example, is selecting “bankable” projects, which will have easier access to EIB resources, and certain global EIB loans to local SMEs are accompanied by technical assistance from the Commission and the CDE. European SMEs are playing a general role in implementing Community development aid via works, supply and service contracts.

22.9. Cooperation with South Africa

Under the European Programme for Reconstruction and Development in South Africa, the Commission is supporting the SME sector by targeting victims of apartheid. EC programmes for the period 1995-2001 aim to set up specialist institutions providing the financial services needed to develop these SMEs, and to assist business start-ups in local key sectors. The programmes include the “Small and Micro Enterprise Development Programme” (€1 million, with Khula Finance), the “Trade and Investment Programme for SMEs” (€8.9 million, with the Ntsika Enterprise Promotion Agency), DTI Policy support (€2.4 million), TABEISA (Technical and Business Education Initiative, €8.5 million), and technology support for SMMEs (€5.4 million). SME support is to be continued in the future, subject to a positive evaluation of the first programme, aiming to perfect instruments such as risk capital, in cooperation with the EIB and local specialist financial institutions. A global trade, development and cooperation agreement aimed at tightening up relationships between the EU and South Africa came into force on 1 January 2000. It opens trade and investment opportunities for South African and European companies. The agreement covers all sectors of trade, including competition, safeguards, intellectual property rights and rules of origin. Since January 2000, South African exports to and imports from the EU have increased considerably, and a gradual shift of the South African exports from commodities to more technology-based products is taking place.

²³⁴ http://www.cdi.be/index_en.htm

²³⁵ <http://www.ebas.org>