Supporting Enterprise Development and SME in Europe

Marco Lopriore*

Small and Medium Enterprises (SME) are the backbone of Europe's economy: there are 23 million SMEs in Europe representing around 99% of all undertakings, and 57% of them are sole proprietorships. They provide two thirds of total private-sector employment, represent 80% of the total job creation and produce more than half of the EU added value. This article examines the main as well as the latest elements of EU policy and programmes in favour of supporting enterprises and SMEs in particular. It starts by looking at the SME policy framework and then focuses on the financial aid within the EU financial perspectives in 2007-2013 such as the research budget or the structural funds. The article describes the different measures for SMEs in terms of financial instruments and support programmes and services, addressing in each case strengths, weaknesses, trends and possibilities. It also looks at the changes to policies and programmes following the financial and economic crisis.

Introduction

Between 2002 and 2007, the number of SMEs has increased by over 2 million; the number of large enterprises by only 2000.[1] The new Member States show higher birth and death rates of enterprises than the old Member States, probably due to the fact that they are still catching up.

Germany has more employment in SME, but Italy and Greece have the highest number of SMEs and enterprises as well as the highest number of employees in micro-companies. Italy is also an interesting case where, if it were not for immigrant and ethnic entrepreneurs setting up businesses, the business demography in 2008 would have been negative according to the business register held by the chambers of commerce.

The British economist Schumacher[2] coined the phrase "small is beautiful" during the energy crisis of the 1970s, but the same cannot be said of SMEs. According to a 2008 study by the European Commission, most difficulties encountered by SMEs are related to the amount of administrative burden[3], the access to sufficient finance, the level of taxation and access to public procurement. Indeed, this is reflected in their performance, which raises concerns as their productivity and growth is lower than in the USA, where productivity levels are on average 30 to 40% higher.[4]

Table 1:
Enterprise demography, birth and death EU 27, 2003-2005*

	2003	2004	2005	average 2003/2005
enterprise birth				
1,000	1,472	1,625	1,585	1,560
% of population	9	9	9	9
enterprise death				
1,000	1,259	1,325	1,368	1,317
% of population	7	8	8	8
net enterprise birth				
1,000	213	300	217	243
% of population	1	2	1	1

* Estimates based on available data for Bulgaria, Czech Republic, Germany, Estonia, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Netherlands, Austria, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom. Source: EIM

Performance of SMEs in Europe is affected mainly by structural difficulties such as lack of skills and labour market rigidities, which affects matching of demand and supply of labour, market failures in research, training[5] and innovation, as well as a general lack of entrepreneurial spirit, which has been described by the Austrian economist Schumpeter as "Unternehmergeist".[6] Entrepreneurs and their willingness to take risks are fundamental in determining economic cycles, as they bring about innovation, create new companies and drive non-competitive ones aside in a process of "creative destruction". In the area of finance there are certain segments of SME which face financing gaps such as micro-companies or sole proprietorships, companies which have to be transferred or passed on from one generation to the next and start-ups without credit history.[7]

Traditional market failure justification is one recurrent idea, but EU policy also relies on the presence of network externalities and standardisation in the internal market (when the value of a good or technology depends on the number of users), strategic trade and technology issues to support, for instance, infant industries. More recently the theoretical basis for the EU intervention has been inspired by the systemic approach developed by Michael Porter, which emphasises the importance of the microeconomic business environment and of linking business, universities/research and public actors into the "triple helix" of innovation.[8]

We need greater simplification of SMEs at the EU and Member State level.

This new emphasis in EU policy can be seen in the work done by the European Commission in favouring innovation and clustering among companies, as well as inter-cluster cooperation, including cross-border cooperation. In this regard, the Pro-Inno initiative of the European Commission has launched the European Cluster Memorandum headed by Professor and Senator Pierre Lafitte and is supporting the development of a European Cluster Observatory[9] that permits extensive cluster mapping in Europe according to dimension, specialisation and focus. It also identifies national cluster programmes and benchmark cluster policies, and develops a voluntary excellence path for cluster organisations.

The new EU policy strategy looks very much to the regional innovation systems and clusters as the main factor of competiveness.[10] The aim is to build world-class clusters with the necessary dimensional strength, since too many clusters are too small in size to compete globally. Indeed, the main problems of clusters are normally lack of resources, lack of infrastructure and lack of training for cluster managers.

EU policies to support SME development

Ensuring a more business-friendly environment

The first contribution of the European Commission has been to better define what an SME is. The definition of an SME, as laid down in the Recommendation which came into force in 2005,[11] classifies an SME according to two cumulative criteria: staff headcount and turnover and/or balance sheet. This recommendation has important implications when linked to the exclusive competences of the EU, such as competition policy as discussed below.

The EU response has been the Small Business Act for Europe (SBA), adopted by the Commission in June 2008, which reflects the Commission's political will to support SMEs and aims to improve the overall approach to entrepreneurship by anchoring the "think small first" principle in policy making. The SBA has an important function to coordinate actions of Member States, to look for good practices, to follow up on Members States' performance, to ensure EU polices are SME friendly (better regulation) and to provide support to SMEs.

The SBA builds on the European Charter for Small Enterprises launched at the Lisbon Summit in March 2000, which failed in the delivery process since it was based on an open method of coordination, lacked strength and relied on a weak system of measuring results. One of the areas where more results were expected is the establishment of a one-stop-shop with reduced time and cost for registering companies: so far only Belgium, Denmark, Estonia, France, Hungary, Portugal, Romania, Slovenia and the UK fully comply with the EU objectives.

Compared with the European Charter, the SBA is monitored more stringently through an annual SME performance report in the Growth and Jobs strategy. Keeping the item on the agenda of European councils is also a good way to anchor it to highly political moments such as the "Europe 2020" document and to give it better visibility and more weight. This should ensure that SBA does not become another "paper tiger". Another suggested way forward is to increase the pressure in the monitoring process by "naming, blaming and shaming". Furthermore, could we not extend the monitoring more effectively at other levels such as regional and local levels of administrations as well as at the level of business organisations?

Specific areas for SME

In specific areas, there are also a few EU legislative measures, such as the General Block Exemption Regulation on State Aid (GBER), the Regulation providing for a Statute for a European Private Company (SPE), the Directive on reduced VAT rates (locally supplied services), the legislative proposal to simplify rules on VAT invoicing, accepting E-invoicing as an equivalent to paper invoicing and the revision of the Late Payments Directive.[12]

A cornerstone for better regulation is surely better attention for SME issues, firstly inside the European Commission and secondly better consultation with SME and business representatives.

The first currently takes place through the appointment within the Commission of an SME Envoy to defend the SMEs at EU level by providing input to a vast range of policies from education to internal market,[13] to social to fiscal, to trade, to name just a few. But could the SME issue not also be raised at the Commissioner's level in the next European Commission? We not only need to break down internal administrative barriers, but also in particular to bridge the different cultures' approaches when dealing with SMEs within our administrations at all levels: could Member States themselves also improve the coordination across different national Ministries (Ministry of Economy, Ministry of Education, Ministry of Science, etc) to better integrate SME issues?

External consultation takes place through SME panels, SME feedback mechanisms and regular involvement of stakeholders and business representatives such as Eurochambres, Business Europe, or UEAPME for European crafts. We should expand more on programmes such as Enterprise Experience Programme, under which civil servants of the European Commission were sent on duty to SMEs, as these programmes help break down barriers between business and administrations.

There are good results of cooperation so far, where the EU has adapted its legislative frameworks to take SMEs into account and to make them more SME-friendly by developing specific SME practical toolkits. Among the non-legislative measures, the European Commission has developed an "SME test" to analyse the impact of legislation on SMEs and specific measures for SMEs, improved access to standards through NORMAPME (in collaboration with UEAPME), a code of best practices on SMEs access to Public Procurement, the spread of the SME Week since Spring 2009,[14] the EU network of female entrepreneurs and mechanisms to facilitate access to markets including EU Business Centres in China and India, as well as a practical tool called the Market Access Database. Finally, in the field of environment the EU Eco-management and audit scheme (EMAS) has been adapted to the needs of SME with EMAS EASY; it is also possible to register as a cluster of companies in order to reduce costs. The scheme is SME-friendly and voluntary, has been welcomed by business representatives and can be used through a practical toolkit.[15]

Reorganising financial support for SMEs in EU programmes

EU support programmes such as the research and development programme or the Competiveness and Innovation Programme (CIP) are currently used to support SMEs (see Chart 1). The EU is running the Seventh Framework Programme Research and Technological Development (FP7) to complement actions taken at national and regional level, and each individual work programme of the FP7 has identified specific measures of interest to SME:[16]

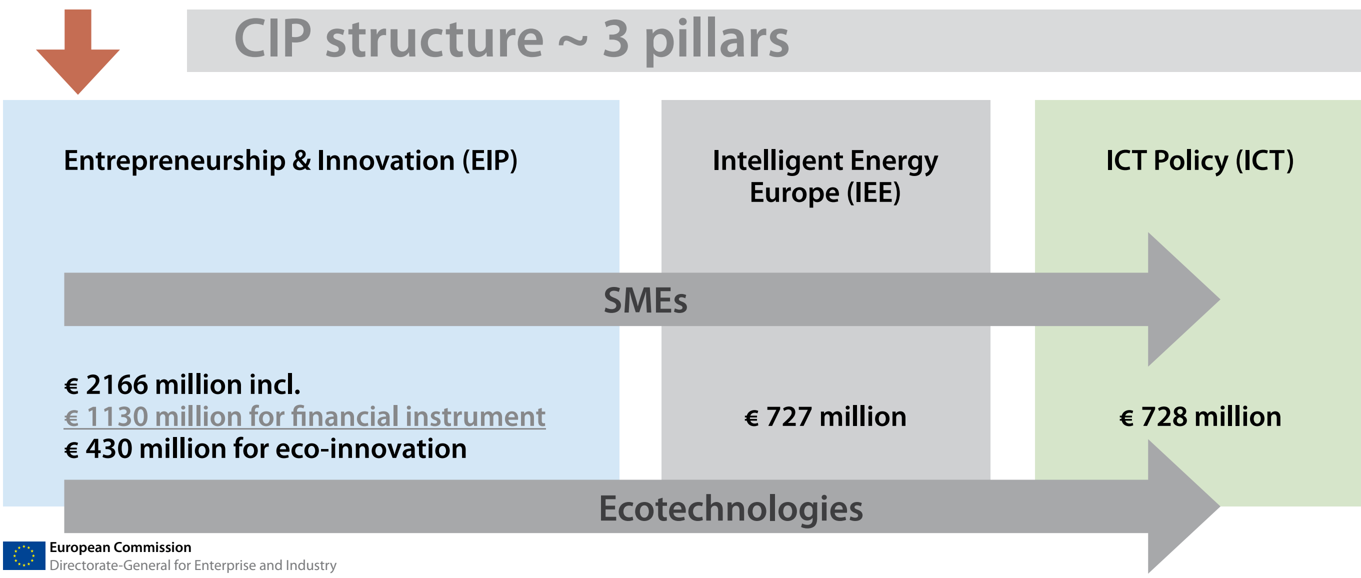
- The "people programme" of FP7 supports temporary hosting of experienced researchers into SME and staff secondment between academia and industry.
- SMEs that carry out R&D are encouraged by the European Commission to participate in collaborative research projects within the "cooperation" programme of FP 7.
- The "capacities" programme supports SMEs by covering part of the total investment when outsourcing research to RTD performers for two target groups. The first target group is low and medium technology SMEs with maximum 10 partners and with little research capacity, as well as research-intensive SMEs that need to outsource their research to complement their core research capacity. The second target group is SME associations with a maximum of 15 partners representing their members and their common technical problems.[17]

The CIP on the other hand provides for extensive exchange of best practices among Members States, finances the European Entrepreneurship Awards for the best performing public authority that promotes entrepreneurship and SMEs, maintains the Enterprise Europe Network (EEN) that offers high quality services to SMEs, and delivers financial support together with the EIB through the European Investment Fund (EIF).

While resources for SMEs within the future EU financial perspectives post-2014 should be increased, there is a need to look into how the current EU financial support to SMEs could be reorganised and its delivery improved.

One crucial issue for SME participation concerns results and IPR issues. So far this has worked well since the results and IPR remain for the SME or the SME association. A good example is the Freshlabel project run by the European meat processing industry[18] with the help of several universities to enable traceability of the cold chain of fresh chilled meat and fish products by means of tailor-made time/temperature indicators. But more communication, awareness and information on these issues is important and to invite more

Chart 1: Composition of the CIP - Source: European Commission



SME and associations to follow this example and overcome the initial hurdles or distrust towards EU programmes.

We should also look into making SMEs more aware of the lead markets concept of the EU, which identifies lead markets such as renewable energies and biotechnology and which become a priority for the whole European Commission in the different Directorate Generals from DG Research to DG Employment. How can SMEs better participate in these lead markets initiatives or the European Technology Platforms?

Finally, one has to evaluate the impact of the simplified financial and administrative procedures that have been established, in particular the 75% funding rate for SMEs, and which reduce the requirements for audit certificates in EU research funding. A target of 15% of SME participation has been set and should amount to 5 billion euros until 2013. So far, 12.3% was achieved by 2007/2008, with 60% of SMEs involved having less than 50 employees and 31% having between 50 and 249 employees. How can we improve this further?

Linking EU direct management to shared managed funds such as structural ones

SMEs are also targeted by other EU programmes such as structural funds and the rural development and fisheries funds. These funds support activities such as individual business investments, investments in tourism and environment, training and entrepreneurship support, financing schemes and incubators.

Under the structural funds 2007-2013, around 27 billion euros will go towards supporting SMEs in technology and innovation, eco-friendly SMEs, ICT in SMEs and start-ups. Denmark, Finland, Slovenia, Austria, Sweden and the UK are among the Member States which will allocate above 20% of their structural funds budgets to SMEs (see Figure 1).

The European Investment Bank and the European Commission have launched the JEREMIE initiative (Joint European Resources for Micro to Medium Enterprises) to use the European Regional Development Funds to enhance SME access to finance through financial instruments. Regions and Members States have to opt for this instrument in their operational programmes (see Table 2).[19] Aid is delivered through revolving funds to support SMEs in their start-up, early stage and expansion through a range of instruments such as equity, debt, quasi-equity and technology transfer funds. The difference between these funds and grants is that the funds can be reinvested in the same geographical area, but in other SMEs after repayment by the initial beneficiary.

Figure 1: Percentage of structural funds allocated to SMEs in 2007-2013 - Source: European Commission

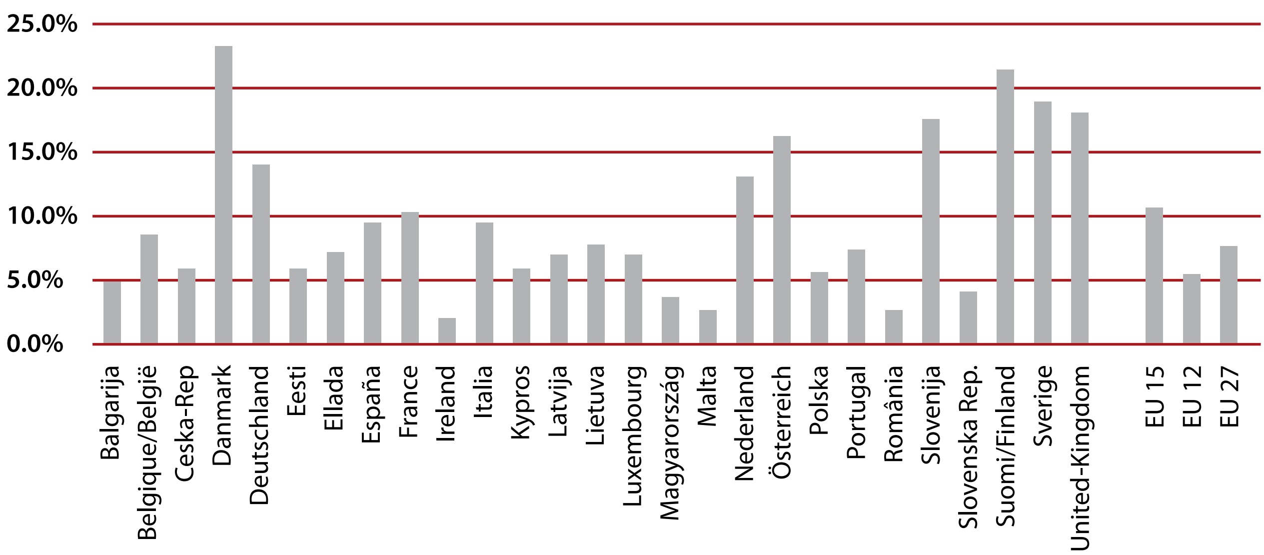


Table 2: Status of JEREMIE implementation, May 2009 - Source: EIF

Country	Date	Amount in EUR m		Country	Date	Amount in EUR m
Greece	June 2007	100		Campania (I)	December 2008	90
Romania	February 2008	100		Slovakia	December 2008	121.2
Latvia	July 2008	91.5		Cyprus	April 2009	20
Lithuania	October 2008	290		Bulgaria	May 2009	200
Languedoc-Roussillon (F)	October 2008	30			**TOTAL**	**1042.7**

There are some good examples of SME oriented and demand-led programmes in past programming periods:

- In 1994-1999 and 2000-2006 Italy supported the development of business services to SME in remote regions through global grants such as LETE (Lecce Teramo) and SEPRI (Servizi promozionali per le imprese) which co-financed technology advisors within the SME sector. Lombardy has facilitated generational transfer of SME through specialised consulting, mentoring and coaching using a voucher system.[20]
- Spain has co-financed a strong export promotion programme called PIPE (Plan de Initiacion a la Exportacion) with the help of ERDF funds.[21] Results of the PIPE programme can be measures in terms of increased exports and increased participation in trade fairs, as well as in the creation of permanent trade/export departments in the SME.
- Integrated innovation strategies were developed between ERDF (1994-2006) and Framework Programme No. 5 through the initiative to stimulate innovation (RIS/RITTS) or information society (RISI).[22]

However, most of the structural investments in the area of SMEs and innovation are still guided by a technology push conception of technological change. This concept focuses more on knowledge production but fails to take into account knowledge transfer and diffusion. Consequently, up to now structural funds support to SMEs remains an underexploited potential.[23]

Concerning the European Social Fund, it should be more fitted and linked to the needs of the labour market and the requests of professional profiles such as shown by the Excelsior Global Grant:

- ESF could invest more in training and educating the new generation of entrepreneurs and stimulating youth to start their own business in a more sustainable way – financially, socially and environmentally.[24]
- ESF can also be used to improve access to finance for migrant and ethnic businessmen, women, young entrepreneurs. Under the last programming period 2000-2006 this was allowed through measures of "Social Risk Capital"; while under the current programming period one can call upon Art. 44 of Reg. 1083/2006. Some regions such as Lombardy have made provisions to use financial instruments in their ESF programming.
- Other recent initiatives worth mentioning are the JASMINE managed by the European Investment Fund (EIF) to support microfinance institutions (MFI). Yet instruments such as micro credits should be further examined as to their limited gross profitability margin and high handling costs.

The ESF and directly managed programmes should exchange experiences such as the "Erasmus for young entrepreneurs and for apprentices" programme funded by the CIP programme or initiatives such as the virtual mini-company in schools to promote homo oeconomicus in children and early education in business matters. A practical guide for training in SMEs has been published by the Commission to provide a systematic overview of solutions in preparing, implementing and managing training in SMEs.[25]

SMEs and the economic crisis

The European Economy Recovery Plan (ERRP) of the European Commission builds on the Small Business Act and provides further help to SMEs.[26] It recognises SBA as key to economic recovery and includes proposals such as cost-free registration of businesses within three days, one-stop-shops for the hiring of first employees, micro-companies' exemption from annual accounts, public authorities' commitment to pay invoices to SMEs within one month, the reduction of patent fees and maintenance by 75% and halving the cost of an EU trademark. There is also a supplementary package of loans to SMEs prepared by the EIB, one of which is a microcredit programme worth 100 million euros coming from the PROGRESS budget line.

In the current financial and economic crisis, a temporary framework for state aid measures to tackle the credit squeeze was adopted at the end of 2008. Adjustments were introduced in February 2009. Under this framework, Member States can, under certain conditions, grant individual aid to SMEs to address the exceptional difficulty of obtaining finance. The framework does not replace the different instruments that Member States can use to support SMEs and that are not considered state aid. These relate in particular to the financial support for SMEs under the "de minimis", the state guarantees and the risk capital aid and the different schemes possible for aid to support growth and development of SME (R&D, female entrepreneurship, disadvantaged and disabled workers, restructuring and recovery of firms in difficulty, consultancy aid and aid for participation in fairs, regional aid, aid for environmental protection). [27] A useful and updated handbook on community state aid rules for SME has been published online.[28]

The economic crisis has also led to the revision of operational programmes financed by the structural funds in several Member States.[29] Poland has for instance adapted its Human Capital ESF operational programme to help workers made redundant by SMEs, provide loans for start-ups, etc.

Alongside structural support, Member States also have the European Globalisation Fund (EGF) to tap into. The EGF, set up at the end of 2006, reintegrates workers into the labour market, who have been made redundant due to changing global trade patterns and are called upon more and more frequently since the economic crisis.[30] Although SMEs are not considered or recognised by the rules of the EGF as such, the fund has supported the small textile sector in Italy, where 6,000 workers at 800 small companies in Piedmont, Sardinia, Tuscany and Lombardy have been affected by the crisis. The rules for tapping into the EGF have been somewhat simplified: it can be called upon for redundancy cases linked to the economic crisis, the minimum number of redundancies has been lowered from 1,000 to 500, the funding rate has been increased from 50% to 75% and the duration of the support extended from 1 to 2 years.[31] Nevertheless, for the next budgetary period post-2014, the EGF would need to be further revised if it is to respond more quickly to urgent disruptions on the labour markets.

Conclusions

EU policies and programmes continue evolving to become more SME-friendly in the complete lifecycle of enterprises, from birth to development and growth, and further innovation to final transfer. With the current financial and economic crisis, there is however a need and opportunity to speed up the delivery of support to SMEs in the Member States and at regional level, as well as within the European Commission.

An important part of improving delivery would be to examine for instance how to better coordinate the European, national, regional levels in their strategies, policies and funding to SMEs. In the longer term, this links to the debate about shaping the budget of the future for post-2014, where we surely need better links between directly funded programmes and shared management.

For instance, structural funding support to SMEs through operational programmes should integrate achievements of pilot projects and programmes launched by CIP or FP 7 and vice versa. Additionally, we could join efforts in areas such as information and communication to facilitate access of SMEs to the FP7 or the CIP, mainly through the National Contact Points for research and the EEN network. But more importantly we could share tools such as networks like EEN, communities of practice and peer reviews across the different EU programmes.

One clear area which could benefit from this is the cluster development which receives transversal attention from most EU programmes and policies. We could learn lessons from EU pilot projects funded under the CIP or FP 7 to bring inspiration to the measures of the competitiveness ERDF Operational Programmes in several Member States, such as Romania and Greece.

Finally, we should integrate the external dimension of the EU into this debate in order for the candidate countries to benefit from the transfer of experiences on SME issues with a particular view to clusters within the IPA programmes (Instrument for Pre Accession) of the Balkan area.[32]

NOTES

* Marco Lopriore, Senior Lecturer, European Institute of Public Administration, EIPA Maastricht.

1 Audretsch & Van der Horst. & Kwaak, & Thurik (2009). First Section of the Annual Report on EU Small and Medium-sized Enterprises, EIM.

2 Schumacher (1973) Small is Beautiful: Economics as if People Mattered.

3 Since 2000 administrative burdens have amounted to 1000 billion euros according to Eurochambres.

4 Commission staff working document, Accompanying document to the Communication from the Commission, Raising productivity growth: key messages from the European Competitiveness Report 2007, SEC (2007) 1444.

5 Training is another field where SMEs are lagging behind. The annual ESF-funded survey Excelsior has highlighted the lack of training in micro-companies with less than 10 employees and in regions such as Tuscany, the islands and the south of Italy.

6 Schumpeter, J. (1942). Capitalism, Socialism and democracy.

7 One concern for business representatives is the impact of the Basel II regulation upon SME sector.

8 Navarro (2003) Industrial policy in the economic literature, Enterprises Papers No.12, European Commission.

9 www.clusterobservatory.eu

10 Europe has a variety of experiences, both bottom-up and top-down, of clustering: the "distretti industriali e filiere" in Italian regions such as Emilia Romagna (www.distretti.it) or meta-districts in Lombardy, the French "poles de compétitivité", the automotive clusters in Western Hungary, the research driven and local clusters of Scandinavian countries, or the incubators of Germany.

11 European Commission Recommendation No. 361/2003.

12 Some Members States such as Ireland and the UK are even more stringent with 10 days.

13 http://ec.europa.eu/youreurope/business

14 Seminar Supporting SME and enterprise development through EU programmes and policies, Maastricht (NL), EIPA, June 2009.

15 http://ec.europa.eu/environment/emas/index_en.htm

16 http://cordis.europa.eu/fp7

17 Projects for SMEs and SME associations should involve SMEs and RTD performers as well as end users. Both target groups have to present in their projects a clear potential for exploitation or economic benefits for the SMEs involved in terms of turnover, disclosure of new markets, growth in personnel, etc.

18 CLITRAVI, the EU Liaison Centre for the Meat Processing Industry in the EU has managed an EU research project to ensure that meat remains cold during its transportation cycle. http://www.freshlabel.net

19 Transforming structural fund grants into financial instruments for SMEs might also reduce the distortive impact of grants while ensuring that the local holding fund has a revolving character.

20 www.saturno.it

21 PIPE is delivered by the Spanish Chambers together with the national trade agency (ICEX) and the individual autonomous Regions. The companies will count on a financial support of an 80% of the total expenses, with a maximum of 34,843 euros. These incentives include the advisory services and the foreign promotion performances, such as markets research, advertising, trade fairs, business and research trips, patent registration, representatives' and advisers' expenses, etc.

22 Around 10 billion euros were allocated to RTDI with structural funds 2000-2006.

23 Study, Moving towards a territorialisation of European R&D and innovation policies, European Parliament, 2009.

24 See also the EC campaign "your world, your business" launched together with the Junior Achievement Young Enterprise Europe

25 European Commission "Guide for training in SME" http://ec.europa.eu/restructuringand jobs.

26 Communication from the Commission to the European Council, A European Economic Recovery Plan, COM(2008) 800.

27 Kekelekis, State Aid and SME. EIPA open seminar, Maastricht, June 2009.

28 http://ec.europa.eu/competition/state_aid/studies_reports/studies_reports.html

29 http://www.seminariofsetivoli.info/index.php

30 ACFCI (2005). Delocalisations: la peur n'est pas une solution. Enquete auprès de 100 entreprises moyennes.

31 It has an allocation of up to 500 million euros a year and was called upon 12 times in the 2007-2008 period by 8 Member States: Finland, France, Germany, Italy, Lithuania, Malta, Portugal and Spain.

32 For instance Croatia is supporting development of clusters through IPA.