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**REPORT ON THE IMPLEMENTATION OF THE EUROPEAN CHARTER FOR
SMALL ENTERPRISES IN THE CANDIDATE COUNTRIES
FOR ACCESSION TO THE EUROPEAN UNION**

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Part I: Bigger Europe, More Enterprise	3
Part II: What has been achieved: summary of national reports and Commission's action.....	6
1. Education and training for entrepreneurship.....	6
2. Cheaper and faster start-up	7
3. Better legislation and regulation	8
4. Availability of skills.....	9
5. Improving online access.....	10
6. More out of the Single Market.....	11
7. Taxation and financial matters	11
8. Strengthen the technological capacity of small enterprises	13
9. Successful e-business models and top-class small business support	14
10. Develop stronger, more effective representation of small enterprises' interests at Union and national level	15
European Commission's action in favour of small enterprises in candidate countries	17
Part III: Where we are and what should be done next: conclusions and recommendations....	18

PART I: BIGGER EUROPE, MORE ENTERPRISE

Small businesses as the key of economic development for the enlarged Europe

The European Charter for Small Enterprises, adopted by the General Affairs Council in Lisbon on 13 June 2000 and endorsed at the Feira European Council on 19-20 June the same year, recognises that small businesses are the backbone of Europe's economy and the key to our competitiveness. It is central to achieving the Lisbon objective of making Europe the world's most competitive and dynamic knowledge-based economy. Member States, Norway and the Commission continue to implement the Charter through shared responsibility and the exchange of good practice.

Small businesses have also become the backbone of economic development in the candidate countries. Today there are approximately 6 million enterprises, most of which are micro-sized, and SMEs account for 72% of total employment¹. In an enlarged EU, small businesses will continue to be the key to generating growth, competitiveness and jobs.

Getting closer to a competitive market economy

In its report on the progress towards accession by each of the candidate countries published on 9 October 2002, the Commission considers that the ten countries² that are expected to become members in 2004 should be able to cope with the competitive pressure and market forces within the Union provided they continue with the required reforms. The Commission also recognises that the three other candidate countries have made progress towards this goal.³ The conclusions of this report are in line with those of the accession report.

Each one of the candidate countries has made important progress towards the development of a thriving business sector, but there is still a long way to go to reach the same level as Member States. For most of them the perspective of accession is now a short-term one. For this reason their early inclusion in the Lisbon objectives would facilitate further progress. Europe cannot become a competitive and dynamic knowledge-based economy without a common sharing of objectives and instruments by all its members.

The commitment of the candidate countries

In 2001, the European Commission started a systematic dialogue on enterprise policy with the candidate countries, in parallel with the formal process on enlargement.⁴ The first result of this dialogue was the "Report on the Candidate Countries' Measures to Promote

¹ Observatory of European SMEs 2002, No. 2, p.14.

² Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

³ The reports for Bulgaria and Romania consider that they should be able to cope with competitive pressure and market forces within the Union in the medium term, provided they continue to implement their reform programmes. Turkey has also made progress on the functioning of its market economy which should improve its capacity to cope with competitive pressure and market forces within the Union, but is still undergoing the consequences of the two deeply destabilising financial crises.

⁴ The negotiating Chapter on SMEs was opened and closed in the first semester of 1998 with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia, and in the first semester of 2000 with Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia.

Entrepreneurship and Competitiveness,” better known as the **CC BEST report**.⁵ This report proved to be a useful tool for enterprise policy-makers throughout Europe, helping them to identify good practice carried out in the fields of education and training for entrepreneurship, access to finance, access to research and innovation, business support services, better public administration and simplification of procedures for enterprises, and employment and working conditions.

The CC Best process had an immediate impact. In February 2002 the Commission invited the candidate countries to endorse the Charter, and on 23 April 2002 in Maribor (Slovenia) all thirteen candidate countries signed the "**Maribor Declaration**" in which they acknowledge the principles of the Charter as the basis for their action to support and develop small enterprises. They also expressed their interest in participating in the reporting process on the implementation of the Charter.

The process started in May 2002, and this report is the result. It is complementary to the Member States' and European Commission's report on the implementation of the Charter, which contains details on Member States' progress in achieving the Charter objectives.

This report is based on detailed national reports submitted by each of the candidate countries (Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia and Turkey) in September 2002. These reports followed bilateral meetings between the Commission and each country. Different ministries, agencies and bodies involved in the definition of policies and action to support enterprises took part in the meetings and gave their input to the preparation of the national report. This included representatives of the business community in most cases.

The thirteen national reports can be found in the following webpage: http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/charter_ccs_2003.htm

Achievements and problems in key areas

Candidate countries are showing a clear will to fulfil the commitment they made in Maribor. In many fields they have intensified their actions in order to implement the Charter.

The most significant progress has been made in reducing the burdens on business start-ups. The time taken to register a new business and the cost of that registration have been reduced to levels comparable with or sometimes even better than those of EU Member States. The improvement and simplification of legislation and regulation has become a priority and some positive results have already been obtained. However, various legal, administrative and financial weaknesses are still hampering further progress in this area.

Efforts to include entrepreneurship in the secondary school curriculum are encouraging. In most candidate countries there are many examples of good practices in the field of entrepreneurial training for young people. These practices need to be further developed to guarantee an up-to-date and comprehensive approach in delivering entrepreneurship-related education. There is also a clear need to step up efforts to improve entrepreneurship courses at the university level.

⁵ Commission staff working paper SEC (2001) 2054 of 20 December 2001, http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/best.htm.

Outside school and university a variety of training programmes to upgrade entrepreneurial skills exists but more attention should be paid to the co-ordination between various initiatives and to the proper analysis of the skills needs of small companies.

Some candidate countries have used the tax instrument efficiently to increase the financial capacity of small enterprises. But the actions taken to make access to finance easier for new or small enterprises have had less positive effects. Guarantee funds are one of the appropriate tools to enhance the willingness of banks to support SMEs. High collateral remains an issue of concern, and due to lack of awareness the demand for innovative financial instruments, such as venture capital funds or business angels, still remains low.

Innovation and technology potential are not yet fully exploited. Coherent national strategies are still missing or too recent to have had strong positive effects. Inter-firm co-operation, clustering and networking experiences are insufficiently developed. Online access to public administration has been promoted with a certain degree of success, but Internet penetration among small companies is still well behind the EU levels.

Both public and private entities provide a variety of business support services in all candidate countries. Much effort has been made to make these services easily accessible and better suited to small companies. But better co-ordination between these services is needed to ensure efficiency and avoid duplication.

All candidate countries are aware of the need to develop successful e-business models and enhance on-line access for small companies. Many countries have developed strategies and actions plans on e-commerce and have taken concrete steps to reduce red tape for small businesses by providing information and services on the Internet. However, the slow development of an appropriate legal framework for e-commerce constitutes a barrier to further progress.

The opening of the internal market to candidate countries has been beneficial to enterprises in terms of increased competitiveness and access to wider markets. They now have the important task of fulfilling the commitments made in the accession negotiations.

The representation of small businesses' interests in the policy-making process is not sufficiently established. There is little formal institutionalisation of labour relations in newly created private enterprises, especially in small businesses. This may limit their representation also in the social dialogue at the European Union level.

The second part of the report illustrates the most relevant achievements made in candidate countries and highlights good practices. The final part contains an assessment of the state-of-play in each of the ten areas covered by the Charter, a series of conclusions regarding the progress that has been made and recommendations for the future.

PART II: WHAT HAS BEEN ACHIEVED: SUMMARY OF NATIONAL REPORTS AND THE COMMISSION'S ACTION

1. Education and training for entrepreneurship

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

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

Few countries have yet identified a role for **primary school** education in developing the basic knowledge and aptitudes for entrepreneurship (Poland, Lithuania and Cyprus are exceptions). But in a growing number of countries, entrepreneurship is taught at **secondary level**, where it is part of the curriculum in Poland, Hungary, Latvia, Lithuania and Romania. Cyprus is currently adding similar courses to the curriculum. Lithuania and the Czech Republic integrate the subject matter in different ways, with some embedding entrepreneurship in a broader context of economics and active citizenship. Where it is not compulsory, the extensive participation of pupils can sometimes be noted in facultative courses.

The **Estonian** Junior Achievement (JA) development fund for instance, is used by one third of the schools. It includes the student company programme, in which real firms are created at low risk, and the Job Shadow Day, which allows pupils to shadow a businessman for a day.

Likewise, **Slovenia** has an extensive programme of 12 facultative entrepreneurial programmes, with the greatest part of its participants coming from primary (75 %) and secondary school (15 %).

A similar example is the extra-curricular Young Enterprise and “Scoops” scheme in **Malta** which is run by the Ministry of Education in secondary schools. Scoops gives students the possibility to try a co-operative experience.

There are relatively few **University** initiatives, with some interesting exceptions such as: eBusiness in Bulgaria, the regional development courses in entrepreneurship in Turkey focusing on patents, trademarks and R&D, and a comprehensive course programme including “doing business in the EU” at the University of Latvia. Most countries nevertheless stress the value of University-enterprise co-operation.

There are a small number of interesting initiatives to promote entrepreneurship among youngsters **outside the school** programme:

Poland organises various competitions to stimulate entrepreneurship (for example, the Command of Inventiveness Contest), and the country also includes entrepreneurship in educational TV programmes.

The Lithuanian SME Agency is focusing on the entrepreneurs-to-be programme on women and young people.

In **Romania** the Ministry for Youth and Sports has started a programme called Stimulation for Youth which aims at encouraging an entrepreneurial spirit among young people, and improving their skills.

Estonia, Lithuania and **Romania** have experience with the use of computer learning programmes that create virtual companies.

Access to training exists for managers and workers of SME's in all countries, often part-financed through a national or regional grant scheme.

In the **Maltese** mentoring scheme, mentors offer voluntary one-to-one business counselling to a new entrepreneur.

2. Cheaper and faster start-up

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

All candidate countries are actively pursuing a policy aimed at ensuring a high survival rate of new companies, and a wide range of measures is being pursued to this end.

In a majority of countries, the cost of **company registration** is in the process of being reduced from excessively high levels to those ranging from the nominal cost in Malta to 250 Euro in Estonia and Poland, depending on the legal form of the company. In Hungary, however, costs still remain significant for private limited companies.

The time it takes to set up a company is also being substantially reduced, with a statutory level set at maximum one month in a majority of the candidate countries. In several countries, such as Latvia, Lithuania and Romania, the actual average time is even less (two-three weeks). Only in the case of Estonia has the average time increased, but this situation is being addressed.

Authorisation procedures are also speeding up, for example in **Hungary**, by granting automatic approval to start trading if the administration has not responded by the fixed date.

In most countries the **registration process** is getting more streamlined and simplified. The number of documents that must accompany the application is being reduced, for example in the Czech Republic, Estonia, Latvia and Romania. Estonia is also reducing the number of licenses required for various forms of economic activities. In addition, the relevant authorities are being electronically interconnected in Cyprus, the Czech Republic, Latvia, Slovenia and Turkey in order to ensure that relevant documents only need to be submitted once.

In **Cyprus** and **Romania** a single identification number to be used by businesses when dealing with any part of the public administration is being introduced.

Single contact points for information and/or executing start-up formalities are being or will be introduced in many candidate countries. The use of these so called one-stop-shops seems likely to spread as a result of the adoption of rules on electronic signatures in more countries. This will allow applicants not only to search for information at one place but to actually submit applications on-line. In Malta and the Czech Republic this possibility already exists.

3. Better legislation and regulation

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

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

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

All candidate countries have in place, or are currently introducing, modern rules on **bankruptcy** aiming at insuring a proper balance between the protection of creditors interests and the interest in solving the financial problems of viable businesses.

Estonia, for example, is introducing new legislation, to allow for the possibility for debtors who are natural persons to get a debt settlement and thereby allowing for a fresh start after bankruptcy.

Poland is preparing a new Bankruptcy and Repair Law, which will contain rules concerning bankruptcy of credit institutions, banks and insurance institutions. This new Law aims to give stronger protection to the interests of creditors and to make the bankruptcy procedure quicker and more flexible.

Cyprus has recently introduced a new law to strengthen the protection of employees in the case their employer becomes insolvent.

Bulgaria has decided to limit the number of possible instances for legal proceedings from three to two in order to shorten the time to get a final court decision.

There is an increasing awareness in the candidate countries of the importance of **assessing** current legislation and legislative proposals in order to measure the **impact on the business** environment, in particular for SMEs. Several interesting initiatives have been launched:

The **Bulgarian** government has created an inter-ministerial working group to screen the current legislation on licensing, permission, registration and authorisation and to suggest, where possible, the abolition or simplification of the different regimes. A similar system has also been introduced in **Slovenia**.

Governments in candidate countries have also increased the involvement of the business community in the preparation of new legislation. Latvia, Lithuania and Romania have formalised the involvement of representatives for the business community in the assessment of current legislation and proposals for new legislation.

Some countries have taken steps to **simplify current legislation** in order to improve the business environment in general. In addition, a number of countries have introduced measures to improve the situation specifically for small enterprises:

In **Poland** the government has introduced changes to the legislation on taxation which will be of particular benefit to small companies. It has also introduced flexibility in the labour law, to

allow small companies in particular to be exempt from requirements regarding the establishment of certain administrative structures linked to work safety and hygiene.

Romania has adopted new legislation for micro enterprises, which allows for suspension or delay of VAT payment.

Malta allows micro enterprises to be exempt from the obligation to have their annual financial statements audited by independent auditors.

4. Availability of skills

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

A variety of measures have been taken in candidate countries to enhance **skills in SMEs**. Emphasis appears to be placed on computer literacy, management and, in some cases, language skills. Bulgaria and the Czech Republic have stressed that small companies need staff with a broad range of key transferable skills, since many of them will need to undertake a variety of assignments, as opposed to one specialist task. In the Czech Republic, Estonia and Lithuania, there is growing awareness that SME skill-needs should first be clearly assessed (through surveys) in order to articulate the educational response in a focused manner.

In **Latvia**, the “need to grow” is seen as an important subject for the training of small companies and it is interesting to note that a Latvian bank (Hansabanka) offered a course to 200 managers of companies on this topic. The Business Growth project in **Lithuania** addresses the same topic.

While countries understand the importance of training, there is a concomitant awareness of the obstacles encountered in ensuring an effective take-up of the training on offer. SMEs themselves do not always appreciate the value of training (in Turkey, special awareness raising efforts are made), and the time and costs involved in training constitute a burden for small companies.

There are different ways to overcome these barriers – by subsidising the costs of training (this is done in the “Enterprise Estonia” programme), resorting to e-learning techniques (Riga Technical University Distance Learning Centre, Latvia), providing handbooks at low costs (the business plan handbook Latvia) or by benefiting from clustering systems so that small companies acquire easier access to resources in education/technology centres (Slovenia and Turkey have made particular progress in this area).

In **Cyprus** the conclusion was drawn that the real solution to overcoming barriers to participation is to upgrade the in-house training capacity of companies. This is precisely what the Cypriot Human Resource Development Agency is attempting with its “Training Infrastructure Support Programme”.

In Estonia and Lithuania training programmes for small companies are embedded in a broader context of newly developed strategies for life long learning or further education; and in national employment programmes such as those in the Czech Republic.

E-learning techniques are more frequently used in training programmes:

The **Bulgarian** Virtual Training Centre for SMEs, which was developed within a B2B e-commerce platform, and the interactive distance training on the development of managerial skills which is offered to SMEs in **Slovakia** (within the European [I@LIM](#) project), are good examples.

Co-ordination between various training providers remains an issue.

The **Turkish** State enterprise agency KOSGEB has set up the Entrepreneurship Network to share information and improve synergy.

5. Improving online access

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

Public authorities in all candidate countries are aware of the importance of providing easily accessible on-line services to the business community. Many public institutions have created Internet pages providing information *inter alia* on financing opportunities, administrative procedures, taxation issues and public procurement. Specialised on-line data bases have been created in Latvia (crafts industry) and in Slovakia (standards). There is an increasing tendency to facilitate access to information by creating portals that serve as a single access point to all government information and services.

In the **Czech Republic** the government, in co-operation with public and private organisations, set up a web portal designed to meet the needs of the business community.

In **Estonia** a business portal providing information and services to the business community serves as the main channel of communication between the public sector and entrepreneurs.

An online public procurement register specifically targeted on SMEs has been introduced in **Bulgaria**.

Most countries are experimenting with ways to foster the **interactive use of electronic communication tools**. In some countries it is already possible to submit tax declarations and other official documents electronically.

In **Slovakia**, an Internet counselling service permits entrepreneurs to communicate on-line with expert advisers.

In **Malta** entrepreneurs can pay licence fees and obtain information on-line.

In **Latvia** entrepreneurs can submit registration applications and receive answers to their queries concerning the registration process electronically.

In **Lithuania** the government launched a consultation procedure on country's long-term economic development strategy via Internet.

Many countries are currently in the process of finding solutions to remove the remaining barriers to the interactive use of electronic communication tools.

6. More out of the Single Market

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

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

This chapter of the Charter was originally addressed specifically to the Member States and the Commission. However, candidate countries have been preparing themselves to be part of the Internal Market.

Accession negotiations on the free movement of goods have been provisionally closed with all ten of the candidate countries that the Commission considers will be ready for membership in 2004.⁶ The EU has accepted transitional arrangements concerning the renewal of marketing authorisation for pharmaceuticals with five countries: Cyprus (until 31 December 2005), Lithuania (until 1 January 2007), Malta (until 31 December 2006), Poland (until 31 December 2008) and Slovenia (until 31 December 2007). A further transitional arrangement was negotiated with Poland regarding the validity of licences for medical devices issued under current Polish legislation until 31 December 2005.

Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (**PECAs**) are considered as the major instrument of the pre-accession strategy in the field of the free movement of goods as they create an enlarged internal market for products in certain industrial sectors prior to accession to the EU.

Following the opening of negotiations in 1997, PECAs were concluded and have been operational with **Hungary** since June 2001 and the **Czech Republic** since July 2001. Negotiations are ongoing with both of these countries to increase the number of sectors included. New PECAs with **Lithuania** and **Latvia** were signed in May 2002 and entered into force in September 2002 and November 2002 respectively. This involved huge efforts from the side of the candidate countries.

The Commission has initialled proposed PECAs with Slovenia (April 2002), Estonia (July 2002) and Slovakia (July 2002). Negotiations on PECAs are ongoing with Poland and Bulgaria. PECAs or similar agreements may also be envisaged with Malta, Cyprus and Romania.

7. Taxation and financial matters

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

6 This chapter of the negotiations has also been closed for Bulgaria. It has been opened but not yet closed with Romania. Negotiations with Turkey have not yet been opened.

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

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

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

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

The three Baltic countries have taken the most significant actions in the field of **taxation**:

In the Law on Profit tax of January 2002, **Lithuania** introduced a lower basic rate for micro enterprises (13%) than for larger companies (15%) as well as other concessions in form of exemptions and VAT reductions.

In **Estonia** the new Income Tax Act abolishes the tax on corporate reinvested profits. In the first six months of operation, this measure has boosted investments by small enterprises (30% increase compared with 7% for large companies).

The new **Latvian** law on corporate income tax of November 2001 has introduced exemptions for SMEs, up until 20% of total tax burden. In both **Latvia** and **Slovenia**, expenses for R&D are written off.

In Turkey the wages of staff employed by enterprises in the technoparks are exempt from all taxes for ten years. Romania has introduced VAT reductions for certain small companies. Latvia and Poland have simplified tax compliance procedures, while Romania modified the taxation system for micro-enterprises, for which the tax is determined by applying the rate of 1.5% to their income. In July 2002, Poland introduced tax credit for new small entrepreneurs, aimed at enterprise creation. Slovakia reduced income tax for legal persons from 29% to 25% in January 2002. Exemptions on real estate ownership exist for SMEs in the Czech Republic, country where amendments to the Income Tax Act are in the pipeline, as well as in Hungary. In the Czech Republic, small enterprises can deduct from taxes the cost of items such as intangible assets.

To improve the access to finance for small enterprises, a majority of countries have set up **public guarantee funds**. The results of these instruments have been particularly positive in Estonia and Malta, as well as in Slovakia, Hungary, Lithuania, Romania, Turkey and Slovenia.

In **Poland** the loan and guarantee funds are being developed in co-operation with local authorities and business associations.

Bulgaria is developing a guarantee fund designed by the SME agency. In **Bulgaria** and in **Hungary** banks specialised in providing micro-credits have been set up. **Turkey** is privatising a financial institution especially focused on SME development.

Estonia introduced the so-called 'Vitamin' instrument that offers SMEs the choice for alternative types of finance for which collateral is not requested. This instrument was negotiated among banks, enterprises and the government.

In **Latvia** the SME Development Lending Programme has been focused on micro-loans and gives special conditions to women entrepreneurs or start-ups.

The START programme in the **Czech Republic**, which has lately been focused on start-ups, provides preferential loans.

In **Romania** a programme supports costs for micro-enterprises related to drawing up of business plans, consultancy or the introduction of international standards.

Specific programmes focused on **targeted groups** exist in Cyprus (women entrepreneurs and unemployed university graduates), the Czech Republic (co-operatives), Slovenia (young entrepreneurs).

The **liberalisation** of the financial sector in Cyprus in 2001 has reduced interest rates and increased financing in foreign currencies. The financial sector has gone through essential changes also in Lithuania with positive effects on the availability of funds. Slovakia introduced improvements in the legislation to broaden the concept of **collateral** to include also mobile assets.

As far as **non-traditional ways of financing** are concerned, Slovenia, Turkey, Poland and Slovakia have been developing venture capital funds. In addition, Slovenia has developed a business angels network.

8. Strengthen the technological capacity of small enterprises

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

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

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

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

Increasing attention is being paid to improve the technological capacity of small businesses and to promote **technology transfer** from research institutes to SMEs. However, in many countries it is still at the planning stage or in the first stage of implementation so that not many practical results can be presented yet. Technology parks and innovation centres are running in a number of countries. Often they also play a role in networking and business advice. Databases and other Internet services play an increasing role in providing information to enterprises in this field.

An effort by research institutions to get closer to industrial research can be noticed in the **Czech Republic**, where the Academy of Science adopted a new strategy in this direction.

Other measures to encourage the technological capacity of SMEs are **investment support** programmes for SMEs in the area of product development, innovation, technology and quality. Examples can be found for instance in Poland or the Czech Republic. They are often complemented by training grant schemes.

The issue of access of small enterprises to patents is starting to attract more attention. In particular Latvia is using the Internet to improve the level of knowledge in this field.

Poland installed patent information centres open to the public in university libraries and research institutions.

While co-operation between small enterprises and research institutions is growing, the promotion of **inter-firm relations** and **clustering** is not yet attracting high enough attention in governmental activities. It is mainly limited to the networking role of technology and innovation centres. However, exceptions can be found in Slovenia, Latvia and Turkey, which are working on industrial clusters in priority fields.

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

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

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

On average, the rate of **Internet use** in candidate countries is five times lower than in the EU. Estonia is at the top of the league with the same level of Internet penetration as the EU average⁷. Even if the average level is still rather low, some interesting initiatives has been launched.

In Estonia, Internet banking accounts for about 90% of transactions made by clients. Training programmes for SMEs in the field of e-commerce are organised in Cyprus, Hungary, Lithuania, Poland, Slovakia, Slovenia and Turkey.

Hungary developed a programme designed to raise the interest of SMEs in applications of new technologies and to create groups of SMEs ready to adopt more advanced tools.

Latvia is developing a common network of Tourist Information Centres resulting in the establishment of a national tourism web portal and a common database for all tourist information centres.

7 "Innovation Policy in seven candidate countries: the challenges", 2002, Draft Report, it will be published early 2003

Turkey has launched the "e-Turkey" initiative in order to establish the necessary infrastructure in the field of information-based economy and to encourage the use of Internet in a cheaper, faster and safer manner.

In order to increase the export facilities of SMEs, **Lithuania** and **Latvia** have created an export web portal that develops on-line tools and provides information that serves the demands of local exporters.

Poland designed an electronic platform allowing presentations of domestic and foreign enterprises with the aim of enhancing regional co-operation.

A wide range of business support services is provided by public and private entities in all candidate countries.

In **Estonia**, regional business advisory centres play a key role in offering information and counselling, in mediating public business support measures, and providing a mechanism for entrepreneurs to feedback their views to public authorities.

In **Slovenia**, a system of advisors-specialists working in a voucher system is available in the field of IT and e-business.

Mentoring and **business angels** provision is not yet commonly available.

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

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

The participation of business representatives in the **policy-making process** is often optional and dependent on the will and recognition of the authorities. Latvia, Lithuania and Romania have, for instance, introduced legislation formalising the involvement of business organisations in the legislative process. In the Czech Republic there is no formal requirement to consult the business community on proposals for new legislation, but such consultation does normally take place.

In a number of countries business representative associations are participating in **advisory councils** for policy issues and better regulation (*see also section 3 above*). In Bulgaria, Estonia, Latvia, Poland, Hungary and Slovenia business organisations are integrated in the formulation of the mid-term SME government strategy.

As regards tripartitism and bipartite **social dialogue**, the interests of business are covered by the employer's side, which in many cases is dominated by large companies. Bipartite social dialogue is only just seeing the light of day in most candidate countries, while at sectoral level it is almost non-existent.⁸ Some steps to improve the functioning of the social dialogue at various levels have been taken.

⁸ COM (2002)/0136 - "The European social dialogue, a force for innovation and change", p.19

Romania has strengthened its effort to improve social dialogue for SMEs via a Tripartite Council, the “Commission for Social Dialogue,” that includes representatives of various business organisations and trade unions.

The **Czech Republic** set up the National Discussion Group for SMEs and its recommendations are discussed further at the National Conferences on SMEs.

Hungary is running a Phare project that aims to strengthen the role of sectoral collective agreements.

Since 2001, the Association of **Polish** Crafts, recognised as a representative employers’ organisation, is participating in the Tripartite Commission as well as other bodies.

Business representation is often very competitive in candidate countries. Several horizontal SME organisations are competing to represent the interests of their business clients.

Through the **European business federations and associations** (Eurochambres, UEAPME, EuroCommerce, UNICE, etc.) the business representatives voice their members’ interests at the European level. In terms of defending the business interests at EU level, some national business organisations have opened representation offices in Brussels.

European Commission's action in favour of small enterprises in candidate countries

Over the last decade the Commission has developed broad co-operation with candidate countries, in particular in Central and Eastern Europe, which has been beneficial for SMEs. Support has been given to: (i) improving policies, rules and legislation; (ii) improving the business environment by investing in both physical and knowledge infrastructure; (iii) strengthening business associations and (iv) some limited direct support to enterprises.

The Phare programme provides financial resources for the ten central and eastern European countries. Malta, Cyprus and Turkey benefit from similar pre-accession co-operation instruments (in the case of Turkey, including a customs union). Phare has contributed to improving the business environment by co-financing investments in infrastructure and in knowledge. The latter mainly by facilitating SME access to research and new technologies, and also by providing vocational training. Support has also been given to strengthen business organisations. The Phare "Business Support Programme" that aims at strengthen their infrastructure as well as their knowledge on the *acquis*, was launched in 2000. The Commission has launched a second phase of this programme in 2002.

Enterprises benefit through various schemes providing co-financing from Phare. They may include co-financing of advisory services to SMEs on a variety of issues (management, marketing, product development, product quality and respect of standards). Another example is the provision of grants for investments in combination with bank loans, mainly as part of sectoral restructuring plans or regional development plans. Finally, by facilitating access to bank loans and to equity capital through co-operation with commercial banks and equity funds, in co-operation with international financial institutions. Phare support to facilitate access to finance by small enterprises is implemented through the SME Finance Facility, working with the European Bank for Reconstruction and Development (EBRD), Council of Europe Development Bank (CEB)/Kreditanstalt für Wiederaufbau (KfW) and the European Investment Bank (EIB).

The principles of the Charter should become a reference point for candidate countries to set objectives and define actions for the use of pre-accession assistance and of the structural funds after accession, especially in the areas of socio-economic cohesion. Since the signing of the Maribor Declaration, many candidate countries have started to focus their programming exercise on the areas covered by the Charter.

Candidate countries have also been participating in Community programmes such as the Framework Programme for Research and Technological Development, the education and training programmes Socrates and Leonardo da Vinci and the Third Multiannual Programme for SMEs (1997-2000). The current Multiannual Programme for enterprise and entrepreneurship, in particular SMEs (2001-2005), was opened to the participation of candidate countries in 2002. Through this programme 51 Euro Info Centres continued to be supported in the candidate countries and other will be opened soon, especially in the countries that did not take part in the previous programme for SMEs such as Turkey and Malta. Candidate countries are also progressively included in enterprise policy activities such as the Best projects (e.g. through participation in Expert Groups) or the analysis instruments on enterprises such as the SMEs observatory and the innovation scoreboards. The European Investment Fund has begun to open the participation of the candidate countries in the financial instruments of the Multiannual Programme. Finally, the meetings of the Fourth Round Table of Bankers and SMEs have provided an opportunity for local and EU experts to examine access to finance issues affecting SMEs and exchange best practices.

PART III: WHERE WE ARE AND WHAT SHOULD BE DONE NEXT: CONCLUSIONS AND RECOMMENDATIONS

Small enterprises in the candidate countries remain to a large extent underdeveloped. New enterprises are mainly created in the traditional service sectors and there are only few innovative companies. The life cycle of companies is shorter than in the EU and the methods of the economic transition towards an open economy have not always been favourable to new and small enterprises. The limited access to finance seems to be one of the serious barriers to economic growth and prosperity. One reason is that the small enterprises are not considered to be a priority for the banking sector as they are perceived to be high risk. Another reason is that small enterprises in the candidate countries have yet to develop an entrepreneurial spirit and still lack the means to know their needs and opportunities, in particular in terms of management or support services. In the area of administrative simplification progress has been made but further efforts are still needed to increase the efficiency of the public administration at all levels.

Education and training for entrepreneurship

Efforts made in the candidate countries in this area are very encouraging. However, it should be noted that there is an important difference between countries which pilot new initiatives in education or have a comprehensive approach to the whole question, and other countries which rely on more traditional training efforts in the fields of vocational training and business counselling.

Several countries still treat entrepreneurship as a matter for vocational training alone. In future, the candidate countries need to recognise that entrepreneurship is a key competence for a knowledge-based, entrepreneurial economy; and this implies that the subject should be incorporated in basic education and accessible to all. In addition, entrepreneurship programmes outside the formal education system or inside University education need to be further developed.

Candidate countries should encourage the incorporation of entrepreneurship into the basic education curriculum: the foundations could be laid in primary education, and built upon in secondary education.

Candidate countries should encourage universities to step up their efforts to deliver specialised entrepreneurship courses. Areas such as e-commerce, technology, trading in the internal market, clustering and product/sector specific courses would add value to the building blocks delivered in basic education.

Candidate countries should consider promoting entrepreneurship projects outside of formal school activity, as an educational leisure and learning activity for young people. The media could also play a role here in promoting an entrepreneurial culture.

Cheaper and faster start-up

A transparent, stable, and predictable legal and administrative framework is essential for new companies to survive and grow. The candidate countries have taken important steps towards achieving these goals by improving and simplifying the business environment for business start-ups.

The actual costs for and the average time taken to set up a business largely correspond to the European average, and are in some cases at the same level as the best European performers. Various legal, administrative and financial weaknesses continue to undermine these important improvements though.

Interactive on-line information is generally available but only in two countries is registration of a new company possible on-line.

Candidate countries should further reduce the scope and complexity of the documents required and the procedures applied.

Candidate countries should better exploit information technology, particularly through the introduction of online registration and by interconnecting all relevant authorities.

Training programmes, financial incentives, mentoring systems, and special incentives programmes for young people and women are areas where available evidence from the candidate countries suggests that measures taken have a positive impact on the survival rate of companies, and more activities in these areas should therefore be undertaken.

Better legislation and regulation

Better legislation and regulation is an area where reform is of crucial importance. Therefore, the candidate countries' efforts to lessen the regulatory burdens on business, and to improve the quality of new legislation, are useful steps in the right direction. However, the necessary amendments to the legislation should be made in such a way as to avoid excessive burden on small enterprises. This is important especially in the field of taxation.

The candidate countries seem to be aware of the importance of involving the business community in the assessment of legislation in order to create a business friendly environment, and several of them have taken measures to ensure such involvement.

Progress has been made to facilitate the return to business of entrepreneurs who have failed "honestly" and to introduce failure as a normal phase in business development. One country has taken measure to strengthening the situation of employees in case of bankruptcy.

Candidate countries should make further efforts to improve the legislative environment for business. Specific attention should be given to the needs of small businesses. The business impact assessment should be strengthened.

Those countries that have not yet formalised the involvement of the business community in the process of assessing current legislation and legislative proposals should urgently consider doing so.

The effects of newly introduced legislation on bankruptcy should be carefully analysed to verify that the legislative measures taken are appropriate and sufficient.

Availability of skills

In the candidate countries there is a high awareness of the value of training and a wide variety of training programmes have been set up by various actors, from schools and vocational

training colleges to Chambers of Commerce and specialised (technology, export) institutions. However, the training provided is not always sufficiently focused and sometimes lacks an effective uptake and co-ordinated delivery. Only a limited number of countries are attempting to enhance the co-ordination of various training programmes, to place them into a broader policy framework and to base them on proper analysis of the skills needs of small companies.

Analysis of the skills needs of small companies is essential, prior to the design and delivery of training programmes. In doing so, the right balance needs to be struck between specialist, technical knowledge on the one hand and broadly defined transferable key skills on the other hand.

Candidate countries should avoid or reduce duplication and waste of effort in training-delivery by the development of communication and co-operation networks of training providers.

The passive supply of training alone is not enough – a deliberate effort should be made to guarantee the access to - and effective use of programmes. Candidate countries should promote training subsidies, e-learning techniques, clustering and awareness raising.

Candidate countries should encourage the enhancement of the in-house training capacity of small companies.

Improving online access

While all candidate countries have taken steps to improve the online availability of information and services to SMEs, efforts are needed to further develop these services and to target them better to meet the needs of entrepreneurs. The challenge ahead for all candidate countries consists of developing services that are fully interactive.

Public administrations in candidate countries are progressively increasing the use of electronic communication tools for the business community. In most countries documents, forms and information services are available on-line.

Candidate countries should sustain efforts to develop on-line services to meet better business sector's needs. Further efforts to move from first generation Internet services to fully interactive services are needed.

More out of the Single Market

The main benefits of opening the internal market, in particular by establishing Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (PECAs), for SMEs in the candidate countries are: the access to a wider market, an increased competitiveness through the need for their products to meet the same requirements as products from EU member States, and the reduction in costs through the removal of the need for additional product testing before the product can be placed on the EU market.

Another important benefit of PECAs is the adoption of the Community legislation and the creation of the appropriate administrative infrastructure by candidate countries in the period before accession to the European Union.

The importance attached to PECAs by candidate countries, and more in general to the negotiations on the free movement of goods, shows their full understanding of the above-mentioned benefits for their enterprises.

To fully exploit the opportunities of the internal market, the candidate countries must respect the commitments made in the negotiating process for accession.

Taxation and financial matters

Limited access to finance is the most serious barrier to entrepreneurship in candidate countries. Responsibility to act in this field is shared between governments, the financial intermediaries and the entrepreneurs themselves.

In most countries, the financial sector is still evolving. Privatisation processes, as well as measures to open the capital markets to foreign investors are ongoing.

Given the difficulties in obtaining access to finance, efforts on taxation offer an easier way to have a positive affect on investments by small companies in the short term. Tax relief also has the indirect consequence of lowering the demand for credit and consequently the interest rates. The good practices introduced recently in this area have already produced positive results.

However, banks will continue to play the central role in financing the development of enterprises. Loans are by far the most important instrument available to enterprises to finance their business. But the collateral requirement is very high and its definition is a contentious issue in most countries. Only a few countries have started to address this problem.

Some countries have taken action in the area of non-traditional sources of financing. However, neither venture capital nor business angels are having a substantial impact on the enterprise sector. The main reason for this seems to be that neither entrepreneurs nor the banks are yet sufficiently familiar with these types of instruments.

Candidate countries should take action both at macro and microeconomic level. Economic stability is essential to improve access to finance for SMEs, as well as the creation of a sound and enterprise-friendly financial sector. It is also important to consider the promotion of instruments such as loan guarantee schemes or new guarantee schemes based on public-private partnership and on principles such as insurance principle, co-operation with banks, counter-guarantee, and risk sharing.

Priority should be given to the needs of new and small enterprises in traditional ways of financing such as lending, by increasing exposure to corporate sector, reducing interest rates and collateral, encourage micro-lending. The banks should develop more in-house expertise on small companies' needs to be able to transfer it to the entrepreneurs and help them defining good projects.

Candidate countries should promote the use of non-traditional financial instruments such as venture capital, seed capital, and business angels among small businesses. "Equity culture" will be obtained by increasing management skills of the entrepreneurs, or in wider words by promoting entrepreneurship.

Strengthen the technological capacity of small enterprises

In this area most candidate countries lag well behind the Member States. In most cases, innovation policies have only recently been developed. Further focus should be put on the needs of small enterprises.

While most governments are committed to the promotion of technology transfer from research institutes to small enterprises, little is reported in the areas of inter-firm co-operation, clusters and networks. In addition, efforts to stimulate technology transfer are still in their early stages. Progress requires a long-term commitment to this type of co-operation, accompanied by a change in attitude on the part of both the research institutes and the enterprises themselves. Increased efforts to promote and facilitate technological change within SMEs are also needed.

National innovation policies should enhance the potential for inter-firm co-operation and clustering.

Candidate countries should strengthen measures to increase the technological capacity of small enterprises and their co-operation with research institutes.

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

In order to flourish in the new economy, small enterprises in candidate countries should adopt and apply e-business models. Growing efforts have been made to inform and raise the interest of SMEs in the application of new technologies.

Most candidate countries have developed training programmes or workshops designed with this aim in mind. Many countries have also developed strategies and action plans on e-commerce.

The availability of information and business support systems, networks and services that are easy to access and understand, and relevant to the needs of business, can make an important difference to SME development. Furthermore, access to advice and support from mentors and business angels is also useful to SMEs. Candidate countries are making efforts to improve support services and the performance of the professionals that deliver these services.

Many good initiatives are taken in the field of business support services. Efforts are also being made to make these services easy to access and relevant to the needs of business, and should be pursued. A network of mentors and business angels has still to be implemented in candidate countries.

In parallel with awareness raising measures and training in ICT skills, candidate countries should consider strengthening the legal framework for e-commerce.

Candidate countries could learn from examples of good practice in the existing provision of support services in the Member States. A Commission report⁹ published in 2001 treats of this practice and provides guidelines for achieving top-

⁹ Commission staff working paper "Creating Top-class Business Support Services", SEC(2001) 1937, 28.11.2001.

class support services, including regular evaluation of their quality and effectiveness.

In most candidate countries, mentoring and business angel services would be a useful asset in assisting small enterprises in their initial phase of development.

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

In general, the interests of small businesses at national level are represented by committees advising national authorities on policy making and/or drafting of legislation. In a number of countries business organisations are participating in advisory councils for policy issues. However, their participation in the policy-making process is, often optional and depends on the discretion of authorities.

Systematic promotion of social dialogue and workers' representation in SMEs by respective governments and social partners is required. This should also ensure the extension among SMEs of the corporate social responsibility principles emphasized by the European Union.

In most countries business stakeholders participate in social dialogue and are recognised and authorised as representatives for the employers' side. Social dialogue has been formally established but still remains weak, and despite the achievements over the past decade with the support of Community programmes and initiatives¹⁰.

Public authorities in the candidate countries need to take the interests of business more into account, particularly in connection with policies and laws effecting enterprise. The role of the social partners in policy development should be recognised and promoted.

To ensure an efficient and effective impact at national and at EU level, the representation of business interests in a number of candidate countries needs to be streamlined and consolidated.

¹⁰ COM (2002)/0136 - "The European social dialogue, a force for innovation and change", p.5