



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 11.02.2004  
COM(2004) 64 final

**REPORT FROM THE COMMISSION  
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**on the implementation of the European Charter for Small Enterprises**

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## 1. KEY MESSAGES

### 1.1. Creating the best possible environment for small businesses

Small businesses play a central role in the European economy. The average European enterprise employs no more than six people. In Europe, small businesses play a much more important role than in other parts of the world<sup>1</sup>. These small businesses are a key source of jobs, business dynamism and innovation.

To allow small businesses to play their full role in meeting the Lisbon objective, to make sure that they can flourish under the best possible conditions, the Heads of State or Government endorsed the European Charter for Small Enterprises in Santa Maria da Feira in June 2000.

This is the fourth annual implementation report on the Charter<sup>2</sup>. It aims to provide a brief overview of the main measures undertaken by the Member States and the Commission to implement the Charter in the past year. As such, it seeks to identify strengths and weaknesses across the European Union, to highlight promising national measures and to issue recommendations for future action and thereby contribute to the strengthening of policy in support of small businesses and to maintain the momentum generated by Lisbon.

The Charter recommendations are just as relevant to enterprises in other European countries. The endorsement of the Charter by the candidate countries in April 2002 in Maribor, was followed by endorsement by the countries of the Western Balkans<sup>3</sup> at the European Union – Western Balkans Summit of Thessaloniki in June 2003. 34 countries have now committed themselves to applying the “*think small first*” principle embodied in the Charter.

The Charter brings together all aspects of policy affecting small businesses at European and national level. In adopting this comprehensive approach, the Charter contributes to focus the attention of policy-makers at the highest level on the need for continuous improvement.

The Competitiveness Council in March 2003 held a public debate based on the Charter report and a number of other documents. In its conclusions on entrepreneurship and small firms<sup>4</sup>, it further called upon Member States to listen to small businesses, to speed up the implementation of the Charter and to give strong consideration to good practices. It also invited both the Member States and the Commission to further integrate the use of voluntary quantitative and qualitative targets in the Charter implementation.

Shortly afterwards, also in March 2003, the Brussels European Council<sup>5</sup> gave renewed impetus to the Charter process. The European Council encouraged Member States to speed up implementation of the Charter in an innovative way to ensure more effective involvement and

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1 In Japan, for example, SMEs provide 33% of total private employment, the average Japanese company employing 10 people. In the United States, SMEs provide 46% of total private employment, the average American company employing 19 people. SMEs in Europe-19 (EEA plus Switzerland) provide 66% of total private employment, corresponding to over 80 million jobs. Figures concern non-primary private enterprises. Observatory of European SMEs 2002 / No 2, “SMEs in Europe, including a first glance at the candidate countries”.

2 First report COM(2001) 122 final, 7.3.2001; second report COM(2002) 68 final, 6.2.2002; third report COM(2003) 21 final, 21.1.2003.

3 Albania, Bosnia and Herzegovina, Croatia, former Yugoslav Republic of Macedonia, Serbia and Montenegro.

4 Competitiveness Council Conclusions on entrepreneurship and small firms, 3 March 2003.

5 Presidency conclusions of the Brussels European Council, 20-21 March 2003, point 23.

consultation of small businesses in the policy-making process. It also asked Member States to lend greater focus to the Charter, making full use of the possibilities offered by appropriate national targets and peer review.

The Conference of Ministers responsible for small and medium-sized enterprises, organised by the Greek Presidency in February 2003 in Thessaloniki, also greatly contributed to keeping up the momentum.

In connection with this Conference, Ministers had the opportunity to discuss progress with representatives of small businesses and to hear their concerns at first hand. It stands to reason that the participation of business organisations in the Charter process is indispensable. Clearly, initiatives that are carried out in the name of business need to be assessed by representatives of businesses, to help judge on their impact in practice. The great interest in the Charter shown by business organisations and their increased involvement in its implementation is highly appreciated.

The Commission welcomes the continued support of the European Parliament<sup>6</sup>, the European Economic and Social Committee<sup>7</sup> and the Committee of the Regions<sup>8</sup> for improving the environment of small businesses and ensuring that the Charter is implemented in full.

## **1.2. Good progress made in implementing the Charter**

Three and a half years since the European Charter for Small Enterprises was endorsed, the Charter has become a symbol for many SME<sup>9</sup> organisations that public administrations – at EU, national and also regional and local level – take small businesses' concerns on board.

Progress on the Charter recommendations has undoubtedly been made during this period. Individual measures taken may sometimes appear tiny but certainly contribute to the overall improvement of the environment for small businesses.

This year's report examines in more detail progress made in three selected priority areas: Consultation of small businesses, access to finance, in particular venture capital and micro-loans, and innovation and technology transfer.

**Consultation of small businesses** is an area where a dividing line has previously been found between those Member States that systematically consult small businesses and those that do not. While the number of new initiatives taken in this area is limited, some encouraging developments have nevertheless been observed in the last year. For example, the exchange programmes between public administration officials and SMEs in the Netherlands and in the United Kingdom introduce a new channel for listening to small businesses.

On the whole, it appears that a number of countries have well-established systems in place for consulting businesses. There is a wide array of consultation mechanisms and the structures vary from country to country according to national circumstances. An established practice, the Swedish Committees of Inquiry appointed by the Government to prepare legislation allow for

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<sup>6</sup> European Parliament resolution on "Entrepreneurship in Europe", PE 322.026, 23.10.2003.

<sup>7</sup> Opinions of the European Economic and Social Committee on "The role of micro and small enterprises in Europe's economic life and productive fabric", INT/174, 18.6.2003, and on the "Green Paper – Entrepreneurship in Europe", INT/178, 24.9.2003.

<sup>8</sup> Opinion of the Committee of the Regions of 9 October 2003 on the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions on Industrial Policy in an Enlarged Europe, ECOS-017, 27.10.2003.

<sup>9</sup> Small and medium-sized enterprises.

involvement of stakeholders throughout the preparatory process. Other Member States could take inspiration from this approach.

Given the crucial importance of listening to small businesses to be able to think small, there still needs to be constant pressure for improving regular and systematic consultation of small businesses. "Listening to SMEs" is a key action of the Entrepreneurship Action Plan, and the Best Procedure project on the involvement of SMEs in national policymaking will provide Member States with further examples of good practices and policy recommendations.

**Access to finance** is fundamental to translate business ideas into reality. Although important progress has been made in this area since the Charter came into being, businesses still see lack of finance as a major constraint<sup>10</sup>. Among recent measures, the Finnish "*DILLI*" scheme to attract skilled personnel who participate in the company share capital appears to be an innovative example. In the UK, a new tax incentive encourages the flow of private capital to finance institutions providing microcredit to enterprises in disadvantaged areas. In France, local investment funds are being set up, making it possible for investors, also benefiting from a tax incentive, to contribute to the development of a region by investing in its businesses.

To facilitate small businesses' access to finance, the focus should be geared towards early-stage finance and increasing equity. The Austrian seed financing model, limiting external intervention in operational business decisions, demonstrates an interesting approach to provision of public sector risk capital. Several other new instruments have been developed over the past year but further efforts are needed to provide sufficient microcredit instruments and guarantees. The longstanding Italian scheme "*CONFIDI*" is an example of a well-functioning system of mutual guarantee societies. Particular attention needs to be given to increasing the equity of small businesses.

Several new measures have been taken in the area of **innovation and technology transfer**. For example, the Dutch "*TechnoParter*" initiative, bringing together all instruments for innovative start-ups, and the Portuguese Innovation Agency, working to bring the entrepreneurial sector and the national scientific and technological system closer together, are a signal towards better coordination of innovation programmes. Yet many small enterprises in Europe still encounter significant problems when trying to improve their innovation performance. The majority of small businesses, precisely because of their small size, also lack the competence and resources needed to carry out their own research and development, to introduce new technology and train their employees.

Small enterprises depend very much on an environment that supports innovation. The development of suitable technology and knowledge-transfer initiatives is of paramount importance to most of them. The Danish service institutes for technologically-based knowledge, which have a special obligation to serve small enterprises, provide an interesting example of a structure well adapted to SMEs. Norway has amended the legislation concerning the right to employees' inventions so that the rights to a patent are now given to the university and not to the researcher. As a consequence, the Universities of Oslo and Bergen are setting up their own technology transfer offices. In Ireland, the Shannon Development Network brings business, education and innovation together. In Belgium, the booklet "100 Questions on Innovation" provides information and guidance to entrepreneurs looking for ways to

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<sup>10</sup> Access to finance is the second most important obstacle for SMEs, after the lack of skilled labour, according to the ENSR Survey 2003 (reported in "Benchmarking Enterprise Policy: Results from the 2003 Scoreboard", SEC(2003) 1278, 4.11.2003).

change and innovate. Further efforts are needed to develop appropriate technology transfer mechanisms to strengthen the cooperation between science and the business community.

Inter-company networking and clusters are important tools to foster small businesses' innovation potential and to disseminate innovation. This kind of cooperation should also stretch beyond national borders. The new German and Austrian schemes to facilitate trans-national cooperation are promising examples but further initiatives to encourage cooperation among and between companies, also across borders, are needed.

In some Charter areas, progress has been quite dramatic since the Charter came into being. In the area of **cheaper and faster start-up**, for example, where there has been a lot of high-level political attention, where several Member States have set themselves targets and where a Best Procedure project<sup>11</sup> has made concrete recommendations for improvement, several Member States have succeeded in substantially reducing the time and costs of setting up a business. In some Member States, online registration systems have become operational during the last year.

Most recently, Spain has made drastic reductions in the time needed for registering a company with its "*Nueva Empresa*" (New Enterprise) project, making it possible to set up a small business online in just 48 hours. The 48 hours includes all seven steps previously needed (such as registration with the tax authorities, the commercial register and the social security authorities), compared to the 30 to 60 days needed in the past<sup>12</sup>. This is an impressive achievement, far exceeding the target of 42 days set by Spain for 2006. The *Nueva Empresa* project also includes a simplified bookkeeping system, tax and financial advantages as well as support services, thus forming a comprehensive package to help the entrepreneur get a new business off the ground not only quickly but also more successfully.

Other areas where previous Charter reports have signalled progress and increased efforts include better regulation and education for entrepreneurship.

All governments are committed to **improving and simplifying regulation** and there is a growing awareness of the need to reduce administrative burdens on businesses. In addition, several Member States are in the process of revising their bankruptcy laws. However, while some Member States have been carrying out regulatory impact assessments for several years, a small number of Member States still do not seem to use regulatory impact assessments at all before adopting legislation. The Commission, for its part, is also putting a strong emphasis on improving the quality of legislation and on measuring the potential impact of legislation on small businesses, on the basis of its 2002 Better Regulation Action Plan.

As for **education for entrepreneurship**, Member States are increasingly aware of the need to promote entrepreneurship at all levels of education and have launched a considerable number of initiatives in this area. For example, France has recently set up the "*Observatoire des Pratiques Pédagogiques en Entrepreneuriat*" (Observatory of Educational Practices), which aims to stimulate exchange of good practices among teachers. The Best Procedure project on education and training for entrepreneurship has contributed to positive developments in this

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<sup>11</sup> "Benchmarking the administration of business start-ups". The Best Procedure, under the open method of coordination, provides a framework to support Member States' efforts to identify and exchange best practices in a limited number of specific areas of particular importance for enterprises.

<sup>12</sup> 30-60 days according to the Spanish national report of October 2003; 24 days according to the final report of the Best Procedure project of January 2002; 83 days according to the United States National Bureau of Research working paper of 2000.

area, although the real impact of the measures is still difficult to assess, since there is obviously a time lag before visible results emerge.

On the whole, good progress in implementing the Charter has thus been made over the last few years. But Europe needs to get better and keep getting better. Improving the environment of small businesses is a continuous process. This is why it remains crucial that Member States continue to take action in line with the Charter recommendations. Member States need to make sure that initiatives and measures reach beyond the planning stage and see that they are properly implemented, evaluated and improved.

### **1.3. Mutual learning and scope for more**

The Charter process has proved extremely effective in identifying areas where Member States have made progress in promoting small businesses. It also provides valuable information on those areas where more needs to be done. What is apparent is that even though Member States have made efforts to implement actions under all the areas of the Charter, they tend to have different specialities and areas of expertise. Taken together, this adds up to a very useful fund of knowledge for the future improvement of the small business environment throughout Europe, and it is the identification and dissemination of this knowledge, above all, that represents the real added value of the Charter process.

Again, an increasing number of Member States have reported that they have drawn inspiration from measures developed in other Member States and recommendations of the Best Procedure projects, thus benefiting from one another's strengths. The open method of coordination is yielding good results. Success is no longer kept within national boundaries. This is real progress and the best way to bridge performance gaps in the EU.

For example, several Member States have set targets to reduce administrative burdens and developed methods to measure progress towards the targets. Building on the experiences in Belgium, Denmark and the Netherlands, Sweden is currently developing a measurement method. Following the example of the Netherlands, Belgium has set up a contact point for contradictory regulations and administrative costs where individuals and companies can report contradictory regulations or regulations that cannot be easily applied.

In keeping with the impressive example set by Spain, Austria is further improving the infrastructure for notaries to accelerate registration of business start-ups, enabling this to be carried out within 48 hours while maintaining the same high level of legal certainty, through electronically certified legal acts.

In Denmark, business impact assessments have been strengthened in several areas complying with the recommendations of the Best Procedure project in this area.

Spain has taken particular care to make sure that the results of the Best Procedure projects get a practical response. The Directorate-General for SME Policy has compiled summary sheets for each project, which have been sent to Ministries, regions, business organisations and SME experts. Meetings have also been held with the Spanish experts who participated in the Best Procedure projects and other projects under the Multiannual Programme for Enterprise and

Entrepreneurship<sup>13</sup>, to make the experts aware of the need to publicise the results and to implement the projects' recommendations.

The Commission is also taking inspiration from the Member States. Following the example set by the Netherlands and the United Kingdom, Commission officials working with enterprise-related issues will, on a pilot scale, get the opportunity to participate in externships of one to two weeks in a small or medium-sized business.

This process of learning from each other needs to be even further intensified. As a complement to the recommendations of the Charter itself, there is a wealth of information, recommendations and examples of good practices available in the Best Procedure project reports and the annual Charter reports, which are far from being fully exploited. The use of the open method of coordination has proved successful in this area, and its application is to be even further improved by better exploiting all the tools it has to offer.

For its part, the Commission will make further efforts to improve the dissemination of the good practices identified. The discussions initiated in 2003 with the Directors-General responsible for Industry and SMEs in the Member States and the acceding countries, at the regular meetings of the Enterprise Policy Group (EPG)<sup>14</sup>, are a step in this direction and already provide a useful framework for joint examination of good practices<sup>15</sup>.

The Tallinn Charter Conference<sup>16</sup> in autumn 2003 also gave an opportunity for exchange of experiences, with a special focus on the candidate countries. Building on the success of the Tallinn and Maribor Conferences, the Commission will continue to organise annual conferences on the Charter, in order to stimulate exchange of experiences between Member States<sup>17</sup>.

A repository of all recommendations and good practices of previous Charter reports and completed Best Procedure projects is to be set up to make the existing information more accessible and user-friendly.

#### **1.4. Improving orchestration of small business policy**

The small business environment depends on a large number of factors. Improving it requires measures to be taken across a wide field of issues. This is why proper orchestration and coordination of all policies affecting small businesses is crucial. The Charter, with its ten lines for action, addresses these issues, going beyond enterprise policy in the strict sense. Its proper implementation calls for concrete action by many different actors.

In some countries, the Charter process itself seems to have contributed to improved internal coordination. The annual bilateral meetings between the Commission and the Member States, as well as the preparation of national reports, require contributions from various Ministries and authorities, thus encouraging increased cooperation and coordination.

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<sup>13</sup> Council Decision 2000/819/CE 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.

<sup>14</sup> A group advising the Commission on enterprise policy issues. The members of the group are high-level experts from the enterprise community and representatives of the Member States.

<sup>15</sup> During 2003, good practices in the areas of education for entrepreneurship, transfer of businesses and microcredit have been on the agenda.

<sup>16</sup> Organised by the Commission in cooperation with the Estonian Ministry of Economic Affairs and Communications, 30 September-1 October 2003.

<sup>17</sup> This also corresponds to the request of the Competitiveness Council in March 2003.



Coordination between Ministries and authorities at national level can be assured in different ways. Several countries have developed umbrella initiatives or action plans in the fields of entrepreneurship or innovation.

Most recently, Norway set up a particularly ambitious inter-ministerial cooperation for the development of its Innovation Policy Plan, presented in October 2003. A group of five Ministers, chaired by the Minister for Trade and Industry, led the work, assisted by a working group with representatives of three Ministries and by 12 inter-ministerial groups on specific topics. External competence has also been feeding into the process. To ensure follow-up of the plan, an Innovation Panel, counting nine Ministers, has been set up. In addition, business representatives and other stakeholders will be invited to regular meetings to give their views on improved policy design and implementation.

Concluding political agreements between Ministries or Ministers is another way to join forces. In Italy, a memorandum of understanding has been signed between the Ministry of Productive Activities and the Department for Innovation and Technology, providing for a joint action plan to promote innovation among SMEs. In France, the Secretary of State for SMEs and the Minister for National Education have signed a protocol agreement, the first of its kind in France, aiming to improve the knowledge of teachers, pupils and students about enterprises and entrepreneurship.

The importance of orchestrating small business policy obviously applies to the Commission as well. Besides becoming a dynamic tool for the implementation of small business policy, the Charter also ties in with other Community policies, in particular the European Employment Strategy and the Internal Market Strategy, which have both just been reviewed, the Research Policy, the Cohesion Policy and the Broad Economic Policy Guidelines.

The Charter process has clearly led to improved cooperation and coordination between services involved in policies affecting small businesses. This has been further reinforced by the appointment of the SME Envoy and the recent creation of an SME network inside the Commission. This inter-service network has proved a useful tool to increase awareness of SME needs inside the Commission and to improve coordination on SME issues. The SME network is progressively becoming the main tool for coordination of SME policy in the Commission, and contributing to the development of an ‘SME-friendly’ approach for all relevant EU programmes and initiatives.

## **1.5. Future outlook**

Building on the analysis of progress under the Charter and on the well-established Charter process, the Commission launched a wider debate on entrepreneurship in Europe with its Green Paper on entrepreneurship in January 2003<sup>18</sup>. On the basis of the public consultation, the Commission is presenting an Action Plan<sup>19</sup>, which provides a strategic framework and a number of key actions for boosting the European entrepreneurship agenda. Reports on the Action Plan will be integrated into the Charter reporting mechanism from 2005 onwards.

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<sup>18</sup> Green Paper “Entrepreneurship in Europe”, COM(2003) 27 final, 21.3.2003.

<sup>19</sup> “Action Plan: The European agenda for entrepreneurship”, COM(2004) 70 final, 11.02.2004

## 2. PROGRESS BY THE MEMBER STATES, NORWAY AND THE COMMISSION IN THE SELECTED PRIORITY AREAS FOR THIS REPORTING PERIOD

### 2.1. Introduction

This is the fourth annual implementation report on the Charter. It aims to provide a brief overview of the main measures undertaken by the Member States, Norway and the Commission to implement the Charter in the past year. Norway accepted an invitation from the Commission to take part in the Charter process. The other members of the European Economic Area, Iceland and Liechtenstein, have not expressed a desire to participate. Following the adoption of the Charter by all candidate countries in April 2002 and by the countries of the Western Balkans in June 2003, their progress is analysed in separate reports<sup>20</sup>.

The current report seeks to identify strengths and weaknesses across the European Union and Norway, to highlight promising national measures and to issue recommendations for future action and thereby contribute to the strengthening of policy in support of small businesses and to maintain the momentum generated by Lisbon.

The report also seeks to stimulate the exchange of experiences and good practice in Europe. Various definitions exist of what is a “good practice”. For the purpose of this report, initiatives which seem to have been particularly beneficial in a national context and which could also be of interest to other countries have been highlighted<sup>21</sup>. Prompted by the emphasis put by the European Parliament<sup>22</sup> and the European Economic and Social Committee<sup>23</sup> on the importance of presenting the good practices identified in the Charter process in a user-friendly way, some more information is given on particularly interesting measures.

Nevertheless, for reasons related to its purpose and length, the report does not present an exhaustive or detailed list of measures. Detailed descriptions of national measures as well as contact details can be found in the national reports published on the Commission website<sup>24</sup>.

The environment in which small businesses operate is mostly determined under Member States’ competence<sup>25</sup>. For this reason, the report draws conclusions mainly on Member States’ progress, while also highlighting progress by the Commission. In addition, the Joint Employment Report<sup>26</sup> presents an overview, based on national reports, of Member States’ response to the guideline on job creation and entrepreneurship.

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<sup>20</sup> “Report on the Implementation of the European Charter for Small Enterprises in Acceding and Candidate Countries,” SEC(2004) xxxx, “Report on the Implementation of the European Charter for Small Enterprises in the countries of the Western Balkans”, SEC(2004) 149.

<sup>21</sup> A national initiative can only be considered a true “good practice” if it is entirely in conformity with relevant Community legislation, including competition and state aid rules. Identification of individual initiatives in this Report does not in itself imply that the measures concerned are compatible with the relevant provisions of the Treaty. Highlighted measures have been selected both from current and previous national reports.

<sup>22</sup> European Parliament resolution on “Entrepreneurship in Europe”, PE 322.026, 23.10.2003, point 46.

<sup>23</sup> Opinion of the European Economic and Social Committee on “The role of micro and small enterprises in Europe’s economic life and productive fabric”, INT/174, 18.6.2003, point 4.1.1.

<sup>24</sup> For the complete reports, see [http://europa.eu.int/comm/enterprise/enterprise\\_policy/charter/charter2004.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter2004.htm)

<sup>25</sup> The European Parliament, in its Resolution of 20 March 2002 on the results of the Barcelona European Council, has stated that “*the responsibility for implementing nearly all the action points in the Charter lies with the Member States*”.

<sup>26</sup> COM(2004) 24 final, 21.1.2003.

While it is difficult to assess progress in all the areas on an annual basis, the main trends are outlined below. The current overview represents the Commission's understanding of the situation based on information communicated by the Member States<sup>27</sup>.

The analysis of progress in the Member States and Norway is based on detailed national reports and on bilateral meetings between the Commission and national authorities which took place in July-October 2003. Following the example set last year, national business organisations actively participated and expressed their views at all bilateral meetings. An Internet consultation on national reports was open to all interested parties and announced at a meeting with European business organisations in October 2003 and also by e-mail to some 30 European business organisations<sup>28</sup>. At Commission level, an inter-service group bringing together all services with activities for small and medium-sized enterprises has prepared the analysis on Commission progress.

Most measures do not produce visible short-term results and progress in all areas cannot be fully assessed on a yearly basis. Nor should Member States strive to launch a great number of annual measures. Consolidation, evaluation and improvement of existing measures is equally important. Following the invitation of the Competitiveness Council in March 2003 to strengthen the review of national developments by prioritising a selected number of Charter areas each year, the current report examines in more detail progress in the areas of

- Access to finance, in particular venture capital and micro-loans;
- Innovation and technology transfer; and
- Consultation of small businesses.

European business organisations were invited to comment as to their main concerns in these areas at a meeting in June 2003<sup>29</sup>.

The present report mainly covers the period autumn 2002 to autumn 2003 but given the long-term span of most measures, a certain overlap between annual reports is inevitable.

Considering the Charter's commitment to using "effective indicators to assess progress over time" and the request of the Competitiveness Council to "continue the work on a voluntary basis on quantitative and qualitative targets with the aim of further integrating their use in the implementation of the European Charter for Small Enterprises", the report attempts to

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<sup>27</sup> Unless otherwise stated, the source of the information on measures in the Member States and Norway contained in the present report is the national reports or information received at bilateral meetings.

<sup>28</sup> See consultation at [http://europa.eu.int/comm/enterprise/enterprise\\_policy/charter/charter2004.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter2004.htm). The following business organisations provided comments, also published at this site: *Zentralverband des Deutschen Handwerks*, ZDH (The German Confederation of Skilled Crafts), *Svenskt näringsliv* (Confederation of Swedish Enterprise) and *Företagarnas Riksorganisation* (Federation of Private Enterprises in Sweden). On the basis of the German and Swedish national reports, respectively, the organisations gave their views on which measures work well and which measures could be improved. References to some of the specific comments are made in the current report in connection with the description of the measures concerned. On a more general level, the German Confederation of Skilled Crafts expressed the opinion that despite initiatives like "Pro Mittelstand" and the appointment of the authorised representative of the Federal Government for SMEs, insufficient attention is paid to SMEs' concerns in overall economic policy and in the preparation of legislation in Germany.

<sup>29</sup> Following this invitation, Eurochambres and the European Federation of Accountants (FEE) provided written comments on the Charter process in general and on the three priority areas.

describe quantitative progress on the basis of relevant indicators of the Enterprise Policy<sup>30</sup>, Innovation<sup>31</sup> and Internal Market<sup>32</sup> Scoreboards. It also emphasises the relevant voluntary quantitative targets in enterprise policy declared by the Member States in 2002 and 2003<sup>33</sup>. The voluntary national targets stem from Member States' agreement on enterprise policy indicators closely linked to the Charter recommendations.

The issue of indicators and targets in the context of the Charter was also discussed at the bilateral meetings. While for a majority of Member States there is agreement on the usefulness of appropriate targets, national administrations stressed the difficulties in defining relevant indicators, preferably reflecting the situation of small businesses only, due to constraints in data availability. To stimulate discussions, the Commission representatives informally suggested that, in the context of the Charter, setting a small number of ambitious but realistic *common* targets at EU level could help focus work. A majority of national administrations were basically supportive of this idea, although with certain reservations in some cases. Since there are still, however, diverging views among the Member States on whether such common targets would effectively contribute to improve Charter implementation, it is not likely that agreement will be found in the short term. Obviously any targets, in order to be meaningful, need to be accompanied by appropriate strategies and policy measures. As to indicators, there is a clear need for improved official statistics through the European Statistical System in the areas of the Charter.

While this report clearly identifies measures targeted specifically at micro-enterprises or small enterprises, many of the initiatives analysed have been designed to support both small and medium-sized enterprises. The Commission considers that, even if these measures do not exclusively target enterprises with fewer than fifty employees, this does not diminish their value or impact on small businesses. Both the Commission and the Member States have therefore adopted the approach of including in the current report all initiatives with an impact on small and medium-sized enterprises, while highlighting those measures that seem to have the strongest impact on small enterprises.

## 2.2. Financial matters

*“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.”*

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<sup>30</sup> “Benchmarking Enterprise Policy: Results from the 2003 Scoreboard”, SEC(2003) 1278, 4.11.2003. Unless otherwise stated, the Enterprise Policy Scoreboard is the source of the data on indicators contained in the present report.

<sup>31</sup> SEC(2003) 1255, 10.11.2003.

<sup>32</sup> Internal Market Scoreboard, No 12, May 2003; Press release IP/04/33, 12.1.2004.

<sup>33</sup> The Enterprise Policy Scoreboard is the source of all information on targets declared by the Member States contained in the present report.

Improving access to finance is an important aspect of fostering the development of small businesses in Europe. The conditions in the financial markets influence access to finance. The business cycle downturn has made external and internal small business financing more complicated, but the gradually improving growth will also improve financing opportunities for small businesses. External financing has been harder to get because many banks and venture capital funds have suffered losses in their SME portfolios and their risk aversion has increased. Banks assess the lending applications more carefully and demand more collateral.

Venture capital is an option for only a small minority of small businesses, that is those businesses that expect rapid growth. In the long-term, venture capital is expected to become more important, since the equity base in many SMEs needs to be reinforced.

Business angels, who are informal or formal individual investors, provide both financing and managerial experience. Business angel networks increase the efficiency of matching angels and entrepreneurs. Raising awareness about the benefits and services of business angels and angel networks is the first step in increasing their investments. Another important step is improving entrepreneurs' prospects of success in attracting business angel investment through increasing their investment readiness. This is important because entrepreneurs need to understand the differences between sources of finance and the specific role of business angels. Entrepreneurs' investment readiness and realistic business plans will facilitate the dialogue with business angels.

Most small enterprises are sole traders or partnerships, and microcredit – lending of small amounts of money, up to €25 000 – is in many cases an important source of finance for them. As banks often perceive microcredit as a high risk and low return activity due to the important failure rate and the high handling costs, there is a market gap in this area.

In order to bridge this market gap, at least partially, public support is available in all Member States. At national level, public promotional banks, when existing, are playing an active role and remain an efficient and effective vehicle for providing part of the credit and/or guarantee, in particular where large-scale operations are required. In addition, guarantee (co- and counter-guarantee) schemes and mutual guarantee societies make it easier for the credit institution to provide microcredit because its risk exposure is reduced and its capital requirement is mitigated. At European level, the microcredit guarantee window under the Multiannual Programme for Enterprise and Entrepreneurship (2001-2005), based on a risk-sharing principle and managed by the European Investment Fund, enables financial institutions to increase their microcredit exposure.

The last Charter report concluded that access to finance remains an important constraint to businesses across the EU and that the creation of flexible microcredit programmes by some Member States was encouraging. Member States were invited to further support financing institutions to improve small businesses' access to finance, in particular to microcredit, in accordance with their national environment. Member States were also urged to implement the necessary fiscal and structural reforms to promote investment in venture capital funds as recommended in the framework of the Financial Services Action Plan. The report further concluded that business angels constitute an increasingly important source of financing for small businesses and encouraged Member States to raise awareness about business angels, to promote a legal and fiscal environment favourable to risky investments in small businesses and to support local and regional business angels' networks.

The selected priority area for the current report is "Access to finance, in particular venture capital and micro loans". Nevertheless, all relevant measures which fall under the "Financial matters" Charter area have been included in this section of the report.

### 2.2.1. Recent developments

#### *Indicators and targets*

Three Member States have put in place quantitative targets in the area of access to finance. **France** aims to reach €1 billion investment per year in risk capital in 2010 and **Ireland** aims for venture capital investment corresponding to 0.80% of GDP by 2006. Another target for **Ireland** is 2-3 newly listed companies per year from 2006, and the **Netherlands** wants to increase the level of state guarantees granted annually (BBMKB) to €450 million, corresponding to 3 500 credits, of which 60% relating to start-ups.

Based on a number of indicators, the 2003 Enterprise Policy Scoreboard concluded that developments in the area of access to finance have been negative in recent quarters. SMEs report that access to finance remains a major constraint for their growth<sup>34</sup>.

In nearly all Member States new listings (IPOs) relative to existing firms continued to decline in 2002, but at a much slower pace.

Venture capital markets have also experienced serious strains, seeing falling capital investment in **all Member States** in 2002, **Sweden, Finland, the Netherlands and the United Kingdom** having the largest markets for venture capital in relation to GDP and Greece, Austria and Portugal having the smallest. A worrying trend has also been the weakening of the early stage and seed investments during the last three years in favour of later stage financing.

An encouraging development is the increase, albeit modest, in the number of business angel networks since 1999, notably in **France, Germany, Sweden, Denmark, the United Kingdom, Spain and the Netherlands**. Luxembourg has currently no business angel network, and Portugal, Austria and Finland only have one each.

#### *Member States*

Various new **financial measures for start-ups** have been developed.

Belgium has introduced a “*loan 50+*” for people aged over 50 who wish to become self-employed or start a business and a “*BAN loan*” to complement the financial support from business angels. It has also set up a new fund called “*Starters Fund*” which is a public sector initiative to mobilise private external funding for business start-ups and transfers. The investors will, under certain conditions, receive a tax reduction of the actual payments.

Denmark is launching a new DKK 500 million (ca €67 million) “*entrepreneurship fund*” in liaison with a number of private investors to close gaps in the capital finance market which commonly appear in the earliest stages. The Netherlands is reviewing its financial instruments for innovative start-ups.

#### **Finland: Service to match work input for shareholding**

The PreSeed services of Sitra (The Finnish National Fund for research and Development) aim at remedying the market failure pertaining to preseed financing for technologically oriented companies.

<sup>34</sup> Access to finance is the second most important obstacle for SMEs, after the lack of skilled labour, according to the ENSR Survey 2003 (reported in the 2003 Enterprise Policy Scoreboard).

The “**DIILI**” service launched in April 2003 is the latest addition to Sitra’s PreSeed family of services which also include “**INTRO**” and “**LIKSA**”<sup>35</sup>. The founding idea of Sitra PreSeed is to bring together entrepreneurs, market information providers, business angels and experienced sales and business professionals at the INTRO market place, which SITRA coordinates. Within this environment, the company undergoes a series of true value adding measures carried out at the right time. As a consequence, the company becomes increasingly attractive for initial private capital investments.

The rather limited sales and business competences of companies have been the most important reason for slowing down the operation of the well-functioning INTRO market place. The new DIILI service has brought forth a significant improvement to rectify this while encouraging and increasing entrepreneurship. Through the INTRO market place, DIILI allows business professionals to examine start-up companies as potential job opportunities at the same time as these companies are quoted as investment targets for business angels. Under the DIILI scheme, the expert taking on sales responsibilities in the company exchanges his competence against the company’s shares. The expert joins the company with an entrepreneurial risk and, in the beginning, probably with limited pay. When this takes place at the right time in relation to the investment cycle, the sales competence brought in by the expert also acts as a trigger for initial investment into the company, thus correcting the market failure.

Regarding **financial instruments for business transfers**, the French trial scheme “*Prêt à la Reprise d’Entreprise – PRE*” (business purchase loans) in five regions was such a success that it will become generally available. The Austria Wirtschaftsservice has created a “*Succession bonus*” to support entrepreneurs and SMEs which are close to transferring the ownership of the business. Saved capital which is used for a new start-up or a take-over is eligible for a non-repayable state bonus of 14%.

Two new microcredit schemes have recently been developed.

France has introduced a specific legal framework that allows accredited *non-profit associations to borrow from banks in order to provide micro loans*. The first accredited association was ADIE, a dedicated microcredit institution specialised in supporting the creation and development of businesses by the unemployed or those in receipt of the minimum wage. Before this new framework a non-profit association could only provide loans from its own equity.

#### **United Kingdom: Tax incentive to encourage microcredit**

In order to improve access to finance for enterprises from disadvantaged communities, both existing businesses and start-ups, the UK Government provides capital, revenue and loan guarantee support to around 40 Community Development Finance Institutions (CDFIs) through the Phoenix Fund. These are independent financial institutions, usually locally based and with strong links to business support providers and community organisations. They offer loans on commercial terms to businesses with viable plans but which are unable to access some or all of their requirements from conventional sources. CDFIs do not generally seek collateral and make their lending decisions based on the likely impact of the business on the community rather than conventional credit scoring techniques.

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<sup>35</sup> LIKSA aims at targeting companies’ own resources at acquiring, analysing and refining business information related to its commercialisation. It offers economic resources and experts for this task.

In order to encourage the flow of private capital through CDFIs the United Kingdom's **Community Investment Tax Relief (CITR)**, which came into operation in March 2003, provides an incentive to investors providing patient capital to CDFIs. An individual or corporate investor willing to provide capital to a CDFI either as a loan or as share capital for at least five years will receive a tax relief of 5% of the amount invested in each of five successive tax years. CDFIs, which must be accredited by the UK government's Small Business Service to attract this investment, then lend to start-ups, existing enterprises and community projects. As of July 2003, 20 CDFIs have been accredited and between them these institutions intend to raise £88 million (ca €125 million) from investors for on-lending over the next three years.

To attract **venture capital**, Belgium has introduced a new type of collective investment organisation called "*Private Pricaf*". It encourages private investors to subscribe at least €250 000 in the capital of an unlisted company, without having to set-up and run the company. The Greek "*New Economy Development Fund*" (*TANEO*) has started its operations. It is a fund of funds with the aim of minority participation in investment schemes in innovative, preferably new economy, companies. Italy is developing a public-private measure to facilitate access to *venture capital by SMEs in less-favoured regions* and by new firms. It will make public funds available to banks and financial intermediaries for the purchase of short-term and minority shareholdings.

#### **France: Investment funds to encourage local investments**

The French Economic Initiative Act, adopted by Parliament in July 2003, includes the creation of local investment funds ("*Fonds d'investissement de proximité*", *FIP*). This measure primarily concerns regional SMEs, which frequently encounter difficulties in finding professional investors that correspond to their characteristics.

The purpose of FIPs is to collect savings from the public willing to invest in businesses established in a specific region. The viability of the investment is not, therefore, the investor's sole objective. The development of a region through the performance of the businesses located there may also be a deciding factor.

FIPs can intervene in a zone of maximum three adjacent regions – either French or in another EU Member State (special provisions are also laid down for overseas departments). The funds will be similar to venture capital mutual funds and must invest at least 60% of their assets in SMEs, 10% of which must be earmarked for business creation.

Relations between FIPs and local authorities, if the latter wish to provide support, will be laid down in agreements which may stipulate investment priorities in sectors of activity or types of business. Investment in FIPs will be made particularly attractive for private individuals by means of a significant tax incentive, which may amount to a reduction in income tax of 25% of the amount invested, up to a maximum of €12 000 for a single person and €24 000 for a couple.

At **regional level**, the Flemish Community in Belgium has set-up the "*ARKimedes Fund*" to attract venture capital from institutional and private investors to Flemish SMEs. Under this scheme, private individuals qualify for tax credits. In the United Kingdom, the "*Bridges Community Development Venture Capital Fund*", a £40 million (ca €57 million) fund capitalised 50:50 by the government and private sector investors, was launched to make equity investments in SMEs with growth potential which are located in the 25% most disadvantaged electoral wards in England. In addition, "*Early Growth Funds*" are being created in each English region of the United Kingdom to encourage the provision of risk



capital to start-ups and other businesses in the early stages of growth. They also aim to demonstrate to private sector investors that commercial returns can be achieved by investing in early growth businesses.

#### **Austria: A new model for public sector risk capital**

Austria Wirtschaftsservice GmbH (AWS), a public financing intermediary set up in 2002, provides funds with risk capital character in the form of subordinated loans as equity substitute. The financing decision is taken following an extensive screening of the company, acceptance of its business plan and approval by an independent advisory body.

Based on the characteristics of the business plan, a pre-determined share of the company's profits is to be paid as a fee for the capital made available. This implies that, in the early years, there is no payment when the company incurs financial losses from its business operations. Equally, no reimbursements of the funds provided are due for such years. A representative of the AWS attends the board meetings of the company but does not normally interfere in operating decisions, except in case of major deviations from the business plan. However, high-level advice and coaching for the new entrepreneur is available at any time.

On the one hand, this model allows companies to be free from cash outflows and balance sheet charges in the early years of heavy investments, contrary to regular loans. On the other hand, the payment of a part of the profit in good times does not hamper the company's operation.

It thus provides a response to the fears - which are particularly common among small businesses - about too strong external intervention from venture capitalists.

As to **guarantee mechanisms**, the Austria Wirtschaftsservice provides *guarantees for loans without collateral* up to a maximum of €75 000. Three new regional *Mutual Guarantee Societies* have been set up in Portugal.

#### **Italy: Nation-wide system of mutual guarantee societies**

For more than 30 years, Italy has encouraged the creation of mutual guarantee societies, "**CONFIDI**", the primary role of which is to offset the difficulties that small businesses face in accessing credit. CONFIDI is a nation-wide mutual guarantee system that includes 680 private companies (each with its own legal and administrative autonomy), where almost 1 000 000 entrepreneurs are members.

These funds guarantee credit for SMEs, up to 80% of the loan for new businesses and 50% for existing businesses. The maximum amount guaranteed is €500 000, no personal collateral is required and the interest rates applied are those reserved by banks for their major clients. For the SME, this means a lower interest rate than if the loan application was not supported by a CONFIDI, which deposits 50% of the loan value in cash on a bank account.

For each euro guaranteed by the CONFIDI scheme, the multiplier effect is at least 10 of the loan awarded, depending on the individual CONFIDI involved. Each credit assessment is made by a local CONFIDI, not by the bank. The past results are excellent: 1.6% of default rate, instead of 8% for the craft sector in general.

Since 2000 it has been possible for CONFIDIs to receive the support of the SME Guarantee Fund, a counter-guarantee scheme set up by the Ministry of Productive Activities, resulting in an increase in guarantee operations benefiting businesses.

At **regional level**, the Flemish Community in Belgium has concluded *framework agreements with private banks*, which stipulate that credit applications by SMEs that fulfil certain criteria will be 75% guaranteed by the Flemish authorities. The Walloon region of Belgium is setting up a specific company “*SOCAMUT S.A.*” whose task is to counter-guarantee 50% of the value of the guarantees issued by mutual guarantee associations in the region for business creation, growth and business transfer. The mechanism is aimed exclusively at micro enterprises. The “*Guarantee Fund*” of the Brussels-Capital region of Belgium is now providing entrepreneurs with the possibility to apply directly for guarantees without the intermediation of a bank. Having received the Fund’s approval, the entrepreneur can shop around the various financial institutions to obtain the most favourable terms.

Greece is planning to set up its first **business angel network** and France adopted a specific legal status for business angels, the “*Business Angel Sole Proprietorship*” (“*Société unipersonnelle d’investissement providentiel*”, *SUIP*). The aim of this scheme is to increase the number of business angels. The SUIP enjoys substantial tax benefits. Ireland has established a *database* of more than 50 high net worth business angels, with over €12.7 million available to invest in small and medium enterprises. To complement the existing private business angel networks, the Dutch government is currently considering supporting the creation of new *networks at regional level*. In Sweden, 17 organisations have already received grants to build *regional business angel networks*. Sweden also finances a project that searches for female business angels and prepares them for participating in other networks. In Portugal, business angel activity has been promoted in conferences and press articles. A specific Action Plan is envisaged in the future. Norway is planning to set up business angel networks in the fields of biotechnology and ICT. It also provides a 28% tax incentive for business angels investing in start-ups from the university research sector.

Several **other financial measures** have also been reported. Denmark is working to consolidate all provisions on financial institutions into the “*Financial Business Act*”. This will contribute to increased simplification, efficiency and transparency in the financing of SMEs. In Germany, the merger of the KfW and the DtA promotional banks into *KfW-Mittelstandsbank* has brought more transparency to the financial instruments offered to SMEs, introduced some improvements to the products and simplified the processes. Ireland has commissioned a study to undertake a *cross-country comparison of the financial assistance for start-ups* available from both the state and the private sector in other EU countries and another *study on the policy and supports available to micro-enterprises* in Ireland. Austria has set up *Austria Wirtschaftsservice Gesellschaft m.b.H as a one-stop-shop* for all federal financial support for enterprises. It brings together several existing support organisations under one roof. Austria has also adopted an “*Action Plan to strengthen the capital market*” and Portugal has introduced a new financial programme “*PRIME*” to support investment and to modernise enterprises.

At **regional level**, the Walloon region in Belgium is providing various new mechanisms to facilitate *funding of university based spin-offs*. As a pilot project, the region is encouraging small enterprises requiring venture capital to hire an *external administrator to their Board of Directors* by contributing partly to the employment costs. In the United Kingdom, the Scottish Executive introduced a new “*early-stage equity investment package*” to address the gap for investments below £500 000 (ca €709 000). Moreover, an “*Investment Readiness Programme*” has been introduced to help growth businesses with the cost of developing proposals to a stage and quality at which they are likely to succeed in attracting equity investment, the programme offers up to 50% of this cost to a maximum of £10 000 (ca €14 200).

## Commission

In November 2003, the Commission adopted its fifth and last progress report on the 1998 **Risk Capital Action Plan (RCAP)**<sup>36</sup>. This report noted that taking the RCAP period as a whole, considerable progress has been achieved and all political and many technical objectives have been attained. The European risk capital industry is now more mature and professional than in 1998. Enterprises' and public authorities' awareness about the strategic importance of this sector and the possibilities provided by this type of financing is now well enshrined in Europe. The RCAP has played a political role in supporting those directly or indirectly involved in risk capital activities. The philosophy behind the RCAP is already permeating other regional, national and Community policies and programmes. In order to keep up the momentum, the Commission will continue to follow the European risk capital markets closely.

The Commission also published its eighth progress report on the **Financial Services Action Plan (FSAP)**<sup>37</sup>, concluding that the overall financial outlook strengthens the political case for integrating financial services within the EU. Progress towards adopting the necessary legislative measures to create an integrated market remains on the right track and it is crucially important to complete all the remaining legislative measures.

The 2002 annual report<sup>38</sup> on the three **financial instruments** under the Multiannual Programme for Enterprise and Entrepreneurship (2001-2005), **the ETF Start-up Scheme, the SME Guarantee Facility and the Seed Capital Action**<sup>39</sup>, shows that mainly small enterprises with fewer than 10 employees have benefited from the SME Guarantee Facility. At the end of 2002, the number of SMEs benefiting from the Facility was 125 164, compared with 112 581 at the middle of 2002 and 92 408 at the end of 2001. Final beneficiaries with up to 10 employees made up 93% of the total number of SMEs and final beneficiaries with up to 50 employees made up 99% of the total number of SMEs<sup>40</sup>. This clearly demonstrates that the Facility is firmly focused on the target population of the Charter.

In December 2003, the Commission adopted the Communication "**Access to finance of small and medium-sized enterprises**"<sup>41</sup>, aiming to update the Council on progress in SME finance since the 2001 report "Enterprises' access to finance"<sup>42</sup> and to review the public policy framework in SME finance. The report concluded that to efficiently promote entrepreneurship in Europe, further European, national and regional public sector actions should be focused on improving the functioning of the financial markets, in particular in the new Member States, reducing the gap in early-stage financing, in particular guarantees and microcredit, and increasing equity in SME balance sheets.

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<sup>36</sup> Communication from the Commission on implementation of the risk capital action plan (RCAP), COM(2003) 654 final, 4.11.2003. Based on the Communication from the Commission "Risk Capital: A key to Job Creation in the European Union", SEC(1998) 522, April 1998.

<sup>37</sup> "Financial Services: Nine months left to deliver the FSAP", 3.6.2003; [http://europa.eu.int/comm/internal\\_market/en/finances/actionplan/index.htm](http://europa.eu.int/comm/internal_market/en/finances/actionplan/index.htm)

<sup>38</sup> Report from the Commission, "Growth and Employment Initiative: Measures on financial assistance for innovative and job creating Small and Medium-Sized Enterprises (SMEs)", COM(2003) 480 final of 5.8.2003.

<sup>39</sup> All managed by the European Investment Fund (EIF) and delivered via financial intermediaries.

<sup>40</sup> Data as at 30.6.2002.

<sup>41</sup> COM(2003) 713 final, 1.12.2003.

<sup>42</sup> SEC(2001)1667, 19.10.2001.

Also in November 2003, the Commission services published the report “**Microcredit for small businesses and business creation: bridging a market gap**”<sup>43</sup>, which was drafted with a working group of experts from Member States, acceding and candidate countries. The report emphasised the diversity of actors in the field of microlending, such as public promotional banks, savings banks, co-operative banks and non-banks. The report noted that guarantee schemes often share the risk with microcredit institutions and highlighted the importance of business support services. The different practices were reflected in particular in setting the interest rates. The report indicated that the interest rate income from microcredit activities should allow an institution to cover all its costs and risks related to this activity so that it can become self-sustaining and independent of public subsidies.

In November 2003 the Commission published the yearly report on progress under the **CREA Seed Capital Action**. The Action, financed by the Third Multiannual Programme for SMEs (1997-2000)<sup>44</sup>, supported recently created seed capital funds with at least €4 million of investment capital as a way of overcoming an early-stage financing gap. The 19 active funds selected in 1998-1999 have invested €150.9 million in 218 companies, creating 2 205 new jobs. The majority of these funds invest locally or regionally in new enterprises in information technology, communications, electronics and life sciences. Total divestments for the funds have been €47.6 million, of which 85% has been written off.

In its conclusions of December 2001, the Industry Council invited the Commission to “draft a **Code of Conduct between banks, finance providers and SMEs** in order to improve their understanding of each other”. After several meetings of a working group with representatives of European banking and SME organisations, a draft was agreed in autumn 2003 by Eurochambres, UEAPME<sup>45</sup>, UNICE<sup>46</sup>, and the European Group of Savings Banks, one of the main European provider of loans to SMEs. The European Association of Co-operative Banks and the Banking Federation of the European Union requested more time for the consultation of their national members.

The Commission published in June 2003 a **guide on Credit insurance for European SMEs**<sup>47</sup> which assesses the need to manage the risks inherent in providing trade credits to customers. If these risks are not covered, they might cause severe liquidity constraints and ultimately insolvency. Therefore, SMEs should carefully review different instruments for managing this risk, which include credit insurance, risk management by the SME itself, factoring, buying information from agencies, using collecting agencies and bank guarantees.

**A study on factoring**<sup>48</sup> conducted for the Commission focused on the role that factoring plays in financing SMEs across Europe. Factoring gives businesses access to finance based on their sales growth. The total volume of factoring across Europe has grown by 57% over the period 1998-2000, although the starting level was low, and increases were registered in each Member State. The report suggested that factoring is specifically targeted and suitable for smaller businesses. However, due to its high costs, factoring is only of interest to fast-growing companies and not an option for every small business.

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<sup>43</sup> <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/index.htm>

<sup>44</sup> Council Decision 97/15/EC of 9.12.1996 on a third Multiannual programme for small and medium-sized enterprises (SMEs) in the European Union (1997 to 2000).

<sup>45</sup> European Association of Craft, Small and Medium-sized Enterprises.

<sup>46</sup> Union of Industrial and Employers’ Confederations of Europe.

<sup>47</sup> <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/index.htm>

<sup>48</sup> Factoring is a way to increase liquidity through advance payment against receivables; <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/index.htm>

In the framework of the **Gate2Growth Initiative**<sup>49</sup>, a pan-European database of investment opportunities, a number of existing **business planning tools** for the innovative entrepreneur were gathered, including online tutorials which outline the different sources of finance exist, including venture capital, business angels, commercial banks and stock markets, what the expected investment criteria are and how to approach the investors. A pilot was launched to develop a **business plan diagnostic methodology** to provide feedback on investor-readiness and to apply and validate it in practice, which will allow for checking and scoring the completeness of a business plan against a number of pre-set criteria developed by investment experts. A network of 18 regional entry points has been established, composed of Business and Innovation Centres (BIC) and Innovation Relay Centres (IRC) (see heading 2.3.1) with specific expertise in financing innovation. The **I-TecNet network of early stage technology venture capital investors** was re-launched in 2003. The objective of this network is to enhance the capacity of European early-stage venture capital operators and similar professional private equity investors to invest in innovative companies and help these companies to realise their growth potential.

The results from **technology rating pilot projects** conducted in previous years were compiled for publication and dissemination<sup>50</sup>. The aim of these projects was to produce viable methods, tested and accepted at European level, enabling innovative SMEs in the process of developing technological projects to be rated by financial operators according to the risks, building on proven technology business appraisal techniques. The outcome could be usable by banks and other providers of early stage, small-scale financing to identify technology businesses with high growth potential.

In the context of the MEDIA programme, the “**Growth and Audiovisual: i2i Audiovisual**”<sup>51</sup> experimental action aims to encourage banks and financial institutions to invest in the content industries. In particular, in the context of acting as a catalyst for support for the film and audiovisual industry, the European Investment Bank (EIB) makes credit lines<sup>52</sup> available to the specialised banking sector for the funding of SMEs in audiovisual creation, audiovisual technology or the performance of subcontracting in this sector.

The Commission adopted in August 2003 the **revised indicative guidelines for the mid-term review of Structural Fund Programmes**<sup>53</sup>, which is taking place end 2003 / beginning 2004. The Charter recommendations are reflected in these guidelines and SME issues in general will be reviewed in the course of the midterm review. A diversification of the range of public financing instruments for SMEs is encouraged. The Commission’s initial guidelines for the period 2000-2006<sup>54</sup> stressed the need to achieve the best leverage from operations funded from the Community budget by favouring support to private sources of financing, such as risk and venture capital, and public-private partnerships. The Commission Regulation on eligible expenditure<sup>55</sup>, revised in June 2003, defines conditions and recommendations for the financing of risk and venture capital, loan funds and guarantee funds. A Guide to Risk Capital

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<sup>49</sup> <http://www.gate2growth.com>

<sup>50</sup> Publication foreseen in early 2004.

<sup>51</sup> [http://europa.eu.int/comm/avpolicy/media/i2iav\\_en.html](http://europa.eu.int/comm/avpolicy/media/i2iav_en.html)

<sup>52</sup> Global Loan and Risk Sharing Global Loan.

<sup>53</sup> COM (2003) 499 final, 25.8.2003.

<sup>54</sup> The Structural Funds and their coordination with the Cohesion Fund: Guidelines for programmes in the period 2000-2006, 1.7.1999,

[www.europa.eu.int/comm/regional\\_policy/sources/docoffic/official/guidelines/coord\\_en.htm](http://www.europa.eu.int/comm/regional_policy/sources/docoffic/official/guidelines/coord_en.htm)

<sup>55</sup> Commission Regulation (EC) No 1145/2003 of 27.6.2003 amending Regulation (EC) No 1685/2000 as regards the rules of eligibility for co-financing by the Structural Funds, OJ L 160, 28.6.2003, p. 48.

Financing in Regional Policy<sup>56</sup> has been published and should become a practical document for all involved, at regional and national level, in risk capital related activities. The programming of Structural Funds shows that the guidelines are being followed and that, as a result, the interventions in risk capital funds and guarantee funds will reach about €1,4 billion in the period 2000-2006, i.e. more than double compared to the 1994-1999 period.

The Commission is closely following the progress achieved in the Basle Committee negotiations on the new **Capital Adequacy Framework** for banks. Following a request from the European Council<sup>57</sup>, the Commission will publish a study on the impact of the new capital adequacy framework on the European economy, in particular SMEs, foreseen for early 2004.

### 2.2.2. *Conclusions and recommendations*

The previous Charter reports have identified access to finance as a major constraint for enterprises while still signalling progress in this area. The developments over the past year show that several new measures to improve the situation have been taken. Yet, as shown above, **access to finance still remains an important constraint** to businesses across the EU.

Among the recent developments, the many new measures taken in Belgium, such as the Starters Fund, the Private Pricaf and the ARKimedes Fund to attract private investors, are worth highlighting. The British initiative to allow non-banks to offer micro credit, combined with a tax incentive and the French local investment funds are interesting examples of new ways of funding. The Finnish DIILI scheme to attract skilled personnel who participate in the share capital is another innovative example. A particularly encouraging signal is the development of the first business angel network in Greece.

Experiences from public sector actions aiming to improve small businesses' access to finance have shown that best results are achieved when the public sector works in close cooperation with financial markets and encourages their development. Public action should primarily focus on general framework conditions and act as a catalyst for private sector involvement. In particular, sector-specific targeted financing actions have proven to be inefficient as there is no objective way of anticipating market developments several years ahead.

To efficiently promote entrepreneurship and to facilitate enterprises' access to finance in Europe, further public sector actions at European, national and regional level need to be taken. The persistent **gap in early stage finance** makes it necessary that the public sector continues to work with the private sector to overcome it. As bank loans remain the main financing instrument for small businesses, the **need for guarantees** that share the risks between the private and the public sector is evident in order to facilitate SMEs' access to bank loans. In this regard, **securitisation** could be an interesting field to explore. Using national and local banks as intermediaries makes the guarantee mechanisms accessible for small businesses. The longstanding Italian scheme CONFIDI is an example of a well-functioning system of mutual guarantee societies.

An important tool to address early-stage finance is **microcredit**. Its scope and intensity differ considerably between countries. The public sector can facilitate the provision of micro credit through an enabling environment and tax incentives for investors supplying funds to microcredit retailers. Public support can also be offered by providing funds to specialised lenders, by sharing part of the risk with specialised guarantee societies and/or by promoting

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<sup>56</sup> [www.europa.eu.int/comm/regional\\_policy/sources/docgener/guides/risk/risk\\_en.pdf](http://www.europa.eu.int/comm/regional_policy/sources/docgener/guides/risk/risk_en.pdf)

<sup>57</sup> Barcelona European Council, 15-16 March 2002.

business support services. Microlending programmes should aim for sustainability so that public sector support could gradually decrease.

- *To facilitate small businesses' access to finance, efforts should be geared towards early-stage finance, in particular guarantees and microcredit.*

The needs of entrepreneurial growth companies and the mainstream European small businesses are different, but both need **stronger balance sheets with enough equity**. Retained earnings are the best form of financing growth and investment. The sources for additional equity are informal risk capital investors, venture capital funds and institutions providing quasi-equity instruments such as subordinated loans. The subordinated loans of Austria Wirtschaftsservice, limiting external intervention in operational business decisions, demonstrate an interesting approach to provision of public sector risk capital.

- *Review of tax laws to examine whether they inhibit firm growth by taxing retained earnings more than distributed profits is recommended.*
- *The development of liquid and well-functioning venture capital markets is encouraged.*
- *Further promotion of the possibilities provided by business angels should be continued.*
- *Investments by informal risk capital investors should be promoted through tax breaks.*

The Commission is engaged in many different initiatives to improve access to finance for small businesses. The Community financial instruments provide European leverage and support for SME financing. The completion of the Risk Capital Action Plan is a major achievement and completing the Financial Services Action Plan will lead to better availability of both bank lending and equity finance. Studies and projects to exchange good practices further contribute to improvements.

### **2.3. Strengthen the technological capacity of small enterprises, including innovation**

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

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

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

Efficiency and cost advantage, quality, speed and flexibility are critical for business success. However, these factors are no longer enough for long-term competitiveness. Enterprises must now constantly innovate to re-invent product and services and consequently evolve business strategies to respond to market demands, which in turn necessitate continual adaptation of organisational structures and processes.

Figures from the latest “Community Innovation Survey”<sup>58</sup> and the European “Innobarometer”<sup>59</sup> as well as analysis from the “European Trend Chart on Innovation”<sup>60</sup> confirm that many small enterprises in Europe still encounter significant problems with the improvement of their **innovation** performance.

Small businesses in Europe and their innovation needs are highly heterogeneous. This requires policy instruments that are equally differentiated and cover the regional, national and European level. It should be underlined that small businesses depend more than large firms on the optimisation of regional innovation systems. However, comprehensive and comparable information on regional innovation policies is particularly scarce.

To understand the innovation needs of small businesses, it is useful to differentiate the population of firms along the spectrum from new technology based start-ups to traditional small firms and crafts. Evidence from the above surveys shows that high-tech start-ups depend mainly on the availability of innovation finance, on intensive interaction with science institutions and on efficient systems for protection of intellectual property rights. More traditional small businesses, on the other hand, depend more on intensive interaction with innovative customers and technology providers, on their access to technology and market intelligence and on constantly upgrading their human resources.

The majority of small businesses lack the competence and resources needed to carry out their own research and development (R&D), to introduce new technology and train their employees. They may even have problems in recognising their own needs for technology or in the innovation process. Small enterprises depend very much on an environment that supports innovation. In this context, the development of technology and knowledge transfer initiatives is of paramount importance for most of them.

The broad definition of **technology transfer** covers the shift of ideas from the science base and their uptake by industry but also the transfer of knowledge between companies. There are a number of ways in which policy makers may influence the uptake of research results by industry for incorporation into improved products, processes and services.

More specifically, **indirect methods** include the modification of framework conditions and institutional structure to allow greater interaction between public sector research institutes and businesses. Examples of such measures that indirectly facilitate the promotion and diffusion of knowledge include: (1) Science parks, regional technology centres, liaison offices in academic and research organisations and other kinds of intermediaries; (2) Legal framework, including intellectual property considerations, facilitating the technology transfer; (3) Tax and financial incentives, such as financial support schemes providing high-risk loans to innovative businesses; and (4) Specific funds for research and technological development (RTD) generating new knowledge which will be subsequently transferred to the industry.

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<sup>58</sup> Eurostat.

<sup>59</sup> [http://www.cordis.lu/innovation-policy/studies/ca\\_study3.htm](http://www.cordis.lu/innovation-policy/studies/ca_study3.htm)

<sup>60</sup> [http://www.cordis.lu/innovation-policy/studies/gen\\_study8.htm](http://www.cordis.lu/innovation-policy/studies/gen_study8.htm)



**Direct methods** promoting transfer of knowledge between organisations and individuals include: (1) Programmes for transfer and exploitation of results; (2) Schemes for mobility of personnel, encouraging individuals to work within other organisations bringing knowledge to their hosts and learning from them; (3) Information diffusion measures making organisations more aware of scientific and technological opportunities; and (4) Co-operative schemes with industry and demonstrator projects.

Technology transfer from science to traditional small business usually does not function through direct contact as the cultures at universities or large research organisations are too different from small enterprises. Thus, increased technology transfer to small enterprises requires intermediaries in the form of technology transfer organisations, of which there are a great variety in Europe.

More direct contacts exist between research organisations and high tech based start-ups, either in the form of university spin-offs, or start-ups fostered in technology parks or technology based incubators. Combinations of such measures supplemented by further support are increasingly applied in order to create clusters around specific technology fields. By agglomerating research and industrial developments, small businesses are profiting from the ready availability of knowledge and the possibilities to network with firms in their region.

Another form of cooperation between research and small businesses, which seems to be better adapted to the needs of these businesses, are co-operative research institutes. These institutes appear more appropriate for the dissemination of intermediate technologies rather than cutting edge technologies. Less spectacular as regards their innovativeness, this kind of technology transfer is, however, important as regards its short-term economic impact.

Last year's Charter report concluded that recent developments in promoting clusters and technology networks involving small and medium-sized enterprises were encouraging and that various promising initiatives had been launched. The report suggested however that there was still plenty of scope for exchange of good practice in areas such as promoting technology transfer from university to small businesses and supporting innovation both in technology-based small businesses and also in the more traditional sectors. Member States were invited to contribute actively to the Best Procedure project on improving technology transfer institutions and encouraged to further develop technology clusters and enterprise networks at national and regional level. Such measures should be implemented with a long-term perspective to ensure effective results.

The selected priority area for the current report is "Innovation and technology transfer", thus focusing on the specific issue of technology transfer and also explicitly including innovation. Nevertheless, all relevant measures which fall under the Charter area "Strengthen the technological capacity of small enterprises" have been included in the reporting.

### *2.3.1. Recent developments*

#### *Indicators and targets*

Eight Member States have set quantitative targets in the area of R&D spending. **Denmark, Germany and France** have translated the Barcelona target to increase R&D investment in

EU to 3% of GDP by 2010 directly into national targets, while **Spain, Portugal, Austria, Ireland and Finland** have chosen more intermediate targets<sup>61</sup>.

Spain, Ireland and the Netherlands have also set targets related to patents. **Spain** aims for 24.5 European patents per million people in 2006 and 40.7 European patents per million people in 2010, **Ireland** wants 350 patents applied for per million people in 2006 and 100 patents granted per million people in 2006, and **the Netherlands** aims to be in the leading group by 2010 as to share in EPO patents.

In addition, **the Netherlands** has set a number of targets related to R&D expenditure on ICT, high-tech start-ups and innovation: higher growth than in other technology areas for R&D expenditure on ICT by enterprises and research institutions; 50% increase in number of techno-starter enterprises in 2004 and in the leading group in 2010; to be among the leading EU Member States in 2010 for share of innovative enterprises, co-operating innovative enterprises and innovative enterprises co-operating in research; and, finally, to be in the leading group in 2010 as to profit from innovations.

A variety of indicators in the 2003 European Innovation<sup>62</sup> and Enterprise Policy Scoreboards show that the EU needs to improve its performance in the area of innovation and knowledge diffusion. However, there is substantial variation in performance between Member States.

R&D expenditure as a percentage of GDP in the EU has not increased in 2001. R&D ratios of below or around 1% in Greece, Portugal, Spain, and Italy outweigh the 3% plus ratios of **Sweden and Finland**<sup>63</sup>.

The number of patents has been increasing from 2000 to 2001, including the number of high tech patents. Some Member States registered more patents relative to the population than the United States – **Sweden, Finland, Germany, the Netherlands, Luxembourg and Denmark** – but only **Sweden, Finland and the Netherlands** registered more high tech patents. The target of the Netherlands to get into ‘the leading group’ by 2010 as to the share of EPO patents seems to already have been met according to this data.

### *Member States*

In the area of **innovation**, Germany has launched the “*SME innovation initiative*” which aims at the promotion of technology start-ups. The initiative will, inter alia, provide funding, tax relief for investments in these companies and encourage better links between SMEs and research institutions. In Italy, a *memorandum of understanding* was signed between the Ministry of Productive Activities and the Department for Innovation and Technology. This provides for a *joint action plan* for the development of initiatives designed to promote innovation among SMEs and will lead to joint regulatory and financial measures.

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<sup>61</sup> Member States have set the following targets on General Expenditure on R&D (GERD): Austria (2.5% in 2005), Denmark, Germany and France (all 3% in 2010), Ireland (2.8% in 2006), the Netherlands (among the leading EU Member States in 2010) and Portugal (1% in 2003). In addition, three Member States have set targets for increasing Business Expenditure on R&D (BERD): Denmark (2% in 2010), Spain (0.84% in 2003) and the Netherlands (EU average in 2005, among the leading EU MS in 2010). Finland had previously targeted GERD, but has recently changed this and instead set the target of €1 700 million governmental intramural expenditure on R&D in 2007, corresponding to  $\geq 1\%$  of GDP. “Benchmarking Enterprise Policy: Results from the 2003 Scoreboard”, SEC(2003) 1278, 4.11.2003.

<sup>62</sup> SEC(2003) 1255, 10.11.2003.

<sup>63</sup> Sweden: 3.8% in 1999 (latest year available); Finland: 3.7% in 2001 (latest year available).

### **Germany and Austria: Schemes to encourage trans-national cooperation**

Germany will grant, as from 2004, a special promotion bonus for trans-national cooperation under its PRO INNO scheme (*Innovationskompetenz mittelständischer Unternehmen programme – Programme for Competence in Innovation among SMEs [www.forschungskoop.de](http://www.forschungskoop.de)*). PRO INNO supports national and international research cooperation by SMEs with each other or with research institutions, as well as entry or re-entry of enterprises into research and development. Approximately 77% of the enterprises promoted have fewer than 50 employees. 40% of enterprises are under 5 years old and a further 35% are 6-10 years old. The widespread effect of PRO INNO is marked. Since 1999, roughly €1.3 billion has been spent on R&D in some 3 900 enterprises. The special bonus for trans-national cooperation aims to give SMEs stronger incentives to become part of international research networks.

In Austria, twelve projects were selected in April 2003 for promotion under the **STRAPAMO** pilot project (*Bildung von strategischen F&T-Partnerschaften mit Mittel- und Osteuropa – Formation of strategic R&D partnerships with Central and Eastern Europe*). These projects are intended to step up the creation of technological axes between Austrian technology parks, research skills centres, technology-oriented clusters and cooperative research institutes, and their counterparts in Central and Eastern Europe. Central to this is the creation of synergies between growth centres and with it the utilisation of ‘win-win potential’. Each of the projects involves at least six enterprises, at least three of them from Austria. The main partner countries are Slovenia, Hungary and Slovakia.

The Netherlands is currently reviewing all policy measures for innovative start-ups with the view of bringing all instruments under one initiative called “*TechnoPartner*”. This structure consists of three pillars: TechnoPartner Financing (provides risk capital in the pre-seed and the seed phase), TechnoPartner Contest (promotes entrepreneurship among researchers and potential techno start-ups) and TechnoPartner platform (informs techno start-ups on how to start the business, helps research institutions to become more entrepreneurial, organises and maintains an incubator network, monitors developments in relevant sectors and raises awareness through seminars and conferences).

To bring the entrepreneurial sector and the national scientific and technological system closer together, the *Portuguese Innovation Agency (AdI)* has taken over the management of the innovation programmes of the Ministry of Economic Affairs and the Ministry of Science and Higher Education. Portugal has also introduced the “*NEST Programme*” to support the creation of technology-based enterprises by participating in their capital. Norway has amended the *legislation concerning the right to employees’ inventions* so that the rights to a patent are now given to the university and not to the researcher. As a consequence, the Universities of Oslo and Bergen are setting up their own *technology transfer offices*.

At **regional level** in the United Kingdom, the SMART scheme in England has been replaced by two new products. The “*Grant for Research and Development*” provides grants to help individuals and SMEs research and develop technologically innovative products and processes, following feedback from small businesses this eliminates the *de minimis* research project element that was present in the previous scheme. The “*Grant for Investigating an Innovative Idea*” provides grants to help fund consultancy costs for expert help on a range of issues, including technology, marketing and organisational factors that may be necessary to improve an SME’s capability to innovate. Wales has launched its Innovation Action Plan “*Wales for Innovation*”. This sets out the schemes and actions which will or already are helping small businesses to make the most of innovation, commercialisation of research

activity and technology transfer from higher education and further education institutions into Welsh businesses.

### **Belgium: Innovation booklet to entrepreneurs – “100 Questions on Innovation”**

The Flemish Community in Belgium in 2002 compiled and distributed an updated edition of the “*Innovatiezakboekje*” (Innovation booklet, <http://www.innovatie.vlaanderen.be/innovatiezakboekje>). This free booklet, entitled “100 Questions on Innovation”, is available in Dutch as well as in English. It is a practical information booklet and guide for entrepreneurs and company directors wishing to make changes and looking for ways to innovate. One hundred questions and answers provide a good overview with practical information to help on the way. In this way, the booklet contributes to making it is easier to transpose an idea into an innovative product or service or to transfer technology. It has been conceived to provide a stimulus and introduction to the different possibilities, angles and resources to innovate.

Several countries report on measures to promote **technology transfer from universities to SMEs**. Denmark is introducing an *action plan* to strengthen the cooperation between SMEs and Danish and foreign knowledge institutions. In order to encourage an open market for knowledge and technology, as a first step, Denmark has created a *technology transfer office* for biotechnology. The Netherlands is taking several actions to improve the interaction between universities and SMEs and the actors in the national innovation system. For example, it plans to set up an *Innovation Platform* based on the Finnish model. Austria has launched the “*FH plus*” programme to strengthen application-oriented research at universities in cooperation with the business community. This gives SMEs access to research results and enables them to improve their ability to innovate. Portugal has introduced the “*IDEIA*” programme (Applied Business Research and Development) to foster collaboration between enterprises and organisations on the National System for Science and Technology (SCTN). Norway is replacing its current “*Technology Transfer from Research Institutes to SMEs*” programme by a new R&D programme “*KOMPMEG*” which aims at promoting research based competence.

To support **technology cooperation between companies**, Greece has initiated the “*Promoting SME networking programme*”. The programme aims at supporting actions with specific business results, e.g. the completion of a joint project or the creation of permanent joint ventures.

With regard to **research programmes**, Ireland has established a high-level steering group to assess the implications of the European Research Area policies and to prepare a national action plan for increasing R&D investment in Ireland. It has also established a “*National Support and Information Service*” with the objective of co-ordinating the promotion of participation, particularly by SMEs, in the Sixth Framework Programme for RTD. At **regional level** in Belgium, in order to encourage the participation of the SMEs in the Walloon region in the Sixth Framework Programme for RTD, the region grants a subsidy equal to 25% of the Community aid<sup>64</sup>. In addition, the financial body of the region counter-guarantees the bank guarantees to the European Commission for the remaining 75% of the eligible expenditure. In the United Kingdom, the “*Scottish Proposal Assistance Fund*” has been set up to increase Scottish industry participation in Sixth Framework Programme for RTD. Scotland is also seeing the establishment of three market-based “*Intermediary Technology Institutes*”. They will focus on pre-competitive research in areas of high global market potential in order

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<sup>64</sup> The percentage can be reduced in order to respect the Community rules on state aid for R&D.

to deliver a change in cultural approach to commercialisation and business investment in R&D, and are designed to help increase business R&D spending, strengthen the capability of existing leading, technologically aware companies and help create new ones.

Sweden has launched the “*VINNOVA incubator programme*” which gives **incubators** a maximum of 50% grant in order to commercialise scientific-based business ideas. The United Kingdom is currently working to establish a *set of nationally recognised standards and benchmarks for business incubation* which will be capable of assessment and accreditation. At **regional level**, Northern Ireland in the United Kingdom is developing its first **Science Park**. The Science Park aims initially to cater for new spin-out companies from the universities and industry and seeks to attract research and development units from indigenous companies and inward investors.

#### **Ireland: The Shannon Region Knowledge Network**

The Knowledge Network in the Shannon Region, [http://www.shannon-dev.ie/K\\_Network/Index.html](http://www.shannon-dev.ie/K_Network/Index.html), was launched in 2001 by Shannon Development, a regional development agency. It comprises technology park and incubator infrastructure as well as linkage systems to the regions third level education sector. It is a unique initiative creating a network of key technology locations in the Shannon Region. Five locations – the National Technology Park Limerick, Kerry Technology Park, Tipperary Technology Park, Information Age Park Ennis, and Birr Technology Centre – singularly and collectively work to bring business, education and innovation together to create dynamic and exciting world-class locations for living and working in the knowledge age. Each location within the Shannon Development Knowledge Network has an *Innovative Works* facility – ‘smart’ buildings specifically focussed on ‘bringing business to life’.

The network aims at stimulating new technology start-ups and attracting new mobile knowledge intensive enterprise. It also promotes technology transfer and research commercialisation as well as the knowledge economy in areas dominated by traditional sector activity.

Some new **support services** have been developed in this area since last year. Ireland has launched a “*Technology Development Advisory Service*” which assists companies to develop new processes and products and promotes networking amongst private sector actors with expertise in innovation. Finland has launched a project to develop and extend the *business development and business incubator services* directed at technology and know-how driven business start-ups. It also gives *assistance in drafting a technology strategy* to an enterprise or a research unit. The assistance comprises of a free strategy guide, a database of consultants and funding.

#### **Denmark: Service institutes for technologically based knowledge**

In Denmark, the eleven institutes making up the Approved Technological Service Institutes (GTS) network develop and communicate technologically based knowledge to private companies and public institutions. Knowledge provided by the GTS network include areas such as biotechnology, energy and environment issues, electronics, acoustics, toxicology, building and industry, management and organisation, and standardisation.

The GTS institutes provide technological service for all types of companies, but have a special obligation to serve small enterprises. The GTS institutes have about 20 000 different customers a year. About 90% are SMEs.

The GTS institutes are independent, non-profit institutes authorised by the Minister for Science, Technology and Innovation. Basic grants are allocated on the basis of a strategy plan mapping out the technical or scientific areas in which the individual institute must build up competence.

Two new **tax schemes** have been introduced in this area. As part of its Innovation Plan, France has developed the initiative “*Aide aux projets de RD portés par les jeunes entreprises innovantes*” (Aid to R&D projects by young innovative businesses) which provides reductions in social security contributions and tax reductions to encourage R&D projects. Portugal provides a *fiscal reserve* for fixed capital investments or investments in innovation and development. The reserve consists of a 20% reduction of the company’s tax assessment.

### *Commission*

In April 2003 the Commission adopted the Communication “**Investing in research: an action plan for Europe**”<sup>65</sup>, which sets out actions required to ensure sustained and coherent progress towards the objective set by the Barcelona European Council to increase investment in European R&D to 3% of GDP by 2010. The Action Plan proposes that Member States consider setting targets for the participation of SMEs in their national R&D programmes. Other actions aim at improving access of SMEs to debt and equity financing for research and innovation activities through better use of national guarantee mechanisms, adapting where appropriate fiscal treatment of risk capital to avoid double taxation of investors and funds, strengthening or extending future guarantee schemes and risk capital activities managed by EIF, and promoting the use of technology rating to better appraise risks and rewards associated to investments in technology based SMEs.

The **Sixth Framework Programme for research, technological development and demonstration activities** (2002-2006)<sup>66</sup> (FP6) supports SMEs with respect to research, innovation and technology transfer by facilitating their collaboration with research institutions and other business partners, including large enterprises. The participation of SMEs in the priority thematic areas of the Integrating and Strengthening the European Research Area<sup>67</sup> specific programme of FP6 is strongly encouraged, with more than 15% of the budget aimed for SMEs, i.e. at least €1.7 billion. The monitoring of SME participation is being carried out by the SME Interservice Task Force, established in December 2002 and involving all Commission services responsible for the implementation of the priority thematic areas. One of its first actions has been to establish targets of SME participation per priority thematic area. New measures to facilitate SME participation wherever appropriate are being developed. Furthermore, several priority thematic areas have taken their own initiatives to this purpose, such as workshops and information seminars. RTD projects co-financed by FP6 may receive additional co-financing from the Structural Funds to reduce the level of financial participation by the entity benefiting from the project

**Economic and Technological Intelligence** is one of the activities under FP6 that supports SMEs with respect to research and innovation. The scheme provides funding for projects that may include, for example, technology audits to identify SME needs and direct SMEs towards

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<sup>65</sup> COM(2003) 226 final/2, 4.6.2003.

<sup>66</sup> 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.

<sup>67</sup> More information on the European Research Area at [http://europa.eu.int/comm/research/era/index\\_en.html](http://europa.eu.int/comm/research/era/index_en.html)

the appropriate instruments in FP6, or promote interactions among the innovation players. In 2003, 115 proposals were received. The projects will be specifically oriented to promote the participation of SMEs in the priority thematic areas. Participants are intermediaries working with or for SMEs and SMEs associations or groupings, such as National Contact Points (NCPs, see below), Innovation Relay Centres (IRCs, see below), SME incubators, industrial organisations, chambers of commerce and public administrations.

As to “**Horizontal research activities involving SMEs**” under FP6, the first call for proposals for **cooperative research**, closed in April 2003, had an indicative budget of €95 million. 668 proposals were submitted and around 60% of participants of eligible proposals submitted were SMEs. The first call for **collective research**, with a budget of €40 million, received 125 proposals. Collective research is a new scheme under FP6, following a pilot action under FP5, involving associations and groupings of SMEs that assign a significant part of science and technology research to RTD performers and retain the intellectual property rights of the results. The projects, which have important dissemination and training components, are expected to have significant impact on large communities of SMEs.

The **SME National Contact Point (NCP) network** is being closely involved through information and training events with respect to FP6 in order to ensure a coherent approach and high level of service. In April 2003, the network was informed of loan opportunities from the European Investment Bank (EIB) and the European Investment Fund (EIF) to SMEs participating in FP6. The Intellectual Property Rights Helpdesk (IPR Helpdesk)<sup>68</sup> also continues to give support to a large number of SMEs which are current or potential participants in European Community funded RTD projects.

In June 2003, the Commission presented the outcome of a project, carried out with the help of national experts from Member States, acceding, candidate and EFTA/EEA countries, on **enterprise clusters and networks** at a seminar in Copenhagen<sup>69</sup>. The project report gives an overview on how the participating countries and the Commission take into account clusters and networks in their policies, presents examples of good practices and provides experts’ recommendations to support cluster development. Identifying market failures and upgrading policies, providing cluster management infrastructure, developing links between research, university and industry and implementing appropriate education and training programmes were mentioned as key priorities at national and regional level. At the EU level, the report suggested that action should consist of raising awareness of the benefits and pitfalls of clusters for the regions and the SMEs, by providing a framework for exchange of experience, information and good practices and in reinforcing synergies between all areas of policy.

The **Innovation Relay Centres (IRCs)**<sup>70</sup> form the largest network in Europe, with 68 regional IRCs in 31 countries<sup>71</sup>, aimed at supporting innovation and transnational technological cooperation 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 IRC Network works together with the Euro Info Centres (EICs) and the Business Innovation Centres (BICs) under the ‘EU business support networks’ umbrella, “B2Europe”. It also works in collaboration with the IPR Helpdesk (see above) and Gate2Growth initiative (see heading 2.2.1). Furthermore, the two operational arrangements concluded in 2002 with the

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<sup>68</sup> <http://www.ipr-helpdesk.org/index.htm>

<sup>69</sup> [http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/cluster/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/cluster/index.htm)

<sup>70</sup> <http://irc.cordis.lu>

<sup>71</sup> EU Member States, the acceding countries, Bulgaria, Romania, Iceland, Israel, Norway and Switzerland.

European initiative EUREKA and the European Space Agency (ESA) for the promotion and dissemination of EUREKA and ESA RTD results through the IRC Network, have been implemented in the course of 2003. The IRCs are currently co-funded by FP5. The IRC Network will continue its operation within FP6<sup>72</sup>, and the new contractual phase will start in April 2004 for the IRCs which were selected following a call for proposals published in April 2003. Following an external evaluation, 71 IRC project proposals, involving 232 participants, were recommended for contract negotiations. These new IRC projects will run for a period of four years and will cover all 31 countries.

The **Innovating Regions in Europe (IRE) network**<sup>73</sup> offers regions a unique joint platform for collaboration and exchange of experiences and ideas on the development and implementation of regional innovation policies and schemes. The network is open to all European regions, including those in acceding and candidate countries, committed to the development of innovation. The network aims to create an inter-regional learning process for the formulation and implementation of regional innovation policies and support actions. It also seeks to promote trans-regional innovation projects and activities. Some 120 European regions have received support from the Commission for the formulation of regional innovation strategies by using a tried and tested approach to innovation policy-making at regional level. The IRE network continuously encourages and supports thematic and sectoral regional groupings. During 2002-2003, 14 IRE Thematic Networks have been supported, bringing together over 200 innovation stakeholders to facilitate the exchange of good practice on specific regional innovation policy topics such as clusters and networks, university-industry links and innovation in large metropolitan areas.

The work continues in the framework of the Best Procedure project on “**Improving institutions for the transfer of technology from science to industry**”, launched in autumn 2002. In addition to an expert group with delegates from the participating countries and the Commission, a study contract has been awarded, which also includes a survey of technology transfer institutions. The project covers various activities in the area of relations between industry and science, in particular issues on IPR, mobility of researchers and spin-offs. It will analyse the degree to which the incorporation of transfer mechanisms (institutions) has become common practice, develop a typology of such institutions and define framework conditions and factors which are important for their success. By applying benchmarking on the basis of qualitative and quantitative information and by identifying best practices, recommendations will be formulated on how to improve the presence, quality and efficiency of such institutions. The final report will be presented in the first half of 2004.

The Commission published the study “**Growth paths of technology-based companies in life sciences and information technology**”<sup>74</sup>. This study, conducted on behalf of the Commission with funding from the Innovation and SMEs programme, looks at the conditions which help as well as the conditions which hinder the development of high-tech companies in two key sectors, life sciences and information technology and includes a number of policy recommendations.

The **ProTon Europe network**, launched in 2002 as part of the Gate2Growth Initiative (see heading 2.2.1), continued its work to stimulate the commercial uptake of publicly funded R&D throughout Europe by further developing the professional skills of those working in this

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<sup>72</sup> Under the “Research and Innovation” activity of the specific programme “Structuring the European Research Area” of FP6.

<sup>73</sup> <http://www.innovating-regions.org>

<sup>74</sup> ISBN 92-894-4569-6, NB-NA-17054-EN-C, 2003, 156 p, [http://www.cordis.lu/innovation-policy/studies/gen\\_study10.htm](http://www.cordis.lu/innovation-policy/studies/gen_study10.htm)



field. ProTon is a pan-European network of technology offices linked to public research organisations and universities.

In May 2003, the Commission Staff Working Paper “**Building the Knowledge Society: Social and Human Capital Interactions**”<sup>75</sup>, developed with the support of ESDIS<sup>76</sup>, focused among other things on enterprise-related aspects such as networking, virtual corporations and communities of practices<sup>77</sup>. The report provided input for a Council Resolution on Social and Human Capital<sup>78</sup>, which calls on the Member States “*to encourage enterprises, particularly SMEs, also using the Structural Funds and abiding by the competition rules, in the adoption of innovative work practices such as networking, clustering, e-business and e-work*” and “*to harness the potential of organisational learning and knowledge management solutions to enhance both social and human capital in the enterprise and foster innovation and competitiveness*”.

The **eGap** project<sup>79</sup>, funded by the IST Priority (see heading 5 of the Annex) and by the project partners, is carrying out pioneering research on telework in SMEs in six countries<sup>80</sup>. The final report of the project is expected in mid 2004. The **MEDIA** programme supports pilot projects<sup>81</sup> aimed at improving access to European audiovisual content and at taking advantage of opportunities arising from the development and introduction of new and innovative technologies, including digitisation and new methods of dissemination. A number of projects are currently supported to define ways in which the audiovisual sector can benefit from new technologies.

**GALILEO**, the European satellite radio-navigation programme financed by both public and private funds launched in 2002<sup>82</sup>, will also lead to a new generation of universal services in sectors such as transport, telecommunications, agriculture and fisheries. The growth prospects of the products and services markets connected with satellite radio-navigation are considerable, and the programme will support the competitiveness of European businesses, including small ones, and contribute to conditions which are favourable for innovation.

### 2.3.2. *Conclusions and recommendations*

Strengthening the technological capacity of small enterprises is an area where the previous Charter implementation report considered the progress made to be encouraging but expressed the need for more exchange of good practice. **Further progress has been made** since the previous report, which is highlighted by the vast number of new measures recently introduced. For example, the Dutch *TechnoPartner* initiative and the Portuguese Innovation Agency are a signal towards better coordination of innovation programmes. Moreover, the Greek SME networking programme shows enhanced efforts to support technology cooperation between companies.

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<sup>75</sup> SEC(2003) 652, 28.5.2003.

<sup>76</sup> High Level Group on the **Employment and Social Dimension** of the Information Society - [http://europa.eu.int/comm/employment\\_social/knowledge\\_society/esdis\\_en.htm](http://europa.eu.int/comm/employment_social/knowledge_society/esdis_en.htm)

<sup>77</sup> Such as informal groups of engineers from around a company who come together to share ideas, identify best practices and brainstorm.

<sup>78</sup> 2512th Council meeting – Employment, Social Policy, Health and Consumer Affairs – Luxembourg, 2-3 June 2003.

<sup>79</sup> <http://www.egap-eu.com>; the article “Regulatory Framework and Telework in Some European Model Regions” provides interesting information on this topic: <http://www.egap-eu.com/egap/pdf/EGap02.pdf>.

<sup>80</sup> Finland, France, Hungary, Italy, the United Kingdom and Japan.

<sup>81</sup> [http://europa.eu.int/comm/avpolicy/media/pilot\\_en.html](http://europa.eu.int/comm/avpolicy/media/pilot_en.html)

<sup>82</sup> Council Regulation (EC) No 876/2002 of 21 May 2002 setting up the Galileo Joint Undertaking, OJ L 138, 28.5.2002, p. 1.

The problems of small enterprises to identify, select and adapt technologies are widely recognised. To tackle these problems, most Member States base their policies to a large extent on “**technology centres**”. However, small businesses are not always satisfied with the services of such centres as they do not necessarily respond to their needs.

Despite major improvements over the last years, **technology transfer** from science to enterprises has not yet become a central issue for publicly funded research organisations or universities. As always, there is no single good practice which all should follow. However, it is recognised that strengthening the cooperation and interaction between science and the business community is frequently the result of a combination of measures. The Danish service institutes for technologically-based knowledge, which have a special obligation to serve small enterprises, provide an interesting example of a structure well-adapted to SMEs. Moreover, the change in the Norwegian legislation giving the rights to a patent to the university and not to the researcher has resulted the Universities of Oslo and Bergen to set up their own technology transfer offices. In Ireland, the Shannon Development Network brings business, education and innovation together. For disadvantaged regions, technology transfer activities are extremely important.

- *Public policy could help “technology centres” to further develop their professionalism and adopt an attitude based on the needs of their customers by encouraging independent benchmarking and labelling. Public support for these centres should not lead to distortions of the market.*
- *Devising appropriate transfer mechanisms, establishing adequate transfer organisations and offering a sufficient range of respective services to enterprises should become general practice. This will require the adaptation of framework conditions governing the strategies and behaviour of research organisations, professionalisation of such services, and stimulation of SMEs’ acceptance of such services.*
- *Better integration and exploitation of synergies between the National (or Regional) Innovation Systems and the European Community initiatives on technology transfer such as the ProTon and the IRC Network, the ESA Technology Transfer Programme, the activities of the Joint Research Centre should be promoted and supported.*
- *Sector-based technology transfer initiatives involving users’ associations and specialised research departments should be promoted.*

**Inter-company contacts** are another important channel for the diffusion of innovation among small businesses. Encouraging the diffusion of excellence should therefore be of high policy priority. One of the advantages of these schemes is that they do not only demonstrate new technologies as such but also cover the efficient use of new technologies in a real world environment, including the organisational innovations that go with the introduction of such technologies.

- *Diffusion of innovation through inter-company contacts should be further encouraged.*

**Clusters** are often indicated as one tool to foster the innovation potential and competitiveness. The need for trans-national cooperation is particularly important for regional technology cluster initiatives. Despite the important trend toward this kind of policies in most Member States, these initiatives are not always based on a thorough and realistic analysis of the

potential of the region to become a player on European and international scale. Furthermore, there is no evidence of any systematic evaluations of cluster policies.

- *The creation of favourable framework conditions to improve the performance of clusters should be supported.*
- *Designing regional cluster policies should be based on the needs of the region and its SMEs, yet avoiding an isolated or “inward looking” approach.*
- *The development of appropriate evaluation tools to assess the achievements and results of clusters and the role of cluster policies in their development is recommended.*

The balanced **combination of cooperation and competition** (“co-opetition”) is recognised as an essential aspect of any innovation culture. This balance takes different forms depending on sectoral and national conditions. A positive attitude towards cooperation, both among companies and between companies and know-how providers, seems to be unequally distributed in Europe. This is a cause of concern because the European Innovation Scoreboard shows that innovation cooperation correlates with the overall innovation performance. While the culture of cooperation in innovation seems to be well-rooted in the Nordic countries, this is much less the case in Southern European countries. The recent policy initiatives of Italy and Greece in this domain should therefore be pursued with high priority.

- *Policies to foster cooperation among companies and between companies and know-how providers should be strengthened.*

The vast majority of national schemes to enhance **co-operative research and innovation** are still limited to national participants. Implicitly, this acts as an incentive for the participating enterprises to limit their scope of cooperation to national partners. This is counterproductive and does not help small businesses to grasp the opportunities of internationalisation. The German and Austrian schemes to facilitate trans-national cooperation are showing the way in the right direction.

- *Schemes for trans-national co-operative research and innovation should be encouraged.*

A number of countries implement policies aimed at increasing the **mobility of human resources between SMEs and science institutions**. The benefits of such mobility schemes for technology based start-ups are straightforward. However, it is less obvious for more traditional businesses to draw equal benefits from these schemes. One of the problems might be that many mobility schemes are strictly one-way and more oriented towards the needs of young graduates or doctoral candidates to whom they provide initial employment. The Commission has addressed this problem in the Communication “Researchers in the European Research Area: one profession, multiple careers”<sup>83</sup> and proposes to launch a series of targeted initiatives to exchange examples of good practice from all European countries and to disseminate them widely.

- *Mobility schemes offering senior engineers and scientists a part-time job as “visitors” or allowing them to diversify their activities at the end of their professional life could be useful for small businesses.*

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<sup>83</sup> COM(2003) 436 final, 18.7.2003.

Small businesses are often confused by the existence of competing and overlapping innovation support schemes and policies. The need for **policy streamlining** is particularly acute in countries where regional and national innovation policies are developed in parallel. National internet portals are a good remedy against such problems but there is a need for policy coordination already at the design stage. Many countries seem to be suffering from unclear or overlapping competencies of ministries and implementing agencies. Portugal tackled this problem recently with the creation of a National Innovation Agency. Other Member States are working on appropriate solutions that would fit their national traditions and requirements. The Finnish “Science and Technology Policy Council” is widely recognised as a model for policy coordination and stakeholders’ involvement.

– *Further streamlining of innovation support schemes and innovation policy is recommended.*

There is room for improving innovation policies to address the situation of millions of enterprises, notably small businesses that are not necessarily high-tech but need to adapt rapidly to changing market conditions. Measures to help SMEs in traditional sectors, also including services, to manage innovation, buy licences, equipment and software, absorb technologies, and measures to enhance interconnections of clusters from different locations are key to a more proactive contribution of innovation policies to competitiveness and growth.

Innovation policies in many countries still lack explicit, accountable and, where possible, **quantifiable policy objectives**. This is a major drawback for the **evaluation** of these policies. While the Commission initiative “Investing in research: an action plan for Europe”<sup>84</sup> significantly boosted the trend towards accountability in R&D policy, a similar drive still needs to be initiated in the area of innovation policy. The conditions for target setting in innovation policy will be enhanced by the availability of SME specific figures on crucial aspects of innovation under the Community Innovation Survey.

– *Member States should implement the request of the European Council to define national objectives in innovation.*

The Commission considers innovation and technology transfer an important political priority. The main contribution at EU level relates to trans-national networking and policy benchmarking. The potential for trans-national learning is particularly strong in the area of policy design and policy evaluation. European quality guidelines for policy evaluations could be of help. The forthcoming “Innovation Action Plan” will develop in greater detail the adequate response to the policy challenges outlined above.

#### **2.4. Develop stronger, more effective representation of small enterprises’ interests at Union and national level**

*“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 two latest Charter implementation reports emphasised the need for better representation of small business’ interests and stressed that Member States and the Commission have to speak to small businesses first, to be able to think small. Otherwise, the voice of the bulk of European business is lost.

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<sup>84</sup> COM(2003) 226 final/2, 4.6.2003.

Small businesses can be consulted in many different ways. Consultation may take place, for example, directly, via business organisations, via the Internet, through sample surveys, business panels, meetings, expert groups, “envoys”<sup>85</sup> or specific Ministries. The social dialogue also provides a framework for consultation, permitting the voice of small businesses to be heard together with the voice of the employees of these businesses. Furthermore, consultation of the business community on initiatives and legislative proposals affecting small businesses can be arranged either on an obligatory or on a voluntary basis.

It is of utmost importance to consult businesses on new legislative proposals and on the application of current rules in order to better identify their impact. One way of ensuring that legislation does not create unnecessary additional burdens and costs is to perform systematic and structured impact assessments for legislative proposals. Another way is to test draft legal acts in small businesses (business test panels).

The stage of the decision-making process at which consultation takes place is also an issue of major importance. Consultation at a very late stage will not do much to contribute to better representation of small businesses’ interests.

Another important issue where practices differ is the analysis and use of the responses or opinions from small businesses. Sometimes the results are published, and sometimes there is even an obligation to provide feedback to businesses.

If contacts are via the business organisations, it is also important for the national authorities to know how the internal consultation with the member enterprises of these business organisations functions. They need to know this to be able to assess how far these business organisations reflect the interests and concerns of small enterprises.

Finally, systematic consultation mechanisms need to be ensured also in policies other than enterprise policy which affect small businesses, e.g. employment, social affairs, environment, trade, culture and education.

Last year’s Charter report, as well as the report of the previous year, underlined that regular consultation of small businesses in legislation and policy making remained weak across the EU. Very few Member States had reported developments in this field. However, performance was found to be rather uneven and the report suggested that some countries were performing well as regards systematic consultation of small businesses. Member States were urgently recommended to provide opportunities for small businesses to voice their interests in legislation and policy making in a systematic way.

#### *2.4.1. Recent developments*

##### *Member States*

The main new **measures to take SME opinions onboard** since the previous implementation report are described below.

Denmark has evaluated its *business test panels* which have now been improved in order to strengthen their ability to provide qualitative recommendations and to find alternative ways to regulate. It has also developed checklists for lawmakers to raise awareness of the needs of companies at an earlier stage in the law making process and to ensure that the interests of businesses have been taken into account.

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<sup>85</sup> Specific contact person or office in public administration looking after SME related issues.

The Greek “*e-Business Forum*” is a permanent mechanism for the state to consult the business and academic community on e-business issues. The forum has now established a website at [www.ebusinessforum.gr](http://www.ebusinessforum.gr). The website provides information on the forum’s work and on trends and developments in e-business in Greece and in other countries.

France has further increased the dialogue between the public administration and the business organisations. This has resulted in the setting of common objectives, in particular in the *framework agreement* signed between the Department of Enterprises (DECAS) and the Assemblée des Chambres Françaises de Commerce et d’Industrie. Furthermore, the Secretary of State for SMEs has opened an *internet site* allowing direct dialogue between himself and those interested in business creation.

In Italy, consultation of SMEs has been consolidated in the decision making system for many years. However, three new measures have recently been set-up. With regard to industrial property, an *expert in industrial property* for small enterprises has been appointed at the Italian Patents and Trade Marks Office (UIBM) and regular meetings with business organisations are held. In addition, the chambers of commerce have introduced *area development schemes* based on a consultative model bringing together public and private bodies and local manufacturers. The Ministry of Productive Activities has also organised a group to bring together representatives from the relevant departments and small business organisations to develop *new support initiatives* for SMEs.

To facilitate contact with the public administration, the Netherlands has established *contact points* for the two main business organisations in the Ministry of Economic Affairs.

#### **Sweden: Committees of Inquiry preparing legislation**

The Swedish Government regularly appoints Committees of Inquiry to investigate complicated issues, on the basis of specific terms of reference. The Committees work independently and their findings are presented in a report. The Committees of Inquiry often organise their work to make sure that all parties concerned are involved, for instance in expert groups and hearings. The Committees are under obligation to perform an impact assessment if their proposals have a significant effect on small business. The impact assessment is included in the report.

The legal proposal or policy proposal from the Committee of Inquiry is sent out by the Government for consultation to all parties concerned, normally for three months. The written answers from the parties concerned are in most cases summarised into one document, which is public although not published on the Internet. The written answers from organisations, public bodies and private persons are also public.

When a proposal is sent out for consultation, organisations often contact the responsible Ministry directly, asking for meetings with politicians and civil servants. Such requests are almost always granted. On some occasions, the Government also uses hearings, often in addition to the circulation of documents.

On the basis of the results of the consultation and the report, the Government prepares its legal proposal, which is submitted to the Parliament. The proposal is accompanied by the preparatory texts to the proposal. The result of consultation is published in this text, presenting all parties’ views together with a reasoning of why some views have been taken into account and others have not.

In the United Kingdom, the Department of Trade and Industry has introduced an element of *corporate leadership* through the setting up of a Strategy and an Executive Board, as well as Group Boards reflecting the main strategic areas of the department. A team of independent members drawn from business, union and academic backgrounds serve on these boards, offering independent expert advice on how the department can work more effectively.

### **The Netherlands and the UK: Exchange programmes between officials and SMEs**

The Dutch Ministry of Economic Affairs started, in January 2003, together with two business organisations and two employers' organisations a *traineeship programme* in which the policy advisors of the Ministry spend one or two weeks in an enterprise. The aims of the programme are to raise the policy advisors' awareness of the impact of policy initiatives to the business reality, to give the companies a better idea of how the government works and to provide the companies an opportunity to provide input at an early stage of policymaking.

In the United Kingdom, all senior officials in the Department of Trade and Industry are, since 2003, required to spend at least *one week each year in a business*. Middle ranking officials are also encouraged to spend at least one week in a business during each posting. Most officials have chosen to spend time with an SME.

### *Commission*

#### **Commission: SME Envoy**

Listening more to SMEs was the main motive for the designation of an SME Envoy, within the Commission's Enterprise Directorate General, two years ago. Indeed, the role of the SME Envoy is to better integrate the SME dimension in EU policies, listening to SMEs and their representatives and highlighting their concerns to the different Commission services.

Progressively, the SME Envoy has acquired good visibility, and this function is now well known in the SME business community. The SME Envoy acts as a proactive interface between SMEs and the Commission, through regular contacts with European and national business organisations. Further development of contacts with SME business organisations, entrepreneurs themselves, and other stakeholders are taking place, in particular in the acceding countries.

These contacts are useful for considering the specific interests and needs of SMEs in EU policies, and they will be pursued. Among the issues that arise most often are access to finance, skills shortages, regulatory burdens, quality of business support and the functioning of the internal market. Some other concerns are even more specific, e.g. in relation to a specific directive or regulation, and have implied focused contacts with other Commission services. This is, for example, the case for the proposal on the registration, evaluation and authorisation of chemicals. Employment legislation is another example with the review of the working time directive and the protection of workers' personal data.

At the same time, the SME Envoy has looked at a number of EU programmes particularly relevant to SMEs, with the objective of maximising SMEs' participation. Involvement has been particularly important as regards research and regional policies.

Cooperation with other Commission services has been increased through the constitution of an SME network inside the Commission. This inter-service network has proved itself to be a useful tool to increase the awareness of SME needs inside the Commission and to improve coordination on SME issues. The SME network is progressively becoming the main tool for

coordination of SME policy in the Commission, and contributing to the development of an ‘SME friendly’ approach for all relevant EU programmes and initiatives.

The SME Envoy also contributed to improving the visibility of information for SMEs through publications, presence at SME events, press articles, etc. He has dealt with many queries from SMEs, trying to provide them with specific information and, when needed, to facilitate their contacts with other Commission Directorates-General.

**A Best Procedure project on Consultation of Stakeholders in the shaping of small business policy at national and regional level** was launched in autumn 2003. The project will examine the current situation, including how the consultation is organised in different countries. Indicators for monitoring of progress will be developed and good practices identified. Recommendations and policy measures for increasing the involvement of stakeholders in the consultation process will also be proposed. Final results are expected in early 2005.

Following the Commission’s commitment in the Better Regulation Action Plan of June 2002 (see heading 3 of the Annex) to improve stakeholders’ participation in its consultations, the Commission adopted in December 2002 the Communication “**Towards a reinforced culture of consultation and dialogue – General principles and minimum standards for consultation of interested parties by the Commission**”<sup>86</sup>. The minimum standards state, among other things, that when defining the target groups for a consultation, the Commission should take into account the need for a proper balance between the representatives of large and small organisations or companies and also strive to allow at least 8 weeks for written public consultations. Accessible via the portal “**Your Voice in Europe**”<sup>87</sup>, the Commission’s single access point for all public consultations, there have been (or are currently running) some 30 open public consultations since January 2003.

In February 2003, the Enterprise Directorate-General of the Commission upgraded its pioneering stakeholder consultation web pages (running since July 2001) to include all consultations related to enterprise policy, as well as all regular enterprise dialogues, stakeholder groups and meetings. It also offers a link to a web page listing the major EU events of interest to businesses and professional organisations. The new multilingual entry page called “**Enterprise DG in dialogue**”<sup>88</sup> also gives direct access to “Your voice in Europe”. As a result businesses can now easily access, via these sites, all consultations related to policy actions likely to affect them. This should particularly benefit small enterprises that normally have less time and resources to inform themselves of such initiatives than do larger firms.

The **Interactive Policy Making (IPM) initiative**<sup>89</sup> consists of two internet-based instruments which enable small enterprises, amongst others, to bring their needs, opinions, views and problems to the attention of policy-makers. The **IPM Feedback Mechanism** is a large database used by the Commission and the encoding intermediaries, Euro Info Centres (EICs) being the intermediaries for SME related matters. Cases are collected on a regular basis and in a structured way, in order to obtain concrete knowledge of existing problems and difficulties that stakeholders experience when exercising their Internal Market rights in the widest sense. During 2002, major technical and structural improvements were made and the networks

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<sup>86</sup> COM(2002) 704 final, 11.12.2002.

<sup>87</sup> [http://europa.eu.int/yourvoice/index\\_en.htm](http://europa.eu.int/yourvoice/index_en.htm)

<sup>88</sup> <http://europa.eu.int/comm/enterprise/consultations/index.htm>

<sup>89</sup> <http://europa.eu.int/yourvoice/ipm/>



encoding the cases were enlarged. From January to early September 2003, 1077 cases were reported by small enterprises<sup>90</sup>. Regular detailed analysis on specific topics began in July 2003, the first topic being the area of mutual recognition of non-harmonised products. Subsequent analyses will include difficulties in e-business and e-commerce. During 2002, some EICs organised special conferences and published papers or leaflets in order to address an information deficit that became apparent through the mechanism. In October 2003, the EIC Annual Conference also discussed how to better use the results. Collaboration between the EICs, their host structures, the Member States and the Commission can improve the position of small enterprises. The Commission regularly checks and monitors the use of the results and also elaborates models for best practice. Through the use of the second IPM instrument, the **IPM online consultations**, all Commission services can create structured, Internet-based questionnaires. A structured questionnaire enables Commission services to obtain up-to-date and statistically valid consultation results. The aim of this new type of consultation is to work more efficiently, quickly and easily with the opinions collected. Both tools are promoted through “Your Voice in Europe”.

In May 2003, the Commission appointed new members for the **Professional Chamber of the Enterprise Policy group (EPG)**, a high-level advisory board with experts from the business community – mainly SMEs, trade unions and academics. The chamber was enlarged from 35 to 45 members and now includes 11 experts from the acceding countries. Since November 2000, the two sections of the EPG (Professional Chamber and Directors-General responsible for Industry and SMEs in the Member States) advise the Commission on all major enterprise policy initiatives. The Commission also continued to hold **regular meetings with European business organisations**, with particular emphasis on those who represent SMEs and have a horizontal approach.

The newly established **European Business Test Panel (EBTP)** has been created to consult up to 3 000 businesses drawn from six major sectors<sup>91</sup> in the national economies and includes 1 288 small enterprises. The EBTP complements other forms of consultation, having the distinct advantages of providing quick access to business opinions and being representative of a pan-European view.

In 2003, in the framework of the Pilot Action of Excellence on Innovative Start-ups, PAXIS<sup>92</sup>, the **SUN&SUP** measure was launched. This is a double network representing the European start-up community, one network consisting of start-up representatives and the other of start-up service providers. The two networks will work together to improve key services at the European level. They will also provide the Commission with recommendations on the establishment of a “voice of the European start-ups”.

The contractor charged by the Commission services with providing information to SMEs and crafts businesses on standards, certification, quality and norms and with organising **SMEs’ participation in the standardisation bodies** at national, European and international level

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<sup>90</sup> Including self-employed; corresponding to 23% of the total number of cases reported by enterprises of all sizes. In the period 2000-2002, some 23 900 cases from small enterprises, including self-employed, were collected, corresponding to about 65% of the total number of cases reported by enterprises of all sizes.

<sup>91</sup> Manufacturing, construction, wholesale and retail trades, transport and communication, financial intermediation and other services.

<sup>92</sup> <http://www.cordis.lu/paxis/>

will continue the work until July 2004, following the renewal of the service contract made in 2003<sup>93</sup>.

Some of the many other examples of Commission services' consultation involving small businesses include the public consultation organised in October 2003 as part the mid-term review of the **eEurope 2005 Action Plan**<sup>94</sup>, and ad hoc consultations on proposals concerning taxation, such as the consultation on the "Home State Taxation" pilot scheme for SMEs (see heading 7 of the Annex)<sup>95</sup>.

The European Association of Craft, Small and Medium-sized Enterprises, UEAPME<sup>96</sup>, is listed in the annex to the 2002 Commission Communication on the **European Social Dialogue**<sup>97</sup> as one of the organisations to be consulted under the terms of Article 138 of the Treaty. In the **bipartite dialogue**, the concerns of Europe's SMEs have continued to be taken into account during 2003, through the inclusion of UEAPME to the European inter-professional social dialogue. As a signatory party to the inter-professional social partners' joint multi-annual work programme 2003-2005<sup>98</sup>, UEAPME has played a full role in the implementation of the measures foreseen for 2003, including the updated Joint Declaration on Workers with Disabilities, the first annual report on the implementation of the framework of actions for the lifelong development of competencies and qualifications, the seminars on mobility, stress and gender equality, the work on restructuring which resulted in a joint text submitted in October and the negotiations on stress at work which began in September. Also at sectoral level, representatives of SMEs are involved in the social dialogue. As to the **tripartite dialogue**, UEAPME and representatives of its member organisations have participated as part of the employers' delegation in the Tripartite Social Summit. UEAPME has also continued to take part in the concertation processes on employment, macro-economic issues, employment and education and training at European level. In addition, a number of projects funded by the Commission in the area of "**Industrial relations and social dialogue**" are being promoted by or involve the participation of small enterprise organisations at national and regional level.

#### 2.4.2. *Conclusions and recommendations*

Consultation of small businesses is an area where the previous Charter implementation reports have found a dividing line between those countries that systematically consult small businesses and those that do not. While the number of new initiatives taken in this area is limited, **some encouraging developments** have nevertheless been observed in the last year. For example, the exchange programmes between SMEs and public administration officials in the Netherlands and in the United Kingdom provide a rather innovative model. Furthermore, the recently established National Competitiveness and Development Council in Greece and the enhanced dialogue with business organisations in France demonstrate increasing efforts in this area.

On the whole, the general descriptions on small business consultation in the national Charter implementation reports show that several countries have well-established systems in place.

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<sup>93</sup> This applies to a limited number of standards;

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

<sup>94</sup> Communication from the Commission, "eEurope 2005: An information society for all", COM(2002) 263 final, 28.5.2002, [www.europa.eu.int/information\\_society/eeurope](http://www.europa.eu.int/information_society/eeurope)

<sup>95</sup> [http://europa.eu.int/comm/taxation\\_customs/taxation/consultations/home\\_state\\_sme.htm](http://europa.eu.int/comm/taxation_customs/taxation/consultations/home_state_sme.htm)

<sup>96</sup> A body representing some 7 million SMEs and craft enterprises across the EU.

<sup>97</sup> "The European Social Dialogue, a force for innovation and change", COM(2002) 341 final, 26.6.2002.

<sup>98</sup> Available at [http://europa.eu.int/comm/employment\\_social/soc-dial/social/index\\_en.htm](http://europa.eu.int/comm/employment_social/soc-dial/social/index_en.htm).

There is a **wide array of consultation mechanisms** used by the Member States and Norway ranging from mandatory to informal consultation, from regular contacts to consultation on specific issues and from permanent structures to specific meetings. **Observatories** or other systems of regular collection of SME opinions, as mentioned by Greece, Spain, the Netherlands and Austria this year, also seem quite common. One way to facilitate contacts between public administrations and SMEs is to appoint a specific **SME Envoy**. Germany with its *Federal Government representative for SMEs* still appears to be the only country that has established one.

The consultation mechanisms vary from country to country according to national circumstances. On one hand, the regulated mandatory permanent structures, e.g. at federal level in Belgium and Austria, seem to render good results, but they might be difficult to copy into other countries. On the other hand, the strong informal consultations, e.g. in Ireland, also seem to be effective for feeding SMEs' concerns into the political decision-making process. Only by allowing businesses to have a say in policy making early on is it possible to genuinely ensure that new policies are useful for small businesses.

One of the key actions of the Entrepreneurship Action Plan, the **Best Procedure project** on Consultation of Stakeholders in the shaping of small business policy at national and regional level, will allow a more thorough analysis of the situation in the different countries.

- *Regular meetings between specific SME contact points or ministries and business organisations are needed to maintain a constant exchange of information and receive input. This should be combined with specialised hearings, internet or other consultations or expert groups.*
- *Consultations should take place at the earliest possible stage.*
- *The identification of general opinion trends among small enterprises and conducting statistically meaningful surveys on concrete political issues are recommended.*
- *Member States and Norway are invited to contribute actively to the Best Procedure project on Consultation of Stakeholders in the shaping of small business policy at national and regional level.*

Many countries report on having regular meetings with business organisations. However, one should bear in mind that such meetings are only useful if there is a **two-way flow of information** between the business representatives and the public authorities. Ideally, business organisations should also be able to participate in the setting of the agendas of these meetings in order to avoid a too limited choice of issues to be discussed. Otherwise, issues of major concern for businesses but which are not necessarily seen as something on which to consult businesses, for instance trade issues, environmental issues, education, services of general interest or infrastructure questions, may be left out of the agenda.

- *Meetings with business organisations should allow for a proper dialogue.*
- *Business organisations should have influence on the topics to be discussed.*

In order to ensure substantial input from enterprises and that this input is properly taken into account, the number and scope of consultations must be matched by **sufficient analytical capacities** in the public administration. The publication of opinions of the business community or the results of consultations or other tools such as regulatory impact assessments

contributes to transparency and ensures that the opinions are actually taken onboard. This is already the case in some countries such as Luxembourg, Finland, Sweden and Norway.

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| <ul style="list-style-type: none"><li>– <i>Public administrations should ensure that they have sufficient human resources to analyse the results of the consultations.</i></li><li>– <i>Publication of the results of consultations is recommended.</i></li></ul> |
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The Commission puts a strong emphasis on improving its dialogue with small businesses. The adoption of the general principles and minimum standards for consultation is a step in this direction. The “Entrepreneurship Action Plan” with its “Listening to SMEs” key action foresees further ambitious work to this end.

## ANNEX

### SUMMARY OF NATIONAL REPORTS AND COMMISSION ACTIVITIES IN THE OTHER CHARTER AREAS

#### 1. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP

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

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

##### *Indicators and targets*

The United Kingdom has set the target of raising the number of people considering going into business. The final report of the new project on education and training for entrepreneurship (see below in the section on Commission activities), coordinated by the Commission, proposes a number of indicators suitable for targeting.

##### *Member States*

Most of the new measures in **secondary education** involve closer cooperation with local enterprises. Denmark is encouraging *partnerships with enterprises* on a contractual basis, e.g. for concrete projects in connection with the final exams, in-service training and job-swap opportunities for teachers. France has launched a *School-Business Week* to develop cooperation between enterprises, the educational world and pupils. In Ireland, an *enterprise education initiative* has been developed by Celtic Enterprises<sup>99</sup> to allow students an opportunity to experience entrepreneurship at first hand and, in Italy, the new “*Law reforming the education and training system*” enables secondary level students above the age of 15 to complete second-cycle studies as part of a work-study scheme. Finally, Norway has launched a new programme called “*Pupils Enterprises*” aimed at 13-16 year olds in lower secondary schools.

Other initiatives at secondary level include the Austrian “*Package of teaching materials’ for entrepreneurship education*” which will be made available to all Austrian secondary schools in the 2003/2004 academic year both as a hard copy and as a CD-ROM. The United Kingdom is making £60 million (ca €85 million) available to secondary schools in 2005-2006 to support the delivery of enterprise learning. In addition, Enterprise Advisers will work with 1000 secondary schools in deprived areas to help deliver the enterprise entitlement, to provide advice to head teachers on improving links with business, and to encourage the use of enterprise techniques in school management.

Concerning **secondary education at regional level**, the Flemish and the French communities in Belgium have introduced entrepreneurship in secondary education. Moreover, the

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<sup>99</sup> A partnership set up between County Enterprise Boards in the South East and development organisations in West Wales.

autonomous region of Asturias in Spain has launched the “*Empresa joven europea*” (Young European Enterprise) educational programme in the 2003-2004 academic year.

Regarding **university level**, Belgium has established a *Chair in Entrepreneurship* at the Solvay Business School to foster entrepreneurship among future graduates. The Danish Action Plan for Entrepreneurship proposes to establish an *MBA in entrepreneurship and innovation* and an education for researchers of entrepreneurship and innovation management. In addition, Denmark has launched an “*Entrepreneurial Barometer*” to monitor the entrepreneurial activity and awareness among students. Based on the results, a reward is given to the *entrepreneurial university of the year*. In the United Kingdom, the “*Enhancing Student Employability Coordination Team*” has been set up to encourage the embedding of work-related skills more widely across higher education. The Norwegian School of Entrepreneurship is developing a two-year *Master’s degree in Entrepreneurship*.

Many new initiatives have been taken to encourage **commercialisation of business ideas** and **better links with businesses at university level**. Belgium has created an *Entrepreneurship Centre* at the Université Libre de Bruxelles to support and promote the creation of companies by members of the university community and by identifying “dormant” projects run by teams of research workers and students. The Danish government supports *partnerships* between universities and organisations promoting entrepreneurship. Ireland has worked intensively during the last year with the Third Level Educational sector to improve the systems and procedures by which research is commercialised. In particular, it has supported *academic entrepreneurship courses* in two colleges. In addition, a national *IBEC Business Education Links Scheme* is under way in over 100 schools in Ireland. The programme strengthens the links between businesses and second level schools to provide students with learning experiences that prepare them to play an active role in the world of work and enterprise. Finally, Italy has introduced two-year postgraduate courses applying a new teaching method of *business simulation* at schools. The courses are offered by the schools in cooperation with local businesses.

At **regional level** in the United Kingdom, the “*Young Enterprise Graduate Programme*” is being introduced into 13 further education and higher education institutions across Wales to enable students to experience setting up and running their own company. It is designed to develop attitudes and skills necessary for personal success, lifelong learning and employability and to enable students to consider self-employment and business creation as future career options. To date 56 students have set up 15 companies in 8 institutions across Wales.

Some of the new measures cover **all levels of education**. Denmark has launched an *Action Plan on entrepreneurship* which includes measures for education and training at all levels. The French Secretary of State for SMEs and the Minister for National Education have signed a *protocol agreement* to develop entrepreneurial spirit in education. Spain has introduced entrepreneurship as an objective to be achieved in every single stage of education. In addition, a series of supporting materials have been prepared. These include a teacher’s guide and a pack of material called “*Laboratorio empresarial*” (Business Laboratory), which teaches in a simple and fun way how the market economy operates. At **regional level**, Wales in the United Kingdom has established an *Action Plan for Entrepreneurship* which aims at inspiring a new generation of entrepreneurs. Northern Ireland has also set up an *Entrepreneurship and Education Action Plan* which aims at integrating entrepreneurship and education.

During the past year, some new **entrepreneurship competitions** have been launched. Greece has introduced an *Annual National Competition for Innovative and Pioneering Business*

*Plans.* The competition is targeted at students from vocational training institutes, universities and technical colleges. Since 2002, Austria's simulated business enterprises have had the opportunity of taking part in an *annual quality competition* and of acquiring the ÜFA quality symbol. In the United Kingdom, BBC's Tomorrow's World Live Show in conjunction with the Young Foresight initiative<sup>100</sup> ran a national competition for young people to *design products for the future*. Over 300 schools participated and some of the designs have already been patented and are expected to hit the market in 2004.

With regard to **information and research on entrepreneurship education**, as part of the Action Plan "*Plan 4x4 pour entreprendre*", the Walloon region of Belgium has established the "*FREE Foundation*" to carry out entrepreneurship research and to coordinate all the actions in the Action Plan. Denmark is planning to set up an Internet based portal for entrepreneurship in education. It will gather examples of good practice and other relevant material as well as provide a discussion forum for teachers. Denmark is also running a road show consisting of multimedia presentations and workshops to raise awareness at upper secondary level. As part of its one-stop-shops for young people (Youth Entrepreneurship Counters), Greece is setting up a *Young Entrepreneurs Observatory* ([www.paratiritirio.gr](http://www.paratiritirio.gr)). The Observatory will carry out research on entrepreneurship to be able to provide guidance to young people interested in starting their own business.

#### **France and the Netherlands: Promoting good practices in education for entrepreneurship**

The consultative Commission on 'Entrepreneurship and Education' in the Netherlands, set up in 2000, aims to promote pilot projects and to collect good examples that can be easily copied by other educational institutions, from primary to university level. Financial support has been provided by the Ministry of Economic Affairs for the development of learning methods and materials, and for other activities such as seminars and teachers' training. In the period 2000-2002, more than 130 entrepreneurship projects were subsidised, at all education levels. The current strategy is focussed on how to spread these pilot projects to other schools. New in this approach is that the national authorities work together with the project leaders, since they are the ones who know best about the work in practice and the organisation needed, for example how to reach concrete integration in the curricula and how to get commitment of other parties, including businesses. Practical guides for the schools are being prepared. There will also be a 'marketing' step, so that the projects can be disseminated as ready- or tailor-made modules or programmes. In the first phase, good practices are being promoted in vocational and higher education. Depending on the results achieved, the same exercise will take place for primary and secondary education in 2004.

In France, the *Observatoire des Pratiques Pédagogiques en Entrepreneuriat* (Observatory of Educational Practices, OPPE) was set up in 2001 on the initiative of the Ministry of National Education, Ministry of Research and the Ministry of Economic Affairs, Finance and Industry, with the help of the Agency for business creation (APCE). It aims to record and promote the measures carried out and the main pedagogical tools used at all levels of the educational system in the field of entrepreneurship and to promote the exchange of good practice and create synergies between the various players. The focal point of the Observatory's work is a national database, which in time will include all levels of the education and training system: primary, secondary, higher and continuing education. In April 2002, an Internet site was

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<sup>100</sup> An initiative to help 13-14 year-olds design and develop a product of the future with the support of trained teachers and over 1000 mentors from the business community.

launched, <http://www.entrepreneuriat.net>, providing free access to the database and a number of resources concerning training in entrepreneurship. The site, which was visited 41 000 times between April and December 2002 is expected to record 150 000 visits in 2003. The Observatory has focused on cataloguing measures carried out in higher education and implementing, together with the Ministry of Education, the survey on secondary education. It has further focused on improving the Internet site, disseminating the work carried out and drawing up methodologies for the assessment of measures.

### *Commission*

A **follow-up to the 2001 Best Procedure project on education and training for entrepreneurship**<sup>101</sup> has been implemented during 2002-2003, aiming in particular to identify a possible methodology for achieving concrete and measurable progress in this area. The final report highlights policy measures and strategies that will make it possible to move forward and proposes actions to be implemented at various levels in a European context. Conclusions stress that concrete action should start from well structured cooperation between different departments in the national administrations, and that measures of active promotion and support are needed as schools and teachers have a large degree of autonomy.

In the meantime, a **new Best Procedure project** has been launched, focusing on programmes in secondary school based on students running **mini-companies**. These schemes are well developed in a number of countries and can offer an important contribution to the promotion of entrepreneurial abilities in young people. Final results of the project will be available in early 2005.

The **work programme on the future objectives for education and training systems in Europe**<sup>102</sup> calls for education and training to provide an understanding of the value of enterprise as well as models of successful entrepreneurship. A working group has proposed to include entrepreneurship in eight domains of key competencies considered necessary for all in the knowledge based society. It has adopted a broad definition of education for entrepreneurial attitudes and skills, covering the development of certain personal qualities such as the ability to manage one's own learning and strong interpersonal and social skills, and has emphasised the need for a growing awareness of entrepreneurship as a possible career option.

The “**Entrepreneurship Education Toolkit**”, developed by the European Private Equity and Venture Capital Association (EVCA) with the support of the Commission's Gate2Growth Initiative (see heading 2.2.1), continues to be disseminated in institutions for higher education and, with the support of the Commission, is being translated into Dutch, Italian, Spanish, French and German.

The project on **management capacity building**, launched in 2002 with participation from both Member States and candidate countries, is expected to produce a final report in early 2004, taking stock of the situation regarding the degree of take-up of management training by SMEs and heads of SMEs. The findings will serve as an input to the policy-making of adult training for entrepreneurship.

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<sup>101</sup> [http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/training\\_education/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/training_education/index.htm)

<sup>102</sup> Council document 6365/02, 20 February 2002. The work programme was welcomed by the European Council in Barcelona on 15-16 March 2002.



In 2003, the **Gate2Growth Finance Academia**<sup>103</sup> was launched with the support of the Commission. This network aims at building and supporting a truly open pan-European network of academics, researchers and scholars and to become the reference in Europe for the support, generation and dissemination of academic research and teaching at the cross-links of entrepreneurship, innovation and finance.

## 2. CHEAPER AND FASTER START-UP

*“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.”*

### *Indicators and targets*

Spain, Ireland and Portugal have set quantitative targets to decrease the time needed to set up a company. **Spain** aims to reduce start-up time by 50% by 2006 to 42 days, **Ireland** aimed for 3 days by mid 2003 and **Portugal** for a 50% reduction by 2003 to some 5-12 days. In addition, **Portugal** wants to decrease the time needed to obtain an industry license by 50%, to 75 days, by 2004.

### *Member States*

To reduce the **costs** for business start-ups, Germany exempts start-ups from subscriptions to the Chambers of Commerce and Industry and to the Chambers of Crafts and Trade for the companies’ first four years of existence.

Since the previous report, several countries have introduced measures to **simplify the procedures and reduce the time for starting up a business**. Belgium has created the “*Banque-Carrefour des Entreprises*” (BCE) / “*Kruispuntbank voor Ondernemingen*” (KBO), a central business registration body, and *one-stop-shops for business registration*. The BCE/KBO receives information from the one-stop-shops and stores it centrally for the use of all services of the public administration. It also gives each company a single identification number. The creation of the BCE/KBO, the one-stop-shops and the single identification number will reduce the time to set-up a company registration and minimise the administrative formalities.

The Danish Central Customs and Tax Administration has announced that as of 1 May 2003 the processing time regarding registration and amendments should last a maximum of three working days. It has also developed an interactive handbook containing information about registering called “*Registreringsguide*” at [www.toldskat.dk](http://www.toldskat.dk).

Germany has introduced the initiative “*Bürokratieabbau*” (Bureaucracy Reduction Initiative) which among others, aims at shortening the registration time for start-ups. It is also amending the Crafts Code so that for “*simple activities*” the master craftsman’s diploma or certificate is no longer required<sup>104</sup>. Greece has introduced several improvements to facilitate start-ups.

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<sup>103</sup> <http://www.gate2growth.com/FinanceAcademia.asp>

<sup>104</sup> The German Confederation of Skilled Crafts (ZDH) in their written comments expressed strong doubts about the effects of the amendment of the Crafts Code. They were also of the view that, although an ambitious proposal at the outset, in the end the Small Business Act of which the amendment of the Crafts Code forms a part, has marginal effects only, affecting a limited proportion of small enterprises.

Businesses only need to file *one declaration for starting activities* and the time for starting-up has been reduced from one week or one month depending on the type of business to half an hour.

### **Spain: Drastic reductions in the time to register a company and online registration**

The “*Nueva Empresa*” (New Enterprise) project, [www.circe.es/portal](http://www.circe.es/portal), launched by the Spanish Directorate-General for SME Policy, includes a legal status for a new type of limited liability company, specifically adapted to very small enterprises. Available since 1 June 2003, it ensures that personal and business assets remain separate. The project includes simplified administrative procedures, a simplified bookkeeping system, as well as an advantageous financial and tax framework. In addition, advice and services will be provided to entrepreneurs through the Information Centre and Business Creation Network (CIRCE), comprising of a network of Advisory and Procedure Initiation Points (PAIT).

An electronic document, the Single Electronic Document (DUE), includes all the elements for setting up companies under the New Enterprise status. DUE allows for new businesses to be created in 48 hours and considerably reduces the number of forms to be filled in. Businesses can currently be created electronically, by accessing CIRCE’s Electronic Processing System<sup>105</sup>, in the pilot autonomous regions of Madrid, Murcia and Valencia. It is foreseen to extend the CIRCE network to the other autonomous regions by signing collaboration agreements with various organisations (Development Agencies, Business Associations, Chambers of Commerce, etc.).

According to information from Spain, the average time taken between the first visit to the PAIT and completion of the electronic process, including prior advice and actual processing, has been 8.53 days (including weekends and public holidays) and the processing time from the appointment with the Notary to registration in the Trade Register has been 57.6 hours (excluding weekends and public holidays). Furthermore, through the personal, non-electronic procedure available since 2 June 2003, 1 181 company name reservation certificates had been issued with 534 companies registering by 23 October 2003. The average time taken between the issue of the company name certificate and the registration of the company in the Provincial Trade Register is 15 days, compared with the 30 to 60 days in the past.

According to this information, the Spanish target to reduce start-up time by 50% to 42 days by 2006 seems to have been by far exceeded already.

In keeping with the example set by Spain, Austria is developing an infrastructure for *accelerated registration of business start-ups*, enabling this to be carried out within 48 hours while maintaining the same high level of legal certainty.

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<sup>105</sup> The STT-CIRCE electronic platform consists of a central computer system which uses the Internet to interconnect all the organisations responsible for creating (registration) and launching New Enterprises, by sending and receiving the information needed for the corresponding procedures. This is therefore an e-government multi-procedure/multi-administration computer application. The security and confidentiality of information are guaranteed by using electronic signature certificates for all data transmissions carried out in this way. The system also allows the entrepreneur to find out about the progress of his application in real time through the Internet. Between 14 July and 23 October 2003, a total of 46 businesses were created by this electronic procedure in the pilot regions, and another 16 were pending in October 2003.

Two years after the introduction of *one-stop-shops for the manufacturing sector* in Italy, there has been a noticeable reduction in company start-up times from 22 to six weeks, the procedures have been cut from 21 to 12 and the costs involved from €7 700 to €3 516. In the case of individuals, the procedures for starting new activities have been cut from 11 to five, the time required from 16 weeks to only one week, and the costs involved from €1 150 to €340.

Following the 2002 Trade Law Amendment, the registration of businesses in Austria is completed in approximately 6 days and the number of documents which need to be submitted with an application has been reduced.

At **regional level**, following the *single contact points* for enterprises provided by the Flemish Community and the Walloon region in Belgium, the Brussels-Capital region has set-up a similar contact point.

Austria ([www.help.gv.at](http://www.help.gv.at)), Sweden ([www.foretagsregistrering.se](http://www.foretagsregistrering.se)) and Norway (<https://nbr.brreg.no>) have joined the ranks to offer **online registration** of companies.

**Other strategies** to facilitate start-ups include the German “*Ich-AG*” allowance which is aimed at encouraging the unemployed to become self-employed. It assists becoming self-employed through social security for those who expect an income of maximum €25 000 in the first years. Up to August 2003, approximately 52 000 persons have used the allowance to set up a business. Italy has introduced two *tax relief schemes* for business initiatives by natural persons. These consist of reduction in accounting requirements, relief on direct taxes and an option of benefiting from assistance. It has also introduced two new *support measures* to remove difficulties facing small, newly-created firms in searching the market for capital and in benefiting from assistance during the start-up phase. The United Kingdom has published an action plan for start-ups called “*A comprehensive Strategy for Start-ups: Encouraging a more dynamic start-up market*” within the policy framework “*Small Business and Government – The Way Forward*” which identifies seven strategic themes aimed at encouraging enterprise and helping small businesses to prosper and grow, and is gradually publishing an action plan for each theme. At **regional level**, Northern Ireland in the United Kingdom has launched its “*Accelerating Entrepreneurship Strategy*”. The overall aim of the strategy is to encourage those with entrepreneurial flair to become involved in sustainable new business start-ups, by providing a supportive environment for entrepreneurs.

### 3. BETTER LEGISLATION AND REGULATION

*“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.”*

### *Indicators and targets*

**Sweden and the United Kingdom** have declared the target of applying regulatory impact assessment in all their proposed laws and **Ireland** has set the target of applying it for all primary legislation<sup>106</sup>. **Belgium, Denmark and the Netherlands** have all set the target of reducing administrative burdens on businesses by 25%.

The 2003 Enterprise Policy Scoreboard concluded that the picture in the field of regulatory and administrative environment is mixed and stressed that problems with data availability and comparability remain unresolved. In recent years, modest improvements have been recorded, but SMEs report that administrative burdens remain high. In particular, a relatively high number of SMEs in France, Belgium, Germany and the Netherlands reported problems with administrative burdens in 2003, while fewer SMEs had difficulties in **Greece, Portugal and Spain**.

Many countries now use the tool of regulatory impact assessment, the systems being particularly well developed in **Germany, the Netherlands, Austria, Finland, Sweden and the United Kingdom**<sup>107</sup>. Based on the information available on this indicator, Sweden and the United Kingdom are close to reaching their targets in this field.

### *Member States*

Since the previous report, some new measures have been taken to revise **bankruptcy legislation** in the different countries. The new insolvency regulation in Spain clarifies and simplifies access to insolvency procedures. It is innovative with regard to support for continuing the business, protection of jobs and respect for workers' rights. Sweden has passed a law which places all creditors in an equal position in a bankruptcy situation. The law aims at making it easier for insolvent enterprises to reconstruct the business with the creditors rather than having to go bankrupt. In the United Kingdom, the *Enterprise Act 2002*, aimed at facilitating the rescue of viable companies and at encouraging fresh starts after failure, has come into force. As a result of the *Best Procedure Project on "Restructuring, bankruptcy and a fresh start"*, Norway has started a project to benchmark its bankruptcy legislation.

#### **Finland: Legal rescue – Towards a fair and equitable legal system**

Finland has separate legislation on bankruptcy proceedings (Bankruptcy Code) and restructuring proceedings (Reorganization of Enterprises Act). Bankruptcy is a liquidation procedure while restructuring aims at rehabilitation of an enterprise. Initiation of restructuring proceedings requires, among other things, that the enterprise can be made profitable through restructuring.

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<sup>106</sup> Ireland, from 0% in 2001 and 2002 to 100% for all primary legislation by 2006; Sweden, 100% for the whole period 2001-2010; United Kingdom 100% by 2005.

<sup>107</sup> It should be emphasised that the indicator only covers part of a potentially more widely applied regulatory impact assessment (RIA). Comprehensive RIAs may cover a wide range of impacts, including on the environment, consumers, etc. In this context, however, focus is on the coverage of RIA of impacts on businesses, markets and SMEs. The indicator thus ignores the potential coverage of impacts on consumers or the environment, which may be a part of a fully-fledged regulatory impact assessment system. In addition, it should be emphasised that the distribution of points to set up the indicator does not necessarily reflect qualitative differences in the MS's RIA systems, which may be important. The interpretation of the indicator should therefore be cautious.

A petition for restructuring supersedes a petition for bankruptcy. Thus, if an enterprise has filed for restructuring, it cannot be declared bankrupt. A bankruptcy petition is, therefore, suspended. If restructuring proceedings are opened, a bankruptcy petition will be dropped. However, if restructuring proceedings are not opened, processing of a bankruptcy petition will be continued. Restructuring is no longer possible, if bankruptcy proceedings have already been opened.

A law bill for a total review of the bankruptcy legislation has been introduced to the Parliament. The overall objective is to create more predictive and efficient bankruptcy rules. New legislation is expected to enter into force in summer-autumn 2004.

With regard to **regulatory impact assessments**, Ireland and Italy will start piloting their regulatory impact assessment systems. The United Kingdom issued the “*Quick Guide to Regulatory Impact Assessment*” to help policy makers identify whether they need to carry out an RIA, and where to go for help and advice. It is also creating a *database of small companies* which will be used as a resource for officials in Departments who need to obtain a small business perspective on policy issues. Norway is developing new *guidelines for the use of ex-ante evaluation of regulation and a proposal for its increased use*.

Several countries have launched initiatives to **simplify legislation**. To facilitate hiring employees, Denmark is simplifying the legislation regulating the information that businesses have to report on their employees. It has also set up a working group to investigate the possibilities for exempting entrepreneurs from certain regulatory obligations in the start-up phase. Germany has launched the initiative “*Bürokratieabbau*” (Bureaucracy Reduction Initiative) which contains over 50 projects including the reform of the Crafts Code, trimming down public procurement law, modernisation of the Workplaces Decree and reduction of the statistical burden on the economy. The list of actions will be added to in the future. Greece has set up the *Central Codification Committee* to codify current legislation. In Ireland, the Revenue Commissioners are implementing a restructuring programme in order to deliver better regulation, including consolidation and modernisation of tax law. A Government White Paper on Better Regulation is under preparation.

The Netherlands has set up “*a notification body for conflicting regulations*” ([www.tegenstrijdigeregels.nl](http://www.tegenstrijdigeregels.nl)). Up to 700 complaints have been received so far. Based on the assessment of the complaints, solutions will be formulated and applied nation-wide. Following the Dutch example, Belgium has set up a “*contact point for contradictory regulations and administrative costs*” where individuals and companies can report contradictory regulations or regulations that cannot be easily applied.

Portugal has modernised and simplified its labour legislation and the Industrial Licensing Code and is introducing a single contact point for industrial licensing in the public administration. Portugal has also revised its competition law. Austria is currently preparing a reform of the Austrian Commercial Code in order to increase legal clarity and achieve simpler application of the law. The reform will introduce new options for the form of business, with special regard being given to the interests of sole proprietorships. Finland is developing the design and management of law drafting, including regulatory alternatives and different means of regulation. A proposal for a new more flexible Companies Act has also been made in order

to allow enterprises organise their activities as efficiently as possible. Sweden is starting to review all legislation that has an effect on businesses<sup>108</sup>.

The United Kingdom has published the “*No-Nonsense Guide to Government rules and regulations when setting up your business*”. This guidance brings together for the first time details of the main regulatory issues faced by business start-ups in a user-friendly, authoritative and accessible format presented in clear and logical steps, and with sign-posts to more detailed information. Norway has set up a “*Simplification Forum*” which is the central contact point between the business sector and the Minister for Trade and Industry in the Government’s work to reduce administrative burdens for enterprises.

### *Commission*

The final report of the **Best Procedure project on “Restructuring, bankruptcy and a fresh start”** was published in autumn 2003<sup>109</sup>. Discussions within the expert group led to a set of indicators and benchmarks on four topics: early warning, legal system, fresh start and stigma of failure. The report aims at offering a strategy for improvement in these areas by giving examples of best practice and a series of policy conclusions.

The **Better Regulation Action Plan**<sup>110</sup> of June 2002 is now being implemented. While 2002 and early 2003 were characterised mainly by policy formulation on better regulation, the Commission has now passed to the implementation phase. Reporting on implementation will take place mainly through the revamped annual report on better regulation<sup>111</sup>.

The latest policy initiative was the adoption by the Commission in February 2003 of a broad initiative to **up-date and simplify Community legislation**<sup>112</sup>. This is an ambitious programme to clean up and simplify secondary Community legislation through consolidation, codification, repeals, simplification as well as organisation and presentation of the *acquis*. Sectors selected so far for screening of simplification potential include motor vehicle type approvals system, marketing authorisation for medical products and processed agricultural products. The programme will run until the beginning of 2005. The first phase was concluded in October 2003 with a report describing achievements and outlining the work programme for the second phase<sup>113</sup>.

An important element was the formal adoption in October 2003 of the **Inter-Institutional Agreement on “Better Regulation”**, proposed by the Commission in its Better Regulation Action Plan. The agreement between the Commission, the Parliament and the Council confirms the objective of improving and simplifying Community legislation. It recalls the Commission’s commitments already made in the June 2002 Action Plan. Moreover, it sets out the commitments of the Parliament and the Council in favour of better lawmaking as well as that of Member States, which mainly concern a better transposition and application of Community legislation, impact assessment of important amendments by the legislator and

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<sup>108</sup> The Confederation of Swedish Enterprise and the Federation of Private Enterprises in Sweden in their written comments both stated that there is still very little result of the work of the SimpLex Unit in the Swedish Ministry of Industry, Employment and Communications to simplify rules and reduce administrative burdens, and that clear targets need to be set in this area.

<sup>109</sup> [http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/failure\\_bankruptcy/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/failure_bankruptcy/index.htm)  
<sup>110</sup> COM(2002) 278 final, 5.6.2002.

<sup>111</sup> Latest report: “Better lawmaking 2003”, COM(2003) 770 final, 12.12.2003.

<sup>112</sup> “Updating and simplifying the Community *acquis*”, COM(2003) 71 final, 11.2.2003.

<sup>113</sup> “First report on the implementation of the framework action “Updating and simplifying the Community *acquis*”, COM(2003) 623 final, 24.10.2003.

adapted decision-making procedures for proposals to simplify Community *acquis*. A key element of the agreement is the establishment of a framework for use of so called “alternative instruments”: co-regulation and self-regulation.

The Commission is starting to implement the new **Impact Assessment** procedure, introduced as part of the Better Regulation Action Plan. It includes an analysis of the likely impact of Commission proposals on the environment, the employment and social situation and the economy, including on businesses and SMEs. For all major initiatives included in the Commission’s Annual Policy Strategy and Work Programme, the responsible Directorate-General should prepare a light “preliminary” impact assessment. For those proposals deemed to have a significant impact in economic, environmental or social terms, the Commission will carry out extended impact assessments. The Commission planned at the time of the adoption of its work programme for 2003 to carry out extended impact assessments for 43 of its initiatives. This being the first year that the new procedure has been implemented, there has been a slow-down in the calendar originally foreseen for the delivery of the impact assessments. However, progress is being made and approximately half of the extended impact assessments have been completed by December 2003. While some Directorate-Generals have extensive experience in carrying out impact type assessment, the integrated approach of the new procedure is new for most Directorate-Generals. Therefore, the activities in 2003 can largely be characterised as a learning process.

Three new projects have been launched in the field of better regulation. A project on “**Ex-post evaluation of EC legislation and its burden on businesses**” aims to provide information about the regulatory burdens on businesses, and SMEs in particular, imposed by three selected European Community Directives. It will assess the components of the regulatory burdens and whether they stem directly from the requirements of the selected Directives, from the standard national provisions introduced in the transposition phase or from additional administrative requests linked to the follow up of other national policies. Results are expected at the beginning of 2005. A project on “**Indicators of Regulatory Quality**” will identify quantitative and qualitative indicators that could be used to monitor the progress made by the EU and by Member States to simplify and improve the regulatory environment. Initial results are expected for mid 2004. Finally, a project on “**Promoting the involvement of academics and think tanks in impact assessment**” will identify what role the academic world and other research institutes could play to support impact assessment at EU level and in Member States and which mechanisms could be put in place to promote discussion, reflection and evaluation of developments in this field. A workshop took place in Brussels in December 2003. A report of this event is planned for the first quarter of 2004.

One way of ensuring that legislation does not create additional burdens and costs is to consult businesses on new legislative proposals and on the application of current rules in order to better identify their impact. The **European Business Test Panel (EBTP)** recently established for this purpose is further described under heading 2.4.1, together with other initiatives to consult businesses.

Following a Commission proposal in January 2003<sup>114</sup>, the Council in May 2003 adopted a Directive amending the existing Accounting Directives to **partially exempt more SMEs**

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<sup>114</sup> Proposal for a Council Directive amending Directive 78/660/EEC as regards amounts expressed in euro, COM(2003) 29 final, 24.1.2003.

**from financial reporting rules**<sup>115</sup>, thus contributing to lightening the regulatory burden on thousands of SMEs while maintaining sufficient transparency and protection against fraud.

The thresholds in the Accounting Directives are separate and distinct from the ones in the definitions that are used by Member States, the Commission and the European Investment Bank, among others, for defining SMEs eligible for support programmes and loans. These were also recently modified, with the adoption by the Commission of a **new definition of SMEs** which will enter into force on 1 January 2005<sup>116</sup>. The revision takes account of the economic developments since 1996 and the application of the definition. It increases legal certainty, while reducing possibilities of its circumvention, particularly with regard to state aid, Structural Funds and the Research and Development Framework Programme.

As to the **state aid rules**, the new SME definition is currently being implemented, requiring a **modification of the block exemption regulations on training aid**<sup>117</sup> and **aid to SMEs**<sup>118</sup>. The modification of the block exemption regulation on aid to SMEs furthermore envisages enlarging the scope of this regulation, exempting state aid granted to SMEs for research and development purposes from the obligation of prior notification. This measure is intended to contribute to the objective set by the Barcelona European Council to increase investment in European research and development to 3% of GDP by 2010 (see heading 2.3.1). The regulations amending both the regulations on training aid and on aid to SMEs including aid for research and development were adopted by the Commission at the end of 2003<sup>119</sup>, following a publication of the draft texts inviting all interested parties to comment<sup>120</sup>.

#### 4. AVAILABILITY OF SKILLS

*“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.”*

##### *Indicators and targets*

Five Member States have declared quantitative targets related to availability of skills. **Denmark** wants to increase the number of young people completing training and education skills and **Germany** aims for 40% of all youth to begin studies in 2010. **The Netherlands** wants to be among the top 5 in 2010 when it comes to the share of knowledge workers<sup>121</sup> and also to be in the leading group in 2010 as to participation in education and training. **Sweden** targeted for the years 2001-2004 a cumulative number of 16 500 graduates in engineering and

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<sup>115</sup> The thresholds for turnover and balance sheet total under which Member States can apply the exemptions are raised by about 17%. Council Directive 2003/38/EC of 13 May 2003 amending Directive 78/660/EEC on the annual accounts of certain types of companies as regards amounts expressed in euro, OJ L 120, 15.5.2003, p. 22.

<sup>116</sup> Commission Recommendation (2003/361/EC) of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, OJ L 124, 20.5.2003, p. 36.  
[http://europa.eu.int/comm/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm)

<sup>117</sup> Commission Regulation (EC) No 68/2001 of 12 January 2001 on the Application of Articles 87 and 88 of the EC Treaty to State aid to training aid, OJ L 10, 13.1.2001, p. 20.

<sup>118</sup> Commission Regulation (EC) No 70/2001 of 12 January 2001 on the Application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises, OJ L 10, 13.1.2001, p. 33.

<sup>119</sup> Press release IP/03/1788, 19.12.2003.

<sup>120</sup> OJ C 190, 12.8.2003, p. 2.

<sup>121</sup> As a percentage of population above 15 years.



architecture and also a cumulative number of teacher graduates of 26 800 for the same period. The proportion of 33% of teacher graduates in the fields of mathematics/science/technology<sup>122</sup> also targeted seems, however, beyond reach<sup>123</sup>. Sweden also aims to increase the number of new university graduates with Master's degrees, reaching a cumulative number of 25 100 for the period 2001-2004. **The United Kingdom** wants to raise the participation of 18-30-year-olds in higher education towards 50% in 2010 and to reduce the number of adults in the labour force lacking NVQ2 or equivalent qualifications, also by 2010.

According to the Enterprise Policy Scoreboard, survey evidence indicates that enterprises in Europe continue to experience shortages of skilled labour. Compared to 2001 and 2002, the proportion of enterprises affected by this constraint has decreased, but it is still higher than in 1999<sup>124</sup>. However, according to the survey this problem affects medium-sized enterprises more frequently than micro enterprises<sup>125</sup>.

Data for 2000 and 2001 show that the number of tertiary graduates per 1000 persons in the typical age group (20-29 year olds) has been slowly increasing in most Member States, **Ireland, the United Kingdom and France** being in the lead. However the gap versus the United States remains substantial. Although the share of science and technology graduates, as a percentage of all graduates, in the EU is significantly greater than in the United States, their number is somewhat lower when compared to the population of 20-29 year olds, because of the overall smaller proportion of tertiary graduates. Again, **Ireland, France and the United Kingdom**, closely followed by **Finland**, are the best performers.

As to the **Swedish** target for graduates in engineering and architecture, 47% of the target had been reached by 2002 and the annual number has been increasing since 2001<sup>126</sup>. As regards teacher graduates in **Sweden**, figures for 2001 and 2002 indicate that this target can be achieved as well, Sweden having reached 48% of the target after these two years.

Little progress has been recorded in raising participation in life-long learning activities. In 2002, only 8.5% of the population surveyed aged 25-64 had participated in some form of training in the four weeks prior to the survey in the EU. Only in the **United Kingdom, Finland, Denmark, Sweden and the Netherlands** life-long learning exceeds the EU target of 12.5% since at least 2000. In all other countries participation rates lie well below this threshold and recent developments show little progress, in the lowest ranking countries Greece, France, and Portugal the participation rate stagnated or even declined in 2002.

### *Member States*

Some new **training measures** have been introduced since the previous report. Germany is reforming its *Vocational Training Act*. The reform will include the introduction of new forms of examination and acquisition of linguistic and professional skills abroad. The "*Europäischer Wirtschaftsführerschein*" (European Business Driving Licence) is an Austro-German initiative consisting of an examination and certification system which guarantees that

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<sup>122</sup> As a percentage of all teacher graduates.

<sup>123</sup> 2001: 23%, 2002: 22%.

<sup>124</sup> Note that the data 1999, 2001 and 2002 are not 100% comparable to 2003 because a new answer category had been added in the 2003 survey ("low purchasing power of customers"). Thus, the 2003 figure underestimates the constraint relative to previous years.

<sup>125</sup> 20% of medium-sized enterprises mentioned lack of skilled labour as a constraint compared to 13% of small enterprises.

<sup>126</sup> Sweden's target is based on data from the National Agency for Higher Education.

those completing the course have a basic knowledge of business economics. Expansion of the scheme, initially to a further eight European countries, will start in 2004. In Finland, the “*Noste*” programme aims to prevent early retirement and improve career development of adults that have only received basic education, to mend the labour deficit due to demographic development and to contribute to the employment rate.

Concerning specific **training for SMEs**, Ireland has launched the new “*In-Company Training Measure*” to promote the training and up-skilling of people in employment. It includes training in management and entrepreneurial skills. Another new programme in Ireland is the “*Company Development Cluster Programme*” which is targeted at small businesses in their early years of development. Focused training is provided by clustering ten companies in each region who will have available to them the services of a panel of trainers covering finance, marketing, production and quality control ([www.fas.ie](http://www.fas.ie)). In the United Kingdom, the Learning and Skills Council has been piloting a new “*employer training scheme*”, designed to help improve the skills of up to 16,000 low-skilled employees, and linked to incentives and financial support for employers whose staff take time off to study.

At **regional level**, the Flemish Government in Belgium approved the *Decree on Further Training* which, inter alia, stipulates that an entrepreneur’s training has to be guaranteed throughout his or her lifetime. The region of Flanders in Belgium has launched a strategic plan “*VOLT 2010*” to give new impetus to the image and substance of apprenticeships. Furthermore, the Walloon Government in Belgium approved a draft *Decree setting up an organisation for dual training*, targeted primarily at SMEs and the self-employed. The new body will provide training programmes which alternate between theoretical courses and practical work experience.

To address **skills gaps in the areas of technology and ICT**, Greece has launched several *ICT learning programmes* for private sector companies, the self-employed and the unemployed and *e-business programmes* for companies, research consortia and non-profit educational institutions. France has set up a *team of experts to improve the digital competitiveness of SMEs*. A specific internet website dedicated for this has already been set up at [www.competitivite-numerique.com](http://www.competitivite-numerique.com). Italy has introduced the “*INSPRINT master's qualification*”, a course of study designed to supplement and complete university training by providing specialist legal and economic skills in the field of intellectual property. The Netherlands is launching an *Action Plan* to address the shortage of science and engineering graduates and researchers, and Portugal has launched the “*QUADROS*” programme to support SMEs in the recruitment of technical staff. As part of the “*Strategy for raising the competence level in mathematics, science and technology*”, Norway is offering teachers in primary and secondary schools an *educational scholarship* in mathematics.

### *Commission*

The **work programme on the future objectives of education and training systems**<sup>127</sup> calls for the creation of an open learning environment. As a follow-up, a working group has proposed open and flexible access to lifelong learning for persons in micro-enterprises and in SMEs as a priority. Guidance and counselling services should also be improved for these businesses, and other tools proposed include job rotation and co-funding schemes. Improving possibilities for lifelong learning for the local community and local enterprises in a

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<sup>127</sup> Council document 6365/02, 20 February 2002. The work programme was welcomed by the European Council in Barcelona on 15-16 March 2002.

comprehensive networking approach was considered a good preparation for participation in civil society and the economy.

In November 2002, a **ministerial declaration on the Promotion of Enhanced European Cooperation in Vocational Education and Training** was adopted, the Copenhagen declaration. The declaration foresees eight priority action fields for voluntary bottom-up cooperation between the Member States, the social partners, the EFTA-EEA countries, the acceding and candidate countries and the Commission. The most relevant priorities for SMEs include increased support to the development of competences and qualifications at sectoral level, the development of a set of common principles for validation of non-formal and informal learning and the creation of a single framework for transparency of qualifications and competences.

Each year, several projects relating to skills development in and for enterprises are financed by the **Leonardo da Vinci programme**. Involvement of SMEs is a priority. In 2003, thematic monitoring included the area “Development of skills within companies, in particular SMEs”<sup>128</sup>. A brochure presenting Leonardo da Vinci good practices on “Building skills and qualifications among SME employees” was published in May 2003, a study on the contribution of the Leonardo da Vinci programme to skills development within companies in particular SMEs was published in September 2003 and a thematic seminar with project promoters, experts and representatives from enterprises and social partners took place in October 2003. In addition, the **MEDIA Training programme** aims at encouraging European training initiatives allowing professionals of the audio-visual industry, largely constituted by SMEs, to increase their competence and the competitiveness of their businesses on the international market<sup>129</sup>.

In July 2003, the Commission adopted its **Action Plan for 2004-2006 “Promoting Language learning and Linguistic Diversity”**<sup>130</sup>, stressing the importance of language learning for the implementation of the Lisbon strategy. Particular attention is given to language learning as one of the instruments for developing the entrepreneurial spirit in Europe. Of direct relevance to enterprise is the realisation of studies, foreseen for 2005, on the costs of non-multilingualism and on the effects on the European economy of business lost due to a lack of foreign language skills.

A revised **European Employment Strategy** was adopted in July 2003<sup>131</sup> to ensure that it accounts for an enlarged European Union, reacts to the challenges facing a modern labour market and better contributes to the Lisbon strategy. The Guidelines have become simpler and more results oriented, and targets are a crucial element of the new approach. Stronger emphasis is placed on a number of areas. The priorities on entrepreneurship are reiterated in the different specific guidelines, whereas the specific guideline on job creation and entrepreneurship gives a stronger focus on the job creation capacity of enterprises. Other examples of interest for the small business community include the specific guidelines with regard to improving access to skilled labour through the development of human capital, increasing the labour supply and promoting active ageing, combating undeclared work, reducing regional disparities and promoting adaptability in the labour market among other things by reforming overly restrictive elements in legislation. In line with the principle of

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<sup>128</sup> <http://www3.socleoyouth.be/static/en/leonardo/theme2.htm>

<sup>129</sup> [http://europa.eu.int/comm/avpolicy/media/forma\\_en.html](http://europa.eu.int/comm/avpolicy/media/forma_en.html)

<sup>130</sup> COM(2003) 449, final, 24.7.2003.

<sup>131</sup> Council Decision (2003/578EC) of 22 July 2003 on guidelines for the employment policies of the Member States.

streamlining policy processes, the guideline on job creation and entrepreneurship will be supported by the enterprise policy benchmarking process and the Member States' implementation of the European Charter for Small Enterprises.

The Commission is preparing its mid-term report on **Skills and Mobility** for submission to the 2004 Spring European Council. It will highlight the progress made in implementing the 2002 Action Plan for Skills and Mobility<sup>132</sup>. Among actions of particular interest to small enterprises is the opening up of the European Job Portal<sup>133</sup>, which enables enterprises to recruit skilled labour across the EU and to access online CVs using the EURES network. By 2005, information on all job vacancies advertised by public employment services will be accessible to job seekers throughout the EU.

In 2002, the European Social Partners at intersectoral level adopted a **framework of actions for the lifelong development of competencies and qualifications**. A first implementation report was submitted to the Spring European Council in 2003<sup>134</sup>, and a second report is to be submitted at the Tripartite Social Summit for growth and employment preceding the Spring European Council in March 2004. The reports cover the activities of the social partners in the area of lifelong learning and thus offer a useful tool for dissemination of good practices in skills development.

Further to the eSkills Summit 2002 Declaration<sup>135</sup> and the Council Conclusions on ICT and e-business skills in Europe<sup>136</sup>, the Commission established the **European eSkills Forum (eSF)** in March 2003. The objectives of the eSF are to agree on a common methodological framework for the measurement and forecast of the e-skills supply and demand, to identify examples of good practice in support of e-skills and to propose recommendations for further actions at European level. The Forum will publish a final report with recommendations in June 2004. As a follow-up and in response to the Council's Conclusions, the Commission will prepare an Action Plan in support of e-skills for European competitiveness.

The initiative on **ICT (information and communication technologies) and e-business skills for user industries and SMEs** launched in November 2002 to identify ICT and e-business skills profiles in various industry sectors resulted in minor descriptive amendments to the existing set of generic ICT skills profiles developed by the industry-led Career Space initiative. A workshop took place in April 2003<sup>137</sup> based on these ICT skills profiles and the relating ICT curriculum guidelines in order to foster consensus and promote them at European level. This workshop will be extended in 2004 to cover sub-degree levels and vocational levels.

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<sup>132</sup> COM(2002) 72, 13.2.2002.

<sup>133</sup> <http://europa.eu.int/eures/index.jsp>

<sup>134</sup> "Framework of actions for the lifelong development of competencies and qualifications", First follow-up report, 14.3.2003.

<sup>135</sup> Copenhagen, 18 October 2002.

<sup>136</sup> Adopted on 5 December 2002.

<sup>137</sup> Organised by the European Standardisation Centre (CEN) and the Information Society Standardisation System (ISSS) in cooperation with the European Centre for the Development of Vocational Training (CEDEFOP) and the Council of European Professional Informatics Societies (CEPIS).

## 5. IMPROVING ONLINE ACCESS

*“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.”*

### *Indicators and targets*

A number of countries have announced quantitative targets in the area of public services online. In **Germany, Ireland, Portugal and the United Kingdom**, the share of government services<sup>138</sup> online will reach 100% in 2005. In addition, **Portugal** aims to ensure access to broadband Internet for 100% of public services by 2005.

The Enterprise Policy Scoreboard concluded that visible progress has been made in the area of e-government. Denmark already offers 100% of services online, nine additional Member States offer 87% or more and no Member State less than 68% of services online. It does not seem difficult for Germany and the United Kingdom to achieve their 100% target since, on the basis of this data, Germany already has 98% and the United Kingdom already 97% of their services online. Ireland should also be able to achieve its target, already having 91% of services online, and Portugal is approaching the target as well, having reached 78%.

### *Member States*

Several new **web portals** by the public authorities have been launched or are in the pipeline. Among those already operational, the Belgian portal, [www.belgium.be](http://www.belgium.be), provides a specific section for enterprises where new companies will also be able to complete a series of administrative formalities through a “Starters” *single electronic declaration*. The Danish Enterprise Portal “*Virk.dk*” is a single access point website, created through public-private partnership, providing the necessary information and public services that businesses need. The French Ministry of Economic Affairs, Finance and Industry has set up a website called “*Minefi au service d’entreprises*”, [www.entreprises.minefi.gouv.fr](http://www.entreprises.minefi.gouv.fr), which provides information for businesses.

In the pipeline is the first version of the Dutch online one-stop-shop for enterprises, [www.bedrijvenloket.nl](http://www.bedrijvenloket.nl), which will be available by the end of 2003. It will be operational nationwide in 2006, allowing, among others, a complete online registration of companies. Electronic services offered by the public administration will soon also be available in Austria via a single access point at [www.help.gv.at](http://www.help.gv.at). Organisation of the services will be offered according to the life-stages principle. Austria has also set up an “*Enterprises in distress*” *Internet platform* to raise the problem-solving skills of enterprises and entrepreneurs and providing them with an extensive range of information. Portugal has adopted the *Action Plan for the Information Society* which includes an *Action Plan for E-Government* to improve online government services provided to both individuals and enterprises. Work is currently underway in the United Kingdom on a cross-departmental “*Business.gov Programme*” which will provide SMEs access to packages of information and services according to business issues rather government responsibilities ([www.businesslink.gov.uk](http://www.businesslink.gov.uk)).

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<sup>138</sup> Federal government services in the case of Germany.

At **regional level**, the Walloon region of Belgium has set-up the “*Wall-online*” project which sets out the region’s plans for e-government. It is designed to help the public administration to move towards the creation of one-stop-shops.

Belgium has launched the project “*FINPROF*” which enables an electronic submission of the pay-as-you earn **tax declarations** via the Federal Public Finance Service’s portal. A fully electronic tax inspectorate allowing the completion of all tax formalities online is under development in Greece. In Ireland, annual returns can be filed wholly electronically using electronic signatures. To encourage the take-up of online services by employers with less than 50 employees, incentive payments will be available to them in the United Kingdom for filing their end of year returns online from 2004/2005. In Norway, the “*AltInn project*” has established an internet based solution that uses common data definitions for reporting financial data from businesses to the tax authority.

Regarding **company registration**, several forms required under the Companies Acts can now be filed online in Ireland and it is intended to make all the forms available by the end of 2003. It is also now possible to obtain duplicate certificates of incorporation online. The United Kingdom intends to increase incrementally the range of forms that may be filed electronically.

The Danish “*Project eGovernment*” was set up to promote **digitalisation of public services and their data sharing**. The project has also been involved in the “*eDay*”, which marks the launch of electronic dissemination of information between different public authorities, and in the development and distribution of digital signature. Austria is currently drafting a Federal Act on regulations to facilitate electronic communications with public offices. This act will contain provisions on the introduction of an *electronic official seal* to accelerate the creation of official documents.

Among **other online services** reported, Germany is designing facilities for **online submission of applications** for its research cooperation programmes and Ireland is developing an online receipt of **public procurement** tenders as a further tool to the existing eTenders facility ([www.etenders.gov.ie](http://www.etenders.gov.ie)). Ireland is also developing an **electronic payment system** throughout the economy and it has launched the “*eBIT programme*” on the [www.openup.ie](http://www.openup.ie) website, which allows enterprises in the manufacturing and internationally traded services sectors with 10 employees or more to apply for assistance to **assess their eBusiness/IT strategy** requirements. Finally, as of January 2004, it will be possible to file patents online in Italy.

### *Commission*

The **Information Society Technologies (IST) Priority**<sup>139</sup> is part of the Sixth Framework Programme for RTD (FP6). Following the first call for proposals in 2003, SME participation will correspond to some 16% of funding awarded, which is satisfactory compared to the 15% requested by the Framework Programme but remains below the 25% target of the work programme. For certain areas of particular interest to SMEs, such as “Networked businesses and governments”, “eHealth” and “Networked audiovisual systems and home platforms”, more than 20% of EU funding will be awarded to SMEs. Corrective actions can be envisaged in 2004 if the SME participation does not prove to be higher in the second call, closed in October 2003. The study “Monitoring Strategy and requirements for IST-RTD in the 6th

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<sup>139</sup> [www.cordis.lu/ist](http://www.cordis.lu/ist)

FP”<sup>140</sup>, launched by the Commission in autumn 2003, will include quantitative and qualitative analysis of SME participation in the new FP6 instruments.

The **Portal of the EU Administration**<sup>141</sup>, to be launched in summer 2004 under the name “**Your Europe**” by the IDA programme (Interchange of Data between Administrations), will provide information and services to assist Europe’s enterprises and citizens to carry out cross-border activities, for example enterprises wanting to establish a subsidiary in another European country. The major action started in 2003 is the integration with the already existing sites “Dialogue with Business”<sup>142</sup> and “Dialogue with Citizens”<sup>143</sup> and with the SOLVIT initiative (see heading 6 of the Annex). The resulting portal will be positioned as the main EU portal in support of cross-border users.

Also in the framework of the IDA programme, the **eGovernment Observatory**<sup>144</sup> provides a valuable insight on e-Government strategies, initiatives and projects in Europe and beyond. On the basis of a consultation document for future policy on pan-European e-government services<sup>145</sup> and the results of the open consultation, the document “Linking up Europe: the importance of interoperability for e-government services”<sup>146</sup> was prepared and presented at the Ministerial Conference on e-Government co-organised by Italian Presidency and the Commission in July 2003.

## 6. MORE OUT OF THE SINGLE MARKET

*“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.”*

### *Indicators and targets*

Member States are still failing to implement many Internal Market laws correctly and on time. In November 2003, around 8.5% of Internal Market Directives (131 Directives) have still not been implemented into national law in every Member State, though the deadlines agreed by the Member States themselves when they adopted the Directives have passed. Some Member States, notably **Denmark, Spain, Finland and the United Kingdom**, have again achieved the Stockholm European Council’s target of keeping implementation deficits for Internal Market Directives below 1.5%. **Ireland** now also meets the target after more than halving its deficit since May 2003. Sweden has slipped to 1.6%. Others, such as France, Germany, Luxembourg, Greece and Italy, have persistently had a deficit of more than double the target. Belgium, whose implementation deficit has almost doubled since May 2003, has joined this group of Member States which is lagging behind.

<sup>140</sup> OJ 13.8.03, 2003/S 154-139799.

<sup>141</sup> Based on the pilot portal “public-services.eu,” <http://europa.eu.int/public-services/>.

<sup>142</sup> <http://europa.eu.int/business/>

<sup>143</sup> <http://europa.eu.int/citizens/>

<sup>144</sup> <http://europa.eu.int/ISPO/ida/jsps/index.jsp?fuseAction=showChapter&chapterID=140&preChapterID=0>

<sup>145</sup> [http://europa.eu.int/comm/enterprise/consultations/government\\_e-services/index.htm](http://europa.eu.int/comm/enterprise/consultations/government_e-services/index.htm)

<sup>146</sup> SEC(2003) 801, 3.7.2003.

Only three Member States, **Denmark, Portugal and Finland** meet the “zero tolerance” target for implementing Directives more than two years overdue. Lengthy delays cause significant harm to businesses who are deprived of their rights to benefit in full from the Internal Market.

The number of infringement procedures against Member States for misapplication of Internal Market rules also grows. At the end of October 2003, Italy alone had 146 open infringement cases, more than Denmark (21 cases), Finland (25 cases) and Sweden (26 cases) combined. France had 135 cases and Spain 102. Again, this makes it difficult for business, particularly small businesses, to operate.<sup>147</sup>

### *Member States*

Austria is establishing *a new coordinating function* to work towards timely and complete **transposition** of the Directives of the European Community. A *transposition committee* is also to be set up in future to deal with content related and organisational issues as well as special problems arising in connection with the transposition of EC Directives.

In June 2003, the process of opening European electricity and gas markets was finalised. The directives on market opening allow all European commercial energy users free access to electricity and gas markets by latest in July 2004. By July 2007 all consumers will be able to choose their energy supplier. A number of Member States have already opened their markets.

Concerning **public procurement**, Belgium has developed an *information package* containing information about public procurement opportunities for enterprises. Denmark has played an essential part in the setting up of the “*Public Procurement Network*”, a permanent informal network of public procurement authorities in Europe. The network aims at providing rapid and effective problem-solving solutions already at the pre-contract stage to enterprises that encounter public procurement problems in other countries and at encouraging exchanges of best practices in the field. Greece has carried out three pilot programmes to develop a *National Electronic Public Procurement System*. A call for tender to set up the system has now been published.

The new Austrian Federal Contracts Act implements the framework conditions for exploitation of electronic media and use of new technologies in the area of public procurement. Many initiatives have been launched in Finland to train both buyers and suppliers in applying public procurement legislation. Moreover, several ministries, the Association of Local and Regional Authorities, the municipalities, business organisations and some enterprises have launched the “*Kilpanet*” project. Its aim is to provide electronic tools for the municipalities for service provision and for launching calls for tenders for services.

With regard to **competition rules**, Denmark has launched several case studies to analyse its existing or earlier state aid schemes. It also aims at assessing all new state aid schemes at an early stage in the decision process in order to reduce the detrimental effects. Denmark is continuously working to increase transparency in the state aid field in order to improve both the monitoring and to make it easier for companies to complain about possible irregularities.

Several countries report on the operation of the **SOLVIT** programme (see below) at national level, namely Germany, Italy, Portugal, Sweden, the United Kingdom and Norway.

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<sup>147</sup> Press release IP/04/33, 12.1.2004.



Sweden organised an information campaign on the *CE mark* in order to raise awareness on what it means to consumers, business and trade. Sweden has also launched an investigation on *voluntary marking schemes* to understand the scope of the barriers they create to trade.

### *Commission*

The Internal Market continues to provide the framework whereby business, particularly small businesses, can grow and create the jobs needed in the European Union. Clearly the Internal Market works. The Commission estimates that the Internal Market has delivered 2.5 million extra jobs and nearly €900 billion in extra wealth since the barriers came down at the beginning of 1993<sup>148</sup>. But this analysis also demonstrated that while there were significant benefits from a properly functioning Internal Market, the Internal Market did not currently function optimally, especially in the area of services, and opportunities were being missed.

A fresh impetus was required to eliminate weaknesses so that the Internal Market can deliver its full potential in terms of competitiveness, growth and employment, including for small businesses. The Commission's new **Internal Market Strategy 2003-2006** of May 2003 is a ten point plan to make the Internal Market work better. It aims to respond to the challenges of enlargement and an ageing population and to help keep on course progress towards the Lisbon goal. Particular priorities, aimed at business, include improving the implementation and enforcement of Internal Market law, making the free movement of services across borders a practical reality, removing the remaining obstacles to trading in goods and building genuinely open and competitive public procurement markets allowing small businesses to get involved in these markets and help give better value for money to tax payers. The onus will increasingly be on the Member States to actually make the Internal Market work on a day to day basis for entrepreneurs.

There are nevertheless some Internal Market measures in particular where the EU must act to help business. For example, the adoption by the Council and the Parliament of the **Community Patent (COMPAT)**<sup>149</sup> and the proposed Directives on the **Patentability of computer-implemented inventions (SOFTPAT)**<sup>150</sup> and on the **Enforcement of Intellectual Property Rights**<sup>151</sup> will contribute to improvements. The Commission's Action Plans on **Company Law**<sup>152</sup> and **Statutory Audit**<sup>153</sup> will help to ensure that businesses produce reliable accounts which in turn give potential investors confidence to invest.

The Commission in its May 2003 Communication "**Enhancing the implementation of the New Approach Directives**"<sup>154</sup> stated its determination to strengthen the foundations of the system of free movement of goods in anticipation of an enlarged EU. After nearly 15 year of practical experience with the implementation of more than 20 directives based on the New Approach, it is demonstrated that this approach has been very successful but that directives

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<sup>148</sup> [http://europa.eu.int/comm/internal\\_market/10years/workingdoc\\_en.htm](http://europa.eu.int/comm/internal_market/10years/workingdoc_en.htm)

<sup>149</sup> Commission proposal of 1.8.2000 for a Regulation of the Council on the Community patent, COM(2000) 412 final, CNS 2000/0177, OJ C 337 E/45, 28.11.2000, p. E/278.

<sup>150</sup> Proposal for a "Directive on the patentability of computer-implemented inventions", COM(2002) 92 final, 20.2.2002.

<sup>151</sup> Proposal for a directive of the European Parliament and of the Council on measures and procedures to ensure the enforcement of intellectual property rights, COM(2003) 46 final, 30.1.2003, 2003/0024 (COD).

<sup>152</sup> "Modernising Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward", COM(2003) 284 final, 21.5.2003.

<sup>153</sup> "Reinforcing the statutory audit in the EU", COM(2003) 286 final, 21.5.2003.

<sup>154</sup> COM(2003) 240 final, 7.5.2003

based on it can be further improved in a number of ways. The need for a simple and transparent legal framework is particularly important for small businesses. On the basis of the Commission proposals, the Council has invited the Commission to take appropriate steps to enhance the operational efficiency of the New Approach Directives<sup>155</sup>. In particular, the Council recognises the need for a clearer framework for conformity assessment, accreditation and market surveillance.

Small enterprises are predominant in the services sector, but their prospects for cross-border growth are severely hampered by existing legal barriers and disproportionate administrative burdens. The proposal for a **Directive on services in the Internal Market**<sup>156</sup>, adopted by the Commission in January 2004, addresses these barriers and aims to reduce the burdens both on service providers wanting to establish in another Member State and on those providing cross-border services. The December 2003 **Communication on business-related services**<sup>157</sup> sets out measures complementing the proposed Directive. The measures, which include promoting service quality indicators, voluntary standards for the cross-border supply of services, and rules on reporting intangible assets such as training and software investment, aim to promote competition among service suppliers and help customers to compare prices and the nature of services offered. This, combined with better statistics to inform decision-taking, will help to make the markets more transparent. Business-related services are inextricably linked to manufacturing industry and are crucial to its competitiveness.

The **new legislative package on public procurement** to be adopted early 2004 will be essential for modernising Europe's public procurement systems. In parallel, the Commission launched in 2003 a study to measure SMEs' access to public contracts above the EU thresholds<sup>158</sup>. The study, to be completed early 2004, will identify the main concerns of small businesses. It will also provide Member States, awarding authorities and small businesses with cases of good practice. In addition, the Commission has started preparatory work to present, in 2004, an Action Plan on electronic public procurement.

Small businesses, as well as citizens and consumers, need to be much better informed of their rights. Member States are actively encouraged through projects such as the **SOLVIT Network**<sup>159</sup> to solve problems about the misapplication of Internal Market laws, and mistakes by public administrations, so that business and citizens can do the things that the Internal Market provides for in practice and not just in theory.

Further to the consultation on "Co-operatives in Enterprise Europe" launched in December 2001, the Commission is preparing a Communication on co-operative societies in an enlarged Europe. The Communication, foreseen for early 2004, will outline the future orientation of policies and activities in favour of co-operatives at Member State and European level. The **Statute for a European Co-operative Society**<sup>160</sup> was adopted by the Council in July 2003. This statute draws parallels with the Statute for a European Company, but is specifically

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<sup>155</sup> Resolution of 10 November 2003, OJEU No C 282 of 25.11.2003, p. 3.

<sup>156</sup> COM(2004) 2 (COD), 13.1.2004; Press release IP/04/37, 13.1.2003.

<sup>157</sup> "The competitiveness of business-related services and their contribution to the performance of European enterprises", COM(2003) 747, 4.12.2003.

<sup>158</sup> <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-studies/craft-publicprocurement.htm>

<sup>159</sup> Commission Communication on "Effective Problem Solving in the Internal market ("SOLVIT")", COM (2001) 702, 27.11.2001. Commission Recommendation on "Principles for using "SOLVIT" – the Internal Market Problem Solving Network", 7.12.2001, OJ L 331, 15.12.2001, p. 79; [http://europa.eu.int/comm/internal\\_market/solvit/index\\_en.htm](http://europa.eu.int/comm/internal_market/solvit/index_en.htm)

<sup>160</sup> Amended proposal COM(93) 252 final, 6.7.1993, OJ C236 of 31.8.1993.

tailored to the co-operative form of enterprise. The Commission is currently working on a proposal for a **Statute for a European Association**.

As regards mutual societies, the Commission published in October 2003 the consultation document “**Mutuals in an Enlarged Europe**”<sup>161</sup>. The document aims to improve European and national authorities’ understanding of the sector in order to ensure appropriate regulation, to assess the potential of the proposed European Mutual Society Statute to facilitate mutuals’ cross-border activities and foster the creation of new mutuals, and to see how mutuals can help enhance enterprise competitiveness and meet enlargement challenges.

## 7. TAXATION

*“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.”*

### *Member States*

Several new **tax measures to alleviate the burden of SMEs** have been reported. Germany is raising the threshold of turnover up to which enterprises are *exempted from turnover tax* to €17 000. Greece has *simplified tax procedures* for SMEs in its tax reform by e.g. raising exemption thresholds and by rationalising various requirements. Spain has extended its 10% *reduction in total company tax* to all taxpayers that have made investments in new tangible assets. In addition, the existing company tax benefits to assist the self-employed and encourage business investment have been improved. Italy has adopted a law that further increases *deductions for businesses* whose taxable base does not exceed certain limits. The 2004 Austrian tax reform provides *tax incentives* for equity capital for sole proprietorships and partnerships whose retained earnings will be taxed at half the average tax rate up to a limit of EUR 100 000. The general deductible amount has also been raised and the incremental tax regulations have been changed. Sweden has introduced a *tax exemption of both capital gains and dividends* on shares held by companies for business purposes to prevent business income from being subject to cumulative taxation<sup>162</sup>. In addition, new enterprises are granted a three-month respite with the payment of withholding taxes.

To facilitate **business succession**, Spain has modified the law on *inheritance and gift taxes* which provides for a 95% reduction in the value of the taxable amount to extend its scope to usufruct. The Netherlands is *streamlining fiscal policy* for business transfers.

**Other tax measures** reported include the Danish change of *tax rules for investment funds* in order to encourage professional investors such as insurance companies and pension funds to invest in SMEs, especially in smaller innovative enterprises. Denmark has also introduced a new *employee stock options scheme* to provide an opportunity for smaller enterprises to

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<sup>161</sup> [http://europa.eu.int/comm/enterprise/entrepreneurship/coop/social-cmaf\\_agenda/social-cmaf-mutuals.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/coop/social-cmaf_agenda/social-cmaf-mutuals.htm)

<sup>162</sup> The Confederation of Swedish Enterprise and the Federation of Private Enterprises in Sweden in their written comments both criticised the fact that the so called 3:12 tax, making a private investor investing in a small start-up project being more heavily taxed than if s/he were to invest the money in the public stock market, had not yet been changed, despite the fact that discussions and preparatory legislative work has been going on for quite some time.

reduce their salary expenses in the start-up phase. When specific conditions are fulfilled, the company and the employee can agree to have the salary paid in shares, options and warrants without them being taxable income when the employee receives the shares or exercises a warrant or option.

France has improved several of its *tax incentives to attract investments* in businesses and Portugal has introduced some *tax measures for Risk Capital Companies (FCR)* to make them more competitive in the international market.

### *Commission*

As described in last year's report, the current Commission work in the area of taxation is based on the Company Tax Study and Communication of October 2001<sup>163</sup>, which provide for a two-pronged strategy for tackling tax obstacles and inefficiencies in the company tax field. Progress includes the creation of a "**Joint Transfer Pricing Forum**", a **proposal for revising the Parent-Subsidiary Directive**<sup>164</sup>, which is designed to tackle the taxation of intra-group dividend payments, and a **proposal for revising the Merger Directive**<sup>165</sup>, which aims at facilitating cross-border restructuring. Both proposals aim at widening the scope of the directives and relaxing the conditions.

Work on possible '**comprehensive approaches**' continues. These would consist in providing, in the longer term, companies with a consolidated corporate tax base for their EU wide activities. Research currently concentrates on the International Accounting Standards to be used from 2005 as a starting point for developing a common EU tax base, on a 'Formula Apportionment' for dividing the tax base between the Member States concerned and on developing the idea of "Home State Taxation" into a pilot project for SMEs<sup>166</sup>.

The Commission services also launched, in September 2003, a very comprehensive **compliance cost survey** for 3 000 EU companies. The survey aims to provide new insights into the costs for companies resulting from the need to cope with 15 separate tax systems and on the main drivers of this cost – an issue of major importance to SMEs. The survey, which also covers VAT, made use of the Business Test Panel tool (see heading 2.4.1).

The November 2003 Commission Communication "An Internal Market without company tax obstacles – achievements, ongoing initiatives and remaining challenges"<sup>167</sup> reported in detail on the outcome of these initiatives and presented the Commission's conclusions and priorities for coming years. This was followed by a high level conference on the subject in December 2003, organised jointly by the Italian Presidency and the Commission.

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<sup>163</sup> Communication from the Commission, "Towards an Internal Market without tax obstacles: A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities", COM(2001) 582 final, 23.10.2001, Commission Staff working paper, Company Taxation in the Internal Market, SEC(2001) 1681, 23.10.2001,

<sup>164</sup> [http://europa.eu.int/comm/taxation\\_customs/taxation/company\\_tax/index.htm](http://europa.eu.int/comm/taxation_customs/taxation/company_tax/index.htm)  
Proposal for a Council Directive amending Directive 90/435/EEC on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, COM(2003) 462 final, 29.7.2003, 2003/0197 (CNS).

<sup>165</sup> Proposal for a Council Directive amending Directive 90/434/EEC of 23 July 1990 on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States, COM(2003) 613 final, 17.10.2003, 2003/0239 (CNS).

<sup>166</sup> [http://europa.eu.int/comm/taxation\\_customs/taxation/consultations/home\\_state\\_sme.htm](http://europa.eu.int/comm/taxation_customs/taxation/consultations/home_state_sme.htm)

<sup>167</sup> COM(2003) 726, 24.11.2003.

Based on a study undertaken in 2002, a group of experts in 2003 drafted a report which analysed the use of **employee stock options** in the EU and made recommendations on how the legal and administrative environment for this instrument of employee participation could be improved<sup>168</sup>. In particular they described at what time and on what basis employee stock options should, in general, be taxed and how double taxation in cross-border cases can be prevented.

To help the Member States make further progress in implementing the 1994 Commission Recommendation on the **transfer of small and medium-sized enterprises**<sup>169</sup> and to respond to the proposals for action made in the Best Procedure project on transfer of businesses<sup>170</sup>, the Commission launched a new project in October 2002. The final report, published in September 2003<sup>171</sup>, lists benchmarks for six selected key areas of the Commission Recommendation and describes the measures already taken or being planned by the Member States, Norway and the EU accession countries in these areas and in response to the six recommendations of the Best project.

## 8. SUCCESSFUL E-BUSINESS MODELS AND TOP-CLASS SMALL BUSINESS SUPPORT

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

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

### *Indicators and targets*

Six Member States have set up quantitative targets linked to e-business. **Germany** wants 20% of its SMEs to have an e-strategy by 2005 and **the Netherlands** wants 66% of its SMEs to carry out online transactions by 2005. **France and Ireland** want respectively 90% and 95% of their SMEs<sup>172</sup> to have Internet access by 2006 and **Spain** wants 97% of its enterprises with over 10 employees to have Internet access by 2006 and 99% by 2010. **Portugal** wants 50% of its enterprises to have access to broadband Internet for by 2005.

As to support services, France aims to have 865 new enterprises created through public incubators in 2006.

In the Enterprise Policy Scoreboard, latest data indicate that the EU is catching up with the United States in terms of ICT expenditure. With ICT expenditures of 5.4% of GDP **Sweden**

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<sup>168</sup> [http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/stock\\_options/final\\_report.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/stock_options/final_report.htm)

<sup>169</sup> 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.

<sup>170</sup> [http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/transfer\\_business/best\\_project.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/best_project.htm)

<sup>171</sup> [http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/transfer\\_business/follow-up.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/follow-up.htm)

<sup>172</sup> 95% of **all** enterprises in the case of Ireland.

has taken the lead, followed by **the United Kingdom, the Netherlands, Denmark and Finland**, while Greece, Spain, Ireland, Italy and Portugal all invest less than 3%.

Rates of Internet use by enterprises have risen markedly across the Member States, although differences remain. Enterprises in **Finland, Sweden and Denmark** are in the lead, while there is scope for improvements among enterprises in the United Kingdom, Greece, Portugal and Italy.

Electronic commerce continues to be a practice of secondary importance for enterprises with many businesses buying rather than selling online, **Sweden and Finland** being in the lead for enterprises having purchased via Internet in 2002 and the **Netherlands and Denmark** for enterprises having received orders via Internet in the same year. Enterprises in Spain, Italy, Greece and Portugal are lagging behind in this field. Despite its frontline position in selling via Internet, the Netherlands seems quite far from its target of 66% of SMEs carrying out online transactions by 2005, since they are currently only at 34% for receiving orders and 32% for purchases via the Internet, including enterprises of all sizes. The primary business use of Internet continues to be the distribution of information on products and services on sale. Banking transactions are also being carried out to a large extent via the Internet.

Rates of broadband penetration have risen considerably in recent years but remain lower than internationally comparable rates. **Denmark, Belgium and Sweden** are all at around 100 broadband lines per 1000 inhabitants, while Greece and Ireland are far behind, with 0.2 and 2.4 lines per 1000 inhabitants, respectively.

#### *Member States*

As part of the Danish E-business Action Plan, an initiative to help SMEs get started with **e-commerce** has been launched. The initiative focuses on SMEs in their role as suppliers to the public sector and private companies and aims at helping them to realise the first easy benefits and savings from e-commerce and to get their systems ready. Germany has launched the “*PROZEUS*” (processes and standards) project which should enable SMEs to learn about the potential of e-business and to learn how to do e-business. It has also founded an *expert network to exchange experiences* among training providers, entrepreneurs and scientists in order to promote information and knowledge management in SMEs and to make enterprises aware of the specific technical solutions developed for processing information. Furthermore, through the “*WissensMedia*” (Knowledge Media) project, Germany promotes innovative solutions for knowledge management in SMEs and public administration.

Italy is providing *funds to promote the development of electronic business practices* among SMEs in every economic sector, especially in depressed areas. Furthermore, an *E-Business Committee* has been set up to bring together the ministries involved in innovation, the main trade unions, consumer organisations and representatives of leading firms in various sectors. The task of the Committee is to identify and propose regulatory and financial measures in support of generalising e-business among SMEs.

Finland has launched a free information service of e-business for SMEs, “*the NetMate*”, on the Internet ([www.verkkokaveri.fi](http://www.verkkokaveri.fi)). It will later be complemented by a practical guide on how to start using e-business. In the nursing sector, a *national nursing service network “HOPE”* has been introduced. It contains a national database of the private companies engaged in the nursing sector and is a marketing channel for these enterprises ([www.hoivayrittajat.com](http://www.hoivayrittajat.com)). Sweden has launched the *SFTI project* (Single Face to Industry) in order to develop a standard and tools for easy electronic invoicing.

At **local level** in Ireland, a number of County Enterprise Boards are continuing with a range of initiatives to promote *e-learning activities*. In addition, the recently launched “*CCI PRISM III e-Business Programme*” will focus on e-procurement as the main impetus to use of ICTs among SMEs.

Several actions are taking place in the area of **business support**.

Denmark is *reforming its public advisory services* in order to provide smaller companies easier access to these services and to strengthen their quality. The new structure will use the web portal for entrepreneurs, [www.startguiden.dk](http://www.startguiden.dk), as a tool for providing online assistance. Denmark is also promoting a *network of private advisers* who offer free or low cost advisory services and counselling and it has developed a *web guide on finance*, [www.finansieringsguiden.dk](http://www.finansieringsguiden.dk), which provides entrepreneurs an overview of possible sources of finance.

The action “*GründerService Deutschland*” (Founder Service for Germany) is being piloted in some German regions. It aims at training expert teams at central call-in points in the regions and organising “*founder days*” in order to provide advice and coaching for start-ups. Spain has launched the “*España.es plan*” to promote information society by developing sectoral services and solutions. In France, the “*Business Creation Train*”, with the participation of the Secretary of State for SMEs, stopped in 13 towns providing over 14 000 people with the opportunity to learn about the new opportunities offered by business creation.

In Finland, a new expert service, “*NetworkRating*” that evaluates and develops the networking capacity of SMEs, has been launched. Furthermore, a *survey* on the current status of advisory services provided for micro enterprises that have been in operation for less than three years is currently being carried out. In the United Kingdom, “*Small Business and Government – The Way Forward*”, is the new policy framework for a government-wide approach to helping small firms. Norway is reforming its *public support system for innovation*. Four existing institutions will be merged into one in order to create synergies and to provide a *single entry point* to the full spectrum of public support measures for business.

At **regional level** in the United Kingdom, the business support service in Wales was re-launched under the brand name “*Business Eye*”. It provides an easily accessible entry point for all business support enquiries in Wales and a free information and signposting service for existing and potential businesses ([www.businessseye.org.uk](http://www.businessseye.org.uk)). In Scotland, the “*Business Gateway*” was launched as a first stop access to consistent support and advice to start-ups, existing and growing businesses of all size.

### *Commission*

The future challenges in support of e-business for SMEs are further analysed and described in the Commission’s March 2003 communication on “**Adapting e-business policies in a changing environment: The lessons of the Go Digital initiative and the challenges ahead**”<sup>173</sup>. The European e-Business Support Network (eBSN)<sup>174</sup>, which brings together governmental e-business experts from different fields, including representatives from regional and national e-business support initiatives and public-private partnerships, aims to stimulate

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<sup>173</sup> COM(2003)148 of 27.3.2003.

<sup>174</sup> Established in 2002 under the umbrella of the Europe 2005 Action Plan and building on the results of the Best Procedure project on national and regional policies in support of e-business for SMEs; <http://europa.eu.int/comm/enterprise/ict/policy/e-bus-snfsme.htm>.

the exchange of experiences. To facilitate this process, an **eBSN portal** will be established in early 2004, providing information about existing e-business initiatives and best practise cases.

The Commission's **e-business w@tch function**<sup>175</sup> has studied the e-business diffusion among enterprises for 15 manufacturing and service sectors across Europe. As a result, the "**European e-Business Report 2003**"<sup>176</sup> was published in August 2003. The report confirms that European enterprises have made good progress in using ICT and e-business tools but that major differences exist, which call for specific e-business policies, notably in favour of SMEs, to avoid the risk of a digital divide between Member States, sectors and enterprise size classes.

To promote a favourable e-business environment for SMEs, the Commission has also launched the **European E-business Legal Portal**<sup>177</sup>, which became operational in April 2003. This portal provides SMEs with relevant and user-friendly information on legal and regulatory issues of e-commerce. The information services, such as an overview of relevant legislation, personalised questions and answers service, frequently asked questions, articles, glossary, e-trust related information, are available in 12 languages<sup>178</sup> and will be extended to the languages of the acceding and candidate countries.

Following the open consultation on trust-related issues in business-to-business (B2B) e-marketplaces, the Commission Staff Working Paper on "**B2B Internet trading platforms: Opportunities and barriers for SMEs – A first assessment**"<sup>179</sup> was presented in November 2002. To further advance the issue, an expert group with representatives of business and industrial associations and e-marketplace operators was set up to identify actual and potential barriers and to propose possible actions to facilitate the use of B2B Internet trading platforms by SMEs. As a result, a **European portal** to provide better information will be set up in early 2004.

The **MEDIA pilot projects**<sup>180</sup> (mentioned above, see heading 2.3.1) also include projects aiming at developing e-business models that can be used by the SMEs in the audiovisual sector.

Following the work on support services for micro, small and sole proprietor businesses<sup>181</sup> and on top class business support services<sup>182</sup>, the Commission, through the Community Initiative **EQUAL** funded by the European Social Fund (ESF), has also supported the testing of inclusive business support services for disadvantaged groups in Europe<sup>183</sup>.

Through the **Best Procedure project "Promoting Entrepreneurship amongst Women"**<sup>184</sup>, the Commission identified 132 national or regional measures and actions supporting female entrepreneurs who create or wish to expand their firms. A number of good practices were identified<sup>185</sup>. The project highlighted the value of tailored-made support services for female

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<sup>175</sup> <http://www.ebusiness-watch.org/marketwatch/>

<sup>176</sup> Available at <http://www.ebusiness-watch.org/marketwatch/resources/resources.htm>.

<sup>177</sup> <http://www.ebusinesslex.net/>

<sup>178</sup> The 11 official Community languages and Norwegian.

<sup>179</sup> SEC(2002) 1217, 11.11.2002; see <http://europa.eu.int/comm/enterprise/ict/policy/b2b/index.htm>.

<sup>180</sup> [http://europa.eu.int/comm/avpolicy/media/pilot\\_en.html](http://europa.eu.int/comm/avpolicy/media/pilot_en.html)

<sup>181</sup> <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-studies/craft-supportserv.htm>

<sup>182</sup> [http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/top-class/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/top-class/index.htm)

<sup>183</sup> [http://europa.eu.int/comm/employment\\_social/equal/index.cfm](http://europa.eu.int/comm/employment_social/equal/index.cfm)

<sup>184</sup> <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/bestproject-women.htm>

<sup>185</sup> Including practices from the USA, Canada, Australia, Japan and New Zealand.



entrepreneurs and the need for further work focused on the issues of information, networking and access to finance. The **European Forum “Female Entrepreneurship”**, organised in Brussels in March 2003 and attended by 400 representatives from 30 countries and international organisations, debated the findings of the project and the necessary follow-up.

In June 2003, the Commission organised a European conference on **Ethnic Minority Entrepreneurs**. The conference highlighted the important economic potential of ethnic minority entrepreneurs, but also focussed on the specific problems facing these entrepreneurs when starting and expanding their businesses. A number of good practices were presented in response to these problems, and the conference concluded that there is a need for a more systematic networking, examination and exchange of good practices. To this effect, a study will be carried out, with final results expected in 2005.

Two projects concerning support for innovative start-ups were launched in January 2003, in the framework of the Pilot Action of Excellence on Innovative Start-ups, PAXIS<sup>186</sup>. The **Biolink project** aims to identify successful experiences gained from an international consortium of five bio-technology incubators, thus enabling the design of a toolkit for best incubation practice that will subsequently be applicable to incubators in other fields of technology. The **Tractor project**, to be implemented in regions in Spain, Sweden, France and Slovenia, aims to assist the creation and consolidation of innovative start-ups by integrating and formalising new practices, supplying support services and providing training.

The Gate2Growth (see heading 2.2.1) **Incubator Forum network**<sup>187</sup>, launched in 2003 with the support of the Commission, is a pan-European network of professional managers of technology incubators and incubators linked to research institutes and universities, with the aim to exchange experience and good practices, develop the professional capacity of those working in technology incubation and to cooperate closely with national incubation associations. The Commission also continues to run and update the **Business Incubators database**<sup>188</sup>. The number of registrations has been steadily growing<sup>189</sup> and visits to the site are in the range of 2 500 per month. The top ten sectors represented among the registered business incubators are software development, generalist business incubators, e-business, computer technology, biotechnology, information and communications technology (ICT), e-commerce, communication, informatics and engineering.

The regularly updated and expanded **SMIE database**<sup>190</sup> contains over 2 500 business support measures and 120 good practices from 25 countries (EU, EEA and six candidate countries)<sup>191</sup>. The most recent addition to the database are public measures to support and promote corporate social responsibility. The database is a unique reference and information tool that facilitates comparative analysis, benchmarking and evaluation of support measures across Europe.

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<sup>186</sup> <http://www.cordis.lu/paxis/>

<sup>187</sup> <http://www.gate2growth.com/IncubatorForum.asp>

<sup>188</sup> <http://europa.eu.int/comm/enterprise/bi/index.htm>. The database was created following the Best Procedure project on business incubators, [http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/incubators/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/incubators/index.htm), <http://europa.eu.int/comm/enterprise/bi/index.htm>.

<sup>189</sup> 734 as of the last count.

<sup>190</sup> <http://europa.eu.int/comm/enterprise/smie>

<sup>191</sup> All measures are available in English as well as the language of their country of origin with a total of 20 European languages used in the database.