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Report on the implementation of the European Charter for Small Enterprises

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1. SMALL BUSINESSES: KEY TO COMPETITIVENESS IN THE ENLARGED EU

Small businesses play a central role in the European economy. Some 25 million small businesses, constituting 99% of all businesses, employ almost 95 million people, providing 55% of total jobs in the private sector.¹ Small businesses are thus crucial for growth and employment all over Europe.

These small businesses are a key source of business dynamism and innovation. To allow them to play their full role in meeting the Lisbon objective of making Europe the world's most competitive and dynamic knowledge-based economy, the Heads of State or Government endorsed the European Charter for Small Enterprises in 2000². The Charter embodies the “*think small first*” principle and the recognition that small enterprises are the backbone of Europe's economy and the key to our competitiveness.

Based on the open method of coordination introduced by the Lisbon European Council, the Charter calls upon the Member States and the Commission to take action in ten key areas to support small enterprises. To complement the Charter, the Entrepreneurship Action Plan³ addresses a wider range of entrepreneurship-related issues to promote entrepreneurship across Europe. These challenges were again underlined as essential by the High Level Group on the Lisbon strategy chaired by Mr Wim Kok⁴.

The Charter is expanding geographically. Following its endorsement by the candidate countries in 2002, the Charter has become the cornerstone of small business policy in the enlarged Europe. In 2003, the countries of the Western Balkans endorsed the Charter, followed by Moldova in 2004. 35 countries now participate in the Charter process. Based on the European Charter for Small Enterprises, in October 2004 the Mediterranean partners⁵ signed the “Caserta Declaration” on the “Euro-Mediterranean Charter for Enterprise”. This steady enlargement of participating countries, on a voluntary basis, shows the momentum the Charter has built up by bringing together key aspects of policy contributing to the small business environment.

The regular Charter review process to identify and highlight progress, including bilateral meetings with the Member States where business organisations actively participate, ensures that the Member States stay active and keep living up to their commitment to improve the small business environment on a continuous basis. By implementing the Charter, several European regions are also stepping up efforts in fulfilling the Member States' commitments.

The participation of business organisations in the Charter process is indispensable. It contributes to a more realistic approach and ensures proper feedback to the Commission and the Member States. The great interest in the Charter shown by business organisations and their involvement in and active contribution to its implementation is highly appreciated.

1 “Europe” including EU-25 + 3 candidate countries + Iceland, Liechtenstein, Norway and Switzerland. Source: Observatory of European SMEs, 2003/7.

2 http://europa.eu.int/comm/enterprise/enterprise_policy/charter/index.htm

3 COM(2004) 70 final, 11.2.2004

4 http://europa.eu.int/comm/lisbon_strategy/group/index_en.html

5 Morocco, Algeria, Tunisia, Egypt, Jordan, Israel, Palestinian National Authority, Lebanon and Syria.

The good practices identified in the annual Charter implementation reports provide a major fund of knowledge. It is the identification, dissemination and active use of this knowledge that represents the real added value of the Charter process. The annual European Charter conferences to promote and discuss good practices successfully contribute to stimulate a more interactive exchange of experiences.

The Charter process has led to progress in the field of Community policies affecting small and also medium-sized enterprises. At the same time the intervention of the SME Envoy⁶ is also contributing to the development of a better coordinated and more ‘SME-friendly’ approach throughout the Commission.

The Charter helps focus the attention of policy-makers at the highest level on the need for continuous improvement, not least through learning from each others’ best practices. The new Member States have been particularly active in learning from others and early results demonstrate that this approach is successful. The Charter is an effective tool to bridge performance gaps in the EU, even though the real impact on the small business environment sometimes takes considerable time to show.

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

* * *

This is the fifth annual implementation report on the Charter⁷, based on national reports from the participating countries. It presents a snapshot of the main developments from autumn 2003 to autumn 2004 but does not aim to provide a comprehensive overview of all existing measures. It identifies strengths and weaknesses across the EU and its neighbours, highlights promising national measures and issues recommendations for future action, thereby strengthening policy in support of small businesses and maintaining the efforts towards the Lisbon objective.

This report is complemented by supporting documents, which give a comprehensive overview of recent measures undertaken to implement the Charter by the Member States and Norway, the candidate countries, Moldova and the countries of the Western Balkans, as well as the Commission⁸.

2. IMPROVING THE SMALL BUSINESS ENVIRONMENT

Complete information about the developments mentioned below can be found in the supporting documents, together with detailed recommendations for further action.

6 The SME Envoy was appointed within the Commission services in December 2001 to step up exchanges with small and medium-sized enterprises – SMEs – and their representative bodies and to ensure a proper consideration of SME needs within all EU policies, programmes and legislation.

7 Previous reports: COM(2001) 122 final, 7.3.2001; COM(2002) 68 final, 6.2.2002; COM(2003) 21 final, 21.1.2003; COM(2004) 64 final, 11.2.2004.

8 SEC(2005) 167; SEC(2005) 168; SEC(2005) 169; SEC(2005) 170.

2.1 Member States and Norway: Tangible results in this year's Charter priority areas

This year's report examines in more detail progress made in three priority areas, selected from the ten Charter areas:

- education for entrepreneurship, especially secondary education;
- better regulation, especially impact assessment and bankruptcy law; and
- skills shortages, especially measures to overcome lack of skilled technicians and engineers.

Charts showing the aggregated number of measures taken by the Member States in these areas – out of a selection of proposed useful measures – can be found in the Annex.

Education for entrepreneurship – Fostering entrepreneurial mindsets at school

Developments show a dynamic picture for entrepreneurship education. However, a coherent framework is still missing in many cases. As entrepreneurship education has a horizontal dimension, a necessary first step is establishing formal links between different sectors of the public administration, notably Ministries of Economy and Education, with the aim of setting up a global strategy. Such cooperation already exists in several countries, including **France, the Netherlands, Finland and Norway**. Recent steps in this direction have also been taken by some of the new Member States, in particular **Lithuania**.

The next step is the development of entrepreneurial skills and attitudes explicitly recognised as one objective in the national curriculum of comprehensive and vocational secondary schools. In this context, entrepreneurship should be understood in its broader meaning: not only as a means for creating new businesses, but also as a general mindset. So far, countries such as the **Czech Republic, Spain, Ireland, Poland, Finland and Norway** where entrepreneurship is already explicitly recognised by the curriculum for comprehensive secondary education are a minority. More positive examples can be found in vocational and technical schools.

Where schools have a large degree of autonomy, it is advisable to support the take-up of measures to promote entrepreneurship education. While there are some good examples, active promotion measures have so far been taken on a limited basis. Insufficient provision of specific training to teachers remains a problem. Interesting developments can be highlighted in the **Netherlands**, where the government supports pilot projects in schools and disseminates good practice, and in the **United Kingdom**, with its “Enterprise Education Pathfinders”.

Programmes based on students running mini-companies or virtual firms should be recognised and supported by the educational authorities, and also be better embedded into the curricula – as in **Ireland** – since they provide well tested methodologies that can be adapted to the local context. Some 600 000 students in Europe every year participate in student companies. At all levels of education, non-governmental organisations are promoting programmes based on these methodologies, in many cases under the umbrella of networks such as *Junior Achievement-Young Enterprise*, *EUROPEN (Practice Firms)* and *JADE*. An interesting example can be found in **Austria**, with systematic application of practice firms in vocational secondary education.

In some countries, awareness of the importance of entrepreneurship learning in secondary education still needs to be increased. Further policy developments are particularly needed in **Cyprus, Hungary and Slovakia**. In **Portugal**, there are no public initiatives to strengthen entrepreneurship in secondary schools. More effort should also be made by **Greece**, where government initiatives in this area are currently limited to technical secondary education.

Better regulation – Making compliance easier for small businesses

In the last year, several countries have launched extensive programmes to improve the regulatory environment for businesses and in nearly all Member States impact assessments are high on the political agenda. In a significant number of Member States, impact assessments are already part and parcel of the preparation of new legislation. In practice, however, there are difficulties in ensuring that the results are actually used to improve the proposals, thus avoiding that the assessment becomes a mere formality.

The over-proportional negative effects on small businesses are hardly ever assessed. Only seven countries carry out tests on impact on small enterprises. Exempting small enterprises from certain regulatory obligations, as proposed by the Charter, can also be useful in alleviating the burden on small enterprises. However, only a few countries allow such exemptions.

The **Netherlands and the United Kingdom** are among the leaders in the use of regulatory impact assessment. Good progress has also been made in **Poland**. All Member States are recommended to use impact assessments as a standard tool to improve regulatory quality and remove administrative burdens.

Increased cooperation between government departments is encouraged. Impact assessment work and monitoring could be successfully coordinated through a horizontal unit within the government and this is already the case for many Member States. The introduction of e-government procedures, e.g. in **Estonia and Latvia**, has helped stakeholder consultation in the early stages of drafting legislative proposals and carrying out impact assessments, and is recommendable.

Whereas good progress has been made in the use of impact assessment in many countries, **France, Portugal, Slovenia and Slovakia** need to step up their efforts in this area. In some countries, e.g. **Poland**, the period for consultation of stakeholders is too short to arrive at a well-researched opinion on the impact on businesses.

Bankruptcy law – Facilitating a fresh start

Excessively severe legal consequences of bankruptcy and complex bankruptcy procedures can obstruct entrepreneurship. Time- and money-consuming bankruptcy procedures need, therefore, to be revised or give ground to new laws aimed at quick, low cost, accessible, streamlined and predictable procedures. Often, failed entrepreneurs are more successful at the next attempt and enabling honest bankrupts to try again would contribute positively to economic growth. Making a fresh start should, therefore, be made easier for non-fraudulent entrepreneurs.

During the past year, half of the Member States have either reviewed national bankruptcy laws or are in the process of doing so. An interesting recent example is **Spain**, which has substantially improved its insolvency law. As for rescue and restructuring procedures aiming at the survival and continuity of viable enterprises, they do not exist in all countries and,

where they do, they usually need improvement. The new **French** bill for rescuing enterprises, which aims at early detection of financial difficulties and promotes a second chance, and the **Dutch** project *Debt restructuring for entrepreneurs*, which aims at streamlining the process of extrajudicial debt restructuring, are promising recent developments.

Taking action in a timely manner may substantially increase the chances of rescuing an enterprise in financial difficulties. Low cost advice to entrepreneurs in financial difficulty – as provided by the *Centre for the self-employed and small enterprises in difficulties* in the Brussels-Capital region in **Belgium** and by the *Entrepreneurs' sounding board* in the **Netherlands** – should be made available to increase the chances of rescue. Continued support from business partners, financiers, creditors and other stakeholders can help an entrepreneur in trouble to avoid unnecessary market exit and needs to be promoted. To reduce the stigma of failure, the public authorities' approach to bankruptcy should in general be more pro-active by encouraging preventive action rather than imposing penalties for late action.

Although several new measures have been taken to improve bankruptcy and restructuring procedures and to promote a fresh start, more action is needed in some countries. For example, there is no progress in **Greece** in this area and there are no early warning mechanisms in **Luxembourg**. Moreover, bankruptcy procedures focusing on liquidation in **Slovakia** and restructuring procedures in **Poland** are still expensive and complicated. While progress has been made, sometimes the focus of the measures taken is not in line with the recommendations of the Best Procedure project on “Restructuring, bankruptcy and a fresh start”. For example, in the **Czech Republic and Portugal**, the revised Insolvency Bills will strengthen the position of the creditors, thereby endangering the new features introduced to promote the continuity of viable enterprises.

Overcoming skills shortages – Making education and training more responsive to business needs

Most countries monitor current and future skills needs in increasingly systematic processes and in collaboration with other stakeholders such as business, social partners, regional and sectoral organisations. Some countries with traditional links between universities and enterprises, such as **Sweden**, have set an institutional framework for this cooperation. Other countries are facilitating these links through funding, surveys, sectoral initiatives or schemes to combine secondary school studies with work training as in **Italy**.

As a result of the regular skills monitoring, Member States are gradually reviewing educational and training policies and making them more responsive to current and anticipated structural changes in the labour market. The involvement of all partners, particularly enterprises, in the development and definition of educational and vocational training courses needs to be continued and stepped up. Apprenticeship systems are being updated and made more attractive, e.g. in **France**, and also made more responsive to market needs, as in **Austria**. Moreover, technical education is strengthened and informal education is increasingly being formally recognised.

The importance of lifelong learning is often underlined, though few countries outline a comprehensive system to promote it. New learning possibilities, e.g. e-learning and clustering of training provision, are only explored in a few countries such as **Ireland, Slovenia and the United Kingdom**. Both public and private investment to develop key competencies of people throughout life should be increased.

Guidance and awareness-raising can help improve the image of certain professions and attract young people towards careers with potentially strong future prospects, such as engineering and other technical and information and communications technologies specialisations. Member States as well as business and professional organisations are increasingly tackling this issue through information and career guidance, television programmes and science clubs. Interesting recent developments include initiatives by sectoral organisations in **Germany and Ireland**.

Potential areas for improvement include skills monitoring at federal and regional level in **Belgium** to ensure greater mobility among the country's regions. The **Czech Republic, Greece and Slovakia** need to develop links between universities and business while **Italy** could step up its efforts in supporting specialised training in enterprises.

2.2 Candidate countries: The need to promote entrepreneurial skills and improve the legal framework

The main challenge for the candidate countries is to improve the competitive performance of their enterprises. For **Bulgaria and Romania**, part of the challenge is to improve the legal framework and favour the creation and growth of new enterprises.

While business impact assessment needs to be further strengthened in **Romania and Turkey**, **Bulgaria** has made good progress in this area. To improve the availability of skills, a few good measures can be reported. However, further efforts are needed to provide lifelong training and an adequate supply of skills adapted to the needs of small business.

2.3 Western Balkans and Moldova: Reaping the benefits of the Charter process

The Charter process has landed on fertile ground in the countries of the Western Balkans and in Moldova. Further efforts are required in **Bosnia-Herzegovina and Kosovo** to reap the full benefits of the Charter. The Charter is also instrumental in the Commission's evaluation of the EU Membership applications of Croatia and the former Yugoslav Republic of Macedonia.

Most progress has been made in the area of cheaper and faster start-up with several countries – in particular **Serbia, Kosovo, Moldova and Bosnia-Herzegovina** – speeding up the process and introducing the required legislation. However, only **Moldova** has a one-stop shop system. Education and training for entrepreneurship is present in some form in all countries, but remains an optional, extra-curricular activity. Regulatory reform is ongoing in most countries. So far, very few countries have introduced regulatory impact assessments or are planning to introduce them.

2.4 Commission: Reinforcing the SME dimension across Community policies

SME dimension better integrated in EU activities...

The SME dimension is more and more integrated in most activities of the European Union. There are numerous programmes or initiatives that are designed for or mainly benefit SMEs, showing that the implementation of the Charter is progressing well.

The Multiannual Programme for Enterprise and Entrepreneurship and in particular SMEs⁹, with its increased contribution to financial instruments and the outcome of its recently completed Best Procedure projects¹⁰, continues to contribute successfully to improving the business environment for SMEs. Under the Entrepreneurship Action Plan, the Commission is making good progress on the implementation of its key actions.

Moreover, the Commission has implemented several support programmes that directly or indirectly benefit SMEs. The Structural Funds form the most important programme for SMEs accessible at regional and local level. Emphasis has also been put on SMEs in the field of research, with the setting of a clear target in terms of SME participation. Many other programmes have been geared towards the needs of SMEs, e.g. in the fields of environment, energy, training or internationalisation. Other policies, such as competition policy or trade policy, have also taken into consideration the specific situation of SMEs.

... but improvements needed to facilitate SME participation in EU programmes

Improvements are still needed in order to facilitate SME participation in EU programmes. Often, procedures are not adapted to SMEs, be it in terms of administrative requirements or in terms of the time taken to assess projects. To facilitate SME participation, further measures are envisaged, including political prioritisation and facilitating the participation of SMEs specifically regarding the selection process and management of programmes. The provision of information and support for SMEs, in particular through Commission networks such as the Euro Info Centres and the Innovation Relay Centres, also needs to be enhanced and the relevance of EU programmes for SMEs systematically evaluated.

As far as legislation and its impact on SMEs are concerned, progress in the field of impact assessment procedures has brought encouraging results. This has led to better-informed policy making and increased consultation. Legislation adopted or proposed by the Commission has taken into account the situation of SMEs, leading in some cases to exemptions or adapted requirements for small businesses, e.g. reduced fees and tailor-made administrative assistance in the area of pharmaceuticals. The Commission is currently refining and simplifying its internal guidelines for impact assessment to better assess impacts, e.g. on business competitiveness.

3. JOINT SUCCESS THROUGH SHARED LEARNING

The open method of coordination yielding results...

The Charter process has proved very effective in identifying areas where Member States have made progress in promoting small businesses. It also provides valuable information on areas where more needs to be done. Even though Member States have made efforts to implement actions under all Charter areas, they have different priorities and areas of expertise.

A further valuable source of recommendations and examples of good, proven practices is available through the Best Procedure project reports. The Commission, together with Member

9 Council Decision 2000/819/EC of 20 December 2000, OJ L 333, 29.12.2000, p. 84.

10 In the framework of the Multiannual programme, 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, thereby contributing also to the implementation of the Charter.

States' experts, has been working on several Best Procedure projects since 2001, resulting in examples good practice, conclusions and recommendations. Thereafter, it is important to take action on the basis of these conclusions and recommendations.

...as testified by a number of concrete examples

For the third time, an increasing number of Member States have drawn inspiration from measures developed in other Member States and recommendations of the Best Procedure projects, thus benefiting from one another's strengths.

For example, the Best Procedure project on "Education for entrepreneurship" has contributed to recent positive developments in **Estonia, Lithuania and Norway**. In the preparations for the enlarged entrepreneurship programme in **Sweden**, the Best Procedure project together with the Commission's Action Plan on Entrepreneurship and the national Charter reports of other countries, in particular those of **Spain and Finland**, served as inspiration.

The Best Procedure project on "Restructuring, bankruptcy and a fresh start" has also been an inspiration to several countries. **Cyprus, Latvia, Hungary and Norway** state that they have taken the recommendations of the project into account when revising their legislation.

In **Spain**, before the new Agency in charge of regulatory impact assessment will start its operations, impact assessments are carried out based on the evaluation guidelines applied in other Member States. **Bulgaria** has elaborated a methodology for impact assessment taking into account the experience of the **Netherlands and Slovakia**.

Some countries have taken particular care to make sure that the recommendations of the Charter and the results of the Best Procedure projects get a practical response. **Malta** publishes an annual action plan, outlining initiatives for each of the ten Charter areas and setting associated quantifiable targets which are monitored in a scoreboard. The initiatives are discussed with all key players at a national conference and in three Parliament sessions.

For other countries, such as **Denmark and France**, there still seems to be scope for improvement of the follow-up in order to benefit more from the whole process.

Charter conferences provide a successful forum for exchange of good practice

The Commission continues to improve the dissemination of the good practices identified. The Dublin Charter Conference in June 2004 successfully provided a forum for exchanging good practices identified in the latest Charter reports. The next Charter conference will take place in Luxembourg on 15-16 June 2005. In addition, national conferences on the Charter, e.g. in Malta, further contribute to keeping small businesses high on the agenda.

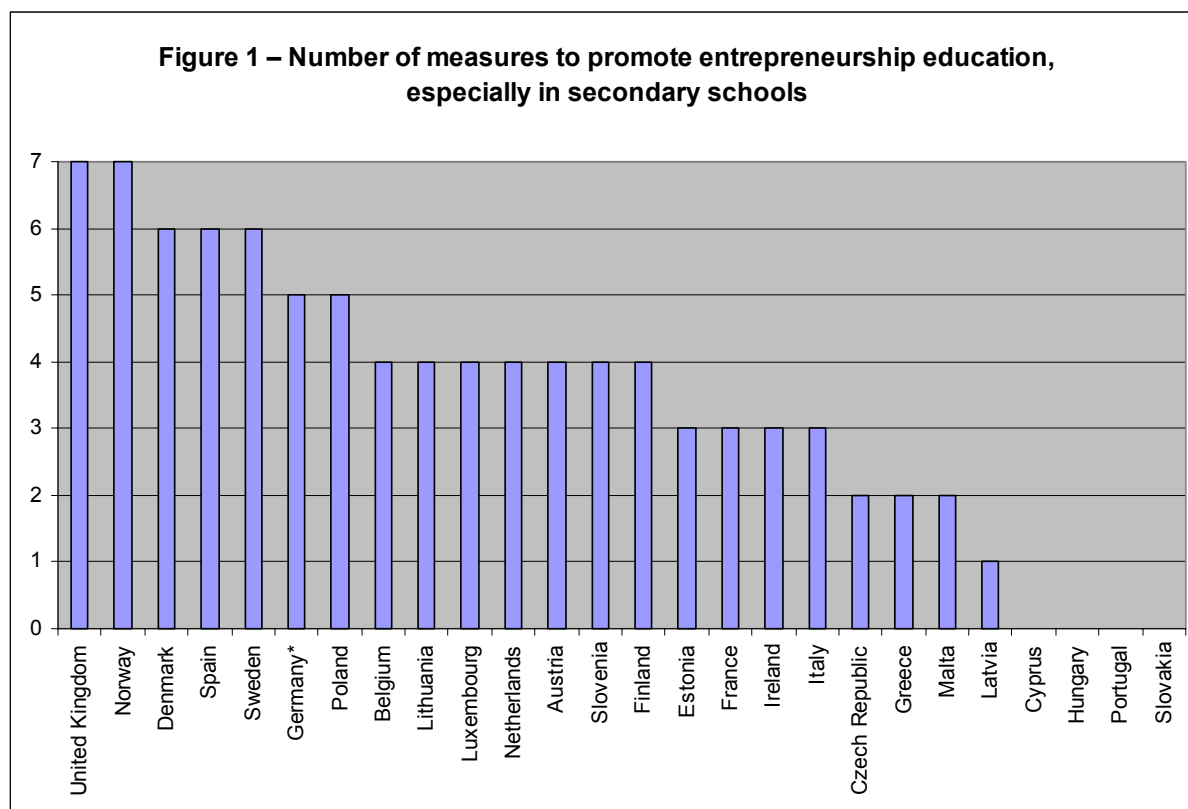
4. TOWARDS THE LISBON OBJECTIVE

Europe still has a long way to go to meet the Lisbon objective for 2010. Progress is strongly dependent on success in our efforts to foster entrepreneurship and small businesses. We need an environment where small businesses do not struggle with red tape and where entrepreneurial people can transform their ideas into businesses. The Kok report, presented last November as a contribution to the midterm review of the Lisbon strategy, insisted on the need to create the right climate for entrepreneurs to make Europe more competitive.

The progress reports on the Entrepreneurship Action Plan will be linked with the reporting mechanism for the Charter. Going one step further and revising the Charter to integrate the entrepreneurship-related issues addressed by the Action Plan would be useful to further streamline reporting, as was also suggested by the March 2004 Competitiveness Council. With a view to further progress towards the Lisbon objective, the Commission will examine the Charter in light of the priorities of the Action Plan and the experiences gained during almost five years of Charter implementation and present a proposal.

ANNEX

Member States were asked to reply to a series of questions linked to the priority areas of the 2005 report, based mainly on recommendations of relevant Best Procedure projects. The charts show the aggregated number of measures, out of the selection of proposed useful measures. The complete tables, based on the Member States' replies, are included in the report on activities in the Member States, SEC(2005)167; SEC(2005)168; SEC(2005)169 and SEC(2005)170, as tables 1-4.



* Based on data only for the *Land of Baden-Württemberg*. The situation varies from *Land to Land*.

Figure 2 – Number of measures in the area of better regulation and impact assessment

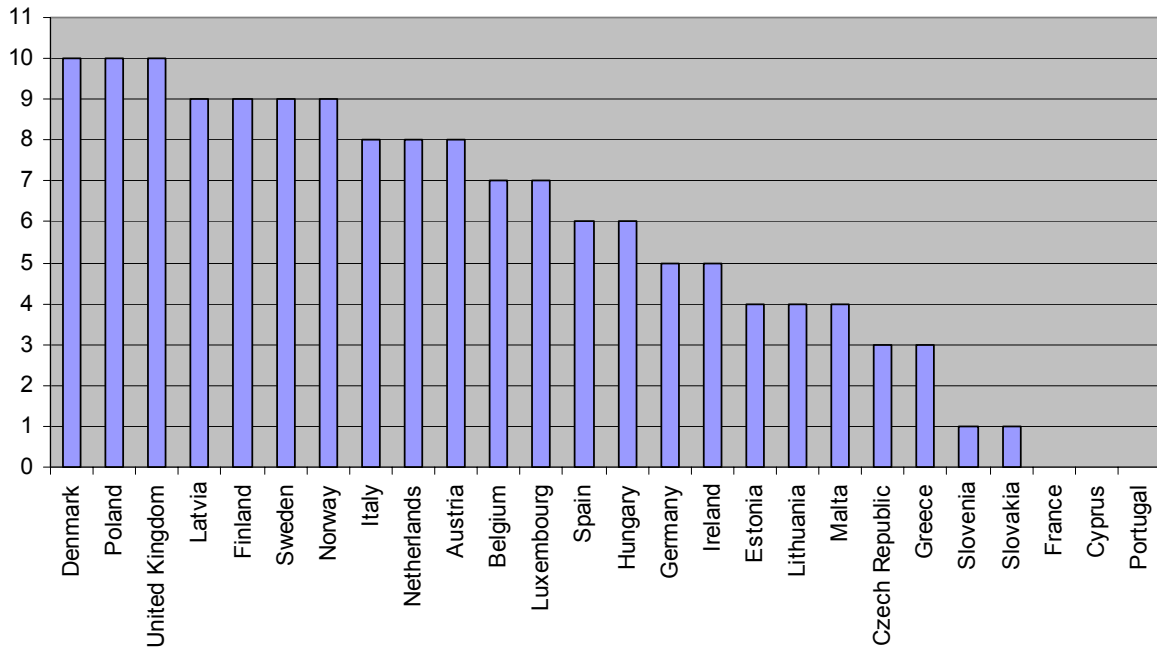
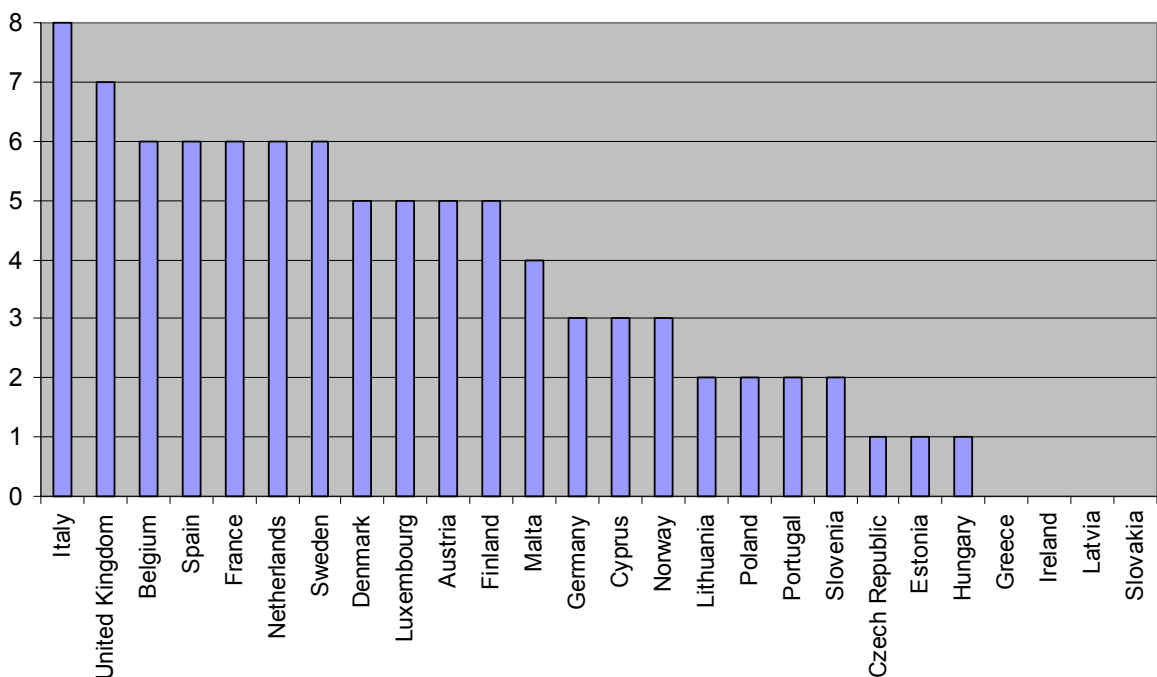
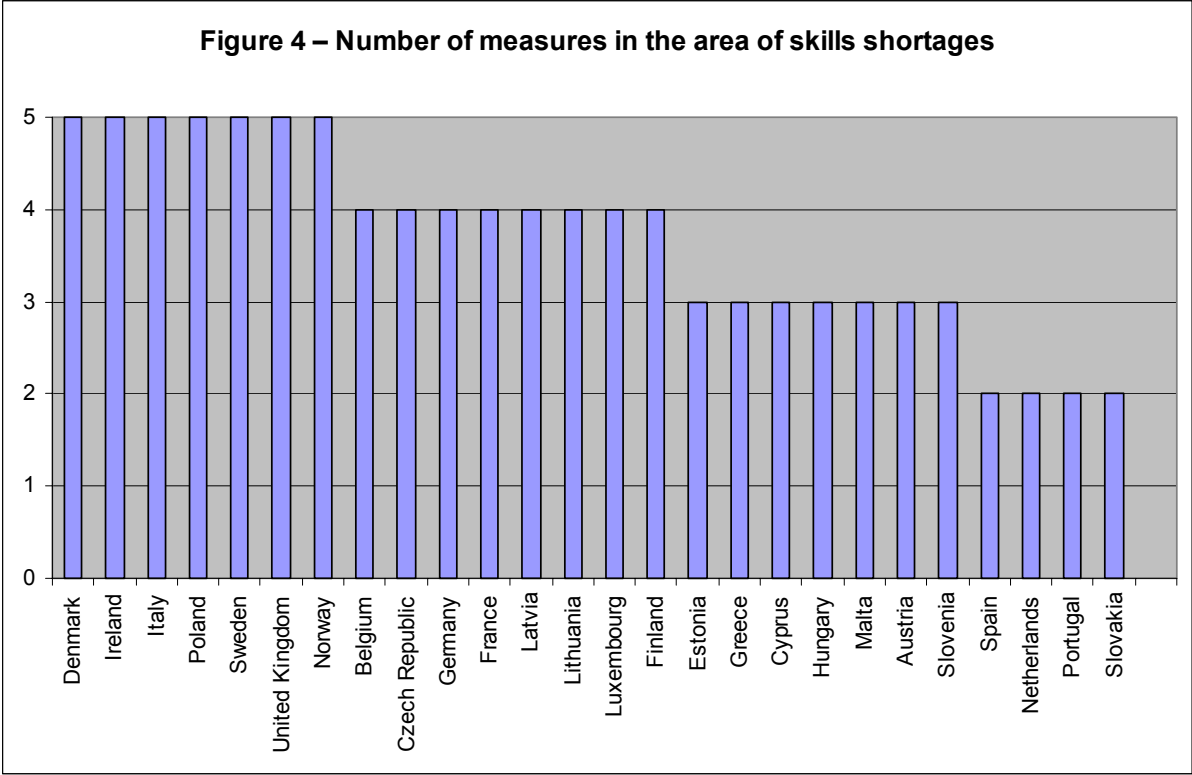


Figure 3 – Number of measures for restructuring, bankruptcy and a fresh start





N.B. The number of measures examined is different for the different areas. The maximum number of measures for each chart is shown by the scale at the left.