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**REPORT FROM THE COMMISSION TO THE COUNCIL,
THE EUROPEAN PARLIAMENT, THE ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS**

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

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SUMMARY

This report on the activities of the European Union for small and medium-sized enterprises (SMEs) is drawn up in accordance with the Council Decision on the Third Multiannual Programme for SMEs. This Decision provides for the Commission to submit to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions a two-yearly report on the progress achieved in taking SMEs into account in all Community policies and programmes, following its coordination action. This is the fifth report of this type. It reports on the latest developments that have occurred since the adoption of the previous report at the end of 1997 and outlines future prospects.

The report is broken down into three main chapters: the first one deals with improving the framework conditions for SMEs, the second one with programmes and instruments with a particular financial impact on support for SMEs and the third with enlargement, pre-accession and cooperation with non-member countries. The conclusion describes the development of the process of increasingly taking SMEs into account in Community policies and programmes.

This report's value lies in the fact that it presents an overall view of EU activities to assist SMEs. It reflects the objectives of the Integrated Programme for SMEs, which is a structure for coordinating EU measures whether they are carried out under Enterprise policy or through one of the other Community policies likely to affect SMEs.

The report also forms part of the follow-up to the **Lisbon European Council** (23-24 March 2000) which advocates creating a climate favourable to the creation and development of new businesses, particularly SMEs. The European Council considered it appropriate to apply an open coordination method, making it possible to disseminate best practice and ensure greater convergence with regard to the main objectives of the European Union. It called upon the Commission to submit its proposal for the next multiannual programme for enterprise and entrepreneurship (2001-2005). This multiannual programme was adopted by the Council at the end of 2000. It also asked the Council and the Commission to carry out a benchmarking exercise on business creation (cost, duration) and venture capital, and to report on the re-examination of EIB and EIF instruments in order to redirect funding towards businesses in the start-up phase or those involved in high-technology. The European Charter for Small Enterprises requested by the European Council was adopted by the Council in June 2000 and approved by the Feira European Council in June 2000.

In Lisbon, the fifteen Member States set a strategic objective for the next ten years: to become the most competitive, most dynamic, knowledge-driven economy in the world. To achieve this, Europe has to become more entrepreneurial and innovative. The **e-Europe initiative**, presented on this occasion, the objective of which is to include each citizen, school and business in the digital age, has resulted in a plan of action which involves measures to develop electronic commerce and use of the Internet in businesses.

This report reflects the priority given to SMEs in the broader political context of the coordination instruments created under the major economic policies, such as the "Luxembourg Process" on European employment strategy and the "Cardiff Process" on developing a regulatory environment more favourable for SMEs, the follow-up to the Best Action Plan, concerted action with the Member States and performance benchmarking exercises.

This report sums up the situation of policies to assist SMEs at the time of the renewal of the multiannual programme for enterprise and entrepreneurship in Europe. It contributes to the transparency and visibility of EU measures to assist SMEs and will be distributed widely in circles.

The focus of EU policies on SMEs has gradually developed over the years, both to improve the business environment and to increase support via various financial instruments and programmes.

Improving the business environment and the framework conditions involves administrative simplification and affects the regulatory, legal, tax, financial and social environment. The BEST action plan implemented by the Commission with the Member States brings together all the measures taken to improve and simplify the environment of businesses. Improving the business environment also involves increasing knowledge about businesses and their development and of their access to Community information. The Euro-Info-Centre network and other Community information networks are in dialogue with business and offer them information and advice on Community regulations and programmes. They also have a feedback system. An example of recent measures taken to improve the business environment can be found in the Directive on late payments of 29 June 2000, the draft regulation for a Community patent of July 2000 and proposals for simplifying legislation on public procurement.

Programmes and financial instruments to support SMEs implemented by the European Union take the form of direct or indirect aid. They are aimed mainly at improving the access of SMEs to financing and credit (loans, guarantees and venture capital), regional aid, cooperation between businesses and research and vocational training.

Since **access to finance** is crucial for SMEs, the European Union has in recent years strengthened the measures to support SME financing, particularly through the European Investment Bank and the European Investment Fund, in order to encourage the development of venture capital and guarantees for SMEs. New financial systems have been set up under the special Amsterdam Action Plan, such as the European Technology Facility (ETF) (with a budget of € 125 million) and the "growth and employment" initiative resulting from an initiative by the European Parliament and the special European Employment Summit in Luxembourg. As a result, three new programmes have been created, the European Technology Facility start-up (ETF start-up with € 168 million), the SME guarantee facility (with € 168 million) and the Joint European Venture programme (JEV with € 84 million), with the total budget amounting to € 420 million. Other initiatives are encouraging seed capital (CREA) and the establishment of networks of unofficial investors (business angels). In the last five years EIB global loans have been granted to 49 000 SMEs, 85 % of which are small enterprises. As for the EIF, the volume of operations providing guarantees for SMEs amounted to 33 % of all of its activities and involved € 879 million. The EIB and EIF instruments for SMEs are currently being assessed in order to direct them towards high technology start-ups and other venture capital initiatives.

The Structural Funds, the main financial instruments for regional development and employment, also provide considerable support for SMEs in the eligible regions. An assessment of the impact of the Structural Funds by subject area revealed that € 21.3 billion, i.e. 18 % of the Funds' budget, was allocated to over 800 000 SMEs in the 1994-1999 period. In its guidelines to the Member States for the 2000-2006 programmes, the Commission highlighted the importance of SMEs for regional competitiveness and employment in the EU. It considered the creation or development of competitive businesses the prerequisite for the

creation of long-term jobs and, hence, regional economic development. The growing role of the services sector was also highlighted.

The participation of SMEs has progressed considerably in **research and technical development programmes**. In the Fourth Framework Programme, SME participation more than doubled compared with the previous programme. In the 1994-1998 period, 14 754 SMEs participated, compared with 5 424 in the 1990-1994 period. These 14 754 SMEs accounted for 28.5 % of projects and received over 20 % of the total budget. The establishment of a single contact point for SMEs, the simplification of submission procedures for SMEs and the special measures for SMEs (exploratory awards and CRAFT projects) have made it easier for them to participate. It should be even easier in the Fifth Framework Programme currently in force, particularly as a result of the horizontal programme on "innovation and participation of SMEs".

Community support for **vocational training** in SMEs is provided mainly by the European Social Fund and the Leonardo Programme. Although precise data is not yet available, it appears that the large majority of the projects supported under Objective 4 of the European Social Fund involve SMEs and that the figure varies between 40 % and 90 % in 1994-1999 programmes. In the Adapt initiative, SME participation is estimated at 15 % of projects. In the Leonardo Programme it amounts to an average of 20 %. The "pillar" devoted to the development of entrepreneurship in European employment strategy is a recognition of the crucial role of SMEs in employment policy. However it should lead to more concrete results in national action plans for employment in the Member States.

International cooperation is one of the areas which also affects SMEs. The Commission is preparing for the next enlargement of the European Union by opening the third multiannual programme to the applicant countries as part of the pre-accession strategy. The Commission is also promoting the establishment of joint businesses (JOP) and direct investment, particularly by means of the SME facility in cooperation with the European Bank for Reconstruction and Development. Finally, cooperation with non-member countries should promote the internationalisation of businesses in the global economy. It concerns trade policy and economic cooperation with many countries.

In its **conclusions**, the report shows that the political priority given to SMEs and the development of an entrepreneurial Europe has been confirmed. The account taken of SMEs and their participation in Community programmes has increased in recent years. However, efforts still have to be made regarding the assessment of the impact of policies on the development of SMEs. SMEs sometimes have difficulty gaining access to the various support programmes. This report will help raise awareness of EU measures amongst SME support bodies. Although the Community makes a considerable contribution to the development of an entrepreneurial Europe, the Member States' efforts are essential to maximise the potential of SMEs regarding competitiveness, growth, innovation and employment. The report shows clearly that in the period covered by the Third multiannual programme for SMEs, enterprise policy, in particular support for SMEs, has become an integral, integrated part of the main policies of the EU. A similar, positive development has been observed in the Member States. Joint efforts by the Commission and the Member States in this field will make it possible to realise the ambition of the European Union announced at the European Council, which is to become the most competitive, dynamic knowledge-driven economy in the world.

SUMMARY OF AID FOR SMES

FINANCIAL INSTRUMENTS, COMMUNITY PROGRAMMES AND SMES				
Community action	Amount allocated to SMEs in euros	Number of SMEs	SME participation in projects overall	SME share of the total budget
FINANCIAL INSTRUMENTS				
EIB - Financing via global loans - 1994-1998 - in 1998 - in 1999	2.4 billion 2.8 billion	49000 8464 11500		
SME facility – Global loans with interest subsidies since 1994	1 billion	4 336 (54 000 jobs created)	100 %	100 %
EIF (guarantees) (1994-99) - of which "growth and environment" SME guarantee mechanism (98-2002) EIF (participation in venture capital fund) Own resources 96-98 - ETF start-up facility initiated in 1997 - ETF start-up facility (1998-2002)	879 million 671 million 168 million 58.5 million 125 million 168 million		100 % 100 % (<100 jobs) 100 % 100 % (Inv. Fund) 100 % (Inv. Fund)	33 % of the overall activity of the EIF 100 % 100 %
JEV (1997-2000)	84 million		100 %	100 %
Seed capital action CREA (1999-2000) I-TEC since 1997	35 million (investments) 10 million 11 million	207 (3000 jobs)	100 % 100 % (Inv. Fund) 100 % (Inv. Fund)	100 % 100 % 100 %
STRUCTURAL FUNDS (1994 - 1999)				
Operational programmes	21.3 billion	800000		18.2 % on average 14.5 % for objective 1 35.0 % for objective 2 31.5 % for objective 5b 25.0 % for objective 6
Community initiatives (1995-99) SME Leader II Emploi-NOW	1.1 billion		100 % 20 % 50 %	100 %
RESEARCH AND DEVELOPMENT				
IV RTD Framework Programme (94-98) - of which specific SME measures	1427 million 323 million	14754 6864	28.5 %** 100 %	20.4 %** 100 %
VOCATIONAL TRAINING				
Objective 4 of ESF ADAPT Leonardo da VINCI (1995-99)	20 million (SME contracts)		40 to 90 % 15 % direct 45 % indirect 4.8 % SME projects 25 % as partners	5.2 % SME projects
INTERNATIONAL COOPERATION				
JOP (1991-99)	164.5 million	300 joint enterprises	100 % for Phare part	
SME financial facility (99-EBRD-EU)	125 million		100 %	100 %
AL-INVEST (1996-2000)	41 million	6 500	100 %	100 %
ECIP (1995-99) 1988-1998	250 million	42 000 facility 1	SME-oriented 92 %	
Asia-Invest (1997-2002)	45 million			
ENVIRONMENT				
LIFE financial instrument (1993-97)	156 million	400 projects	>40 %	40 %

N.B.: This table gives an overview of various types of Community action (grants, loans, guarantees, etc.) covering different periods. The amounts cannot, therefore, be added together.

* Estimate of the share of SMEs based on the Ernst & Young evaluation for the Commission in 1999.

** Shared-cost projects.

INTRODUCTION

Broad consensus is emerging within the European Union on the central role played by small and medium-sized enterprises (SMEs) in growth, competitiveness, innovation and employment. The political will has developed in recent years to promote a more entrepreneurial Europe, as confirmed by the conclusions of the Lisbon European Council of 23 and 24 March 2000, which advocates establishing an environment favourable to the creation and development of innovative businesses, in particular SMEs, and the European Charter for SMEs adopted by the Council on 13 June and welcomed by the European Council at Feira on 19 and 20 June 2000.

Community policies and programmes are contributing, to differing degrees, to the development of a European entrepreneurial drive promoting the creation, growth and development of businesses and their capacity to innovate, access new markets and adapt to the new economy.

This report raises the profile of EU action by providing a panorama of EU measures concerning businesses, in particular SMEs.

This report on the activities of the Union to assist SMEs has been drawn up in accordance with Article 5(2) of the Council Decision on a third multiannual programme for small and medium-sized enterprises in the European Union¹. Article 5(2) states that *"The Commission shall submit to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions a biennial report assessing progress in the inclusion of the SME dimension in all Community policies and programmes, following its coordination activities"*.

This is the fifth report, following on from those of 1992, 1994, 1995 and 1997². The last two were published in a more user-friendly form by the Office for Official Publications of the European Communities, and the 1997 report is available on the Internet³ in the eleven official languages and over 70 000 copies have been distributed in the economic world. This report will also be published and made available on the Internet once it has been adopted. It summarises recent developments since the end of 1997, covering 1998, 1999 and part of 2000. It is the latest report drawn up in accordance with the Third Multiannual Programme for SMEs⁴, which was completed in 2000 and has been succeeded by the Multiannual Programme for Enterprise and Entrepreneurship for the period 2001-2005⁵.

The Member States' representatives on the Management Committee of the SME Multiannual Programme welcomed the report of November 1997 and recognised both its usefulness and its quality.

¹ Council Decision 97/15/CE of 9.12.1996, OJ L 6 of 10.1.1997, p. 25.

² SEC(1992) 704 of 26.5.1992, COM(1994) 221 of 7.9.1994, COM(1995) 362 of 8.9.1995 and COM(1997) 610 final of 25.11.1997.

³ Publication OPOCE CT-08-97-759-FR-C ISBN 92-828-2854-9. The Internet presentation contains many hyperlinks with other useful sites:

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

⁴ Enterprise DG site http://europa.eu.int/comm/enterprise/index_en.htm

⁵ Council Decision 2000/819/EC of 20.12.2000, OJ L 333, 29.12.2000, p. 84

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

The European Parliament demonstrated its interest in the 1997 report by adopting an own-initiative resolution on 5 November 1998⁶. Although the Parliament welcomed the publication of such a report, it took the opportunity to highlight the areas in which improvements could be made. It called for increased coordination of Community policies to assist SMEs, particularly regarding the Structural Funds. It stressed the need to use the Community definition of SMEs in the programmes concerning them. It also emphasised the need for systematic consultation of the organisations representing SMEs in the drafting of legislation affecting businesses, and the importance of SME representation in the European social dialogue. It called for SME aid to remain a priority in the Structural Fund programmes (2000-2006) and for quantifiable, verifiable objectives to be drawn up concerning SME participation. Finally, it stressed the importance of including the SME dimension in training programmes.

OBJECTIVE AND STRUCTURE OF THE REPORT

The objective of this report is to present how the SME dimension has been incorporated in Community policies and programmes.

The report's structure corresponds to the main objectives pursued by the Multiannual Programme to assist SMEs (1997-2000), namely **improving the framework conditions for SMEs** (Chapter I) and support for businesses through various **programmes and financial instruments to support SMEs** (Chapter II). Chapter III deals with **enlargement, pre-accession and cooperation with non-member countries**. The report presents the progress achieved to improve accommodation of the specific features of SMEs in Community policies and programmes and recognises that improvements can still be made to increase the participation of SMEs in Community programmes.

Aid for SMEs is set out in a summary table, together with the participation rates of SMEs in the programmes and support measures in terms of both their number and the budgetary amounts involved.

New communication tools such as the Internet are extremely powerful means of providing information in real time and ensuring greater transparency and increased visibility of the activities of the European Union among a larger public. That is why this report includes a large number of Internet sites concerning Community affairs, where the reader may find more detailed data on various specific issues and constantly up-dated information. For instance, in recent years, the Commission has concentrated on using the Internet to disseminate daily information on the latest developments of its policies. Nevertheless, this report will also be published on paper, since use of the Internet is not yet general and the paper version of reference documents is still useful and practical.

⁶ A4-0359/98.

DEFINITION OF AN SME

The abbreviation SME used throughout this report refers to the Community definition of small and medium-sized enterprises (SMEs) given in the Commission Recommendation of 3 April 1996⁷ addressed to the Member States, the European Investment Bank (EIB) and the European Investment Fund (EIF). The definition of an SME is summarised in the table below. It must be applied in all Community or national programmes concerning them. Although use of the definition of an SME is gradually becoming widespread, not all the criteria are yet systematically applied. Consequently, greater discipline is required regarding application of the Community definition of an SME.

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

⁷ OJ L 107 of 30.4.1996, p. 4.

CHAPTER I:

IMPROVING THE FRAMEWORK CONDITIONS FOR SMES

The main objective of enterprise policy is to establish an environment suited to the creation and development of businesses. Improving the business environment involves the general framework, administrative and regulatory simplification, and the financial, fiscal, social and environmental context in which businesses operate. Better access for SMEs to the information society, in particular e-commerce, and innovation are also conditions for their competitiveness.

Prerequisites for creating an environment favourable to businesses include improving statistical knowledge of the SME population and providing SMEs with information networks and systems for returning information which can take better account of their needs in the definition of the policies concerning them.

1. IMPROVED KNOWLEDGE OF SMES

1.1. Statistics

More than 99 % of the 18 million EU enterprises in the non-agricultural market sectors are SMEs. They employ 66 % of the workforce and generate the 55 % of the total turnover.

The fifth edition of the publication "Enterprises in Europe"⁸, published in 1999, provides data, from **statistics taken in 1994-1995, on European enterprises broken down by size classes** (on the basis of their number, employment and turnover) and a more detailed analysis on sectors of activity (31 sectors are examined) and on the country structure (all EU countries plus Norway, Iceland and Switzerland). Moreover, it includes thematic analysis such as the structure of enterprises in the Central European countries, the demography of enterprises (creations and closures), the structure of workforce in small firms (gender, education, type of job), regional analysis of SMEs and comparisons with the USA and Japan. The SME database has been updated in the first half of 2000 and a number of Statistics in Focus on SMEs has been released by Eurostat (theme 4 No 11/2000, 8/2000, 27/1999, 16/1999)⁹. The sixth edition of the "Enterprises in Europe" is planned to be released in spring 2001.

The tables below give a picture of European enterprises classified by numbers of employees, sector of activity and of their contribution to employment and turnover in the Union.

⁸ Office for Official Publications of the European Communities, Luxembourg, n° CA-12-98-174-**-C.

⁹ Office for Official Publications of the European Communities, Luxembourg, n° CA-NP-00-011-**-C, CA-NP-00-008-**-C, CA-NP-99-027-**-C and CA-NP-99-016-**-C.

**Enterprises in the European Union – distribution by employment size class
data from 1997**

Size-class	Business classification by number of employees in % of total					Total
	0	1-9	10-49	50-249	> 250	
Number of enterprises	49 %	44.1 %	5.9 %	0.8 %	0.2 %	18 802 000
Total employment	9.8 %	24.4 %	18.8 %	13 %	34 %	112 720 000
Turnover	3.8 %	14 %	17.1 %	18 %	47.1 %	18 395 total expressed in € billion

**Enterprises in the European Union – distribution by sector of activity
data from 1997**

Sectors of Activity	Enterprises		Employment		Turnover in €		Employment in SMEs
	Thousand	%	Million	%	Billion	%	%
Industry and Energy	2 048	10.9	30.78	27.3	5 047	27.4	54.6
Construction	2 504	13,3	10,1	6.9	942	5.1	88.8
Trade and HoReCa (Hotels, Restaurants and Cafés)	6 622	35.2	30.54	27.1	5 264	28.6	76.6
Transport and Communication	997	5,3	8.4	7.5	847	4.7	47.5
Financial Intermediation	320	1.7	4,68	4,2	4 380	23.8	26.8
Other business Activities	2 401	12.8	12.01	10.6	793	4.3	63.6
Other services	3 910	20.8	16.21	16.21	1 126	6.1	77.3
Total of all sectors	18 802	100	112.72	100	18 399	100	66

The Commission (Eurostat) continues its efforts to improve the European Statistical System, in particular on business statistics on SMEs. In limiting the burden on enterprises, Member States produce more and more key data broken down by size classes of employment on the basis of the Council Regulation 58/97 concerning structural business statistics.

The Structural Business Statistics

The structural business statistics have improved in recent years. The Council Regulation 58/97 concerning structural business statistics provides a common framework for the collection, compilation, transmission and evaluation of Community statistics on the structure, activity, competitiveness and performance of business in Member States, with particular reference to SMEs (article 2). Article 6 states that Member States can acquire the information requested in using a number of different sources: obligatory surveys, administrative sources or estimations. This provision takes into account the need to limit the statistical burden on enterprises, in particular on SMEs.

The Commission Regulation 2701/98 concerning the series of data to be produced for structural business statistics breaks down a number of basic variables (number of enterprises, turnover, value added, gross investment in tangible goods, number of persons employed) by sectors and size classes in accordance with the Commission Recommendation on the SME definition¹⁰. Another Commission Regulation 1618/1999 lays down certain quality standards for the statistics to be produced by Member states.

One of the main objectives of entrepreneurship policies is to enhance the number of business start-ups and the net creation of enterprises. Eurostat is working since years on enterprise demography. A major development project has been started with the Member States in order to obtain harmonised business statistics in this field. The first results on a harmonised base should be available early 2002. Indicators on enterprise demography have been already incorporated into the BEST indicators.

Publications on specific sectors that include data on SMEs

The publication "**Services in Europe**"¹¹ was first produced in 1998, along with several issues of the short reports entitled "Statistics in Focus" which concentrate on services.

For Commerce and Distribution, the new publications "**Retailing in the EEA 1997**"¹² and "**Wholesale Trade in the EEA 1997**"¹³ were launched at a seminar in March 1998¹⁴. "**Distributive Trades in Europe**" was also published in 1999¹⁵

Following the publication of the study "**The Co-operative, Mutual and Non-profit Sector in the European Union**"¹⁶, a methodology for future reports in the field of social economy has been developed.

The BACH database

The Commission has also been involved for a long time in the follow-up of the economic and financial situation of European companies, among them SMEs are a specific matter of interest¹⁷. A specific database was created in 1987 for that purpose – BACH¹⁸ which contains harmonised annual accounts statistics for 11 European countries, Japan and the United States. It was set up with a view to supplementing the information sources already existing at European level and has been developed in co-operation with the European Committee of Central Balance Sheet Data Offices (ECCB). BACH has been serving as a basis for a number of comparative economic analyses carried out by the Commission and its national data suppliers. The information which it provides is also used by a growing number of researchers, universities and private and public bodies. Some possible uses are comparative sectoral

¹⁰ OJ L 107, 30.4.1996, p. 4.

¹¹ Office for Official Publications of the European Communities, Luxembourg, n° CA-17-98-742-**-C.

¹² Office for Official Publications of the European Communities, Luxembourg, n° CA-11-98-738-**-C.

¹³ Office for Official Publications of the European Communities, Luxembourg, n° CA-06-97-618-**-C.

¹⁴ The findings are published by the Office for Official Publications of the European Communities catalogue n° CA-16-98-594 -EN-S.

¹⁵ n° CA-24-99-154-**-C

¹⁶ Office for Official Publications of the European Communities, Luxembourg, n° CA-82-94-642-**-C.

¹⁷ See Financial situation of European enterprises in 1996. EUROPEAN ECONOMY. Supplement A. Economic trends. No. 11/12. November/December 1998. Office for Official Publications of the EC. Luxembourg.

¹⁸ http://europa.eu.int/comm/economy_finance/databases/bach_en.htm

analyses; sectoral reference systems; and performance comparisons between European, US and Japanese firms.

1.2. The European Observatory for SMEs

The 5th report of the European Observatory for SMEs was published in 1997. It provides both quantitative and qualitative information on SMEs in the European Economic Area and Switzerland. It dealt mainly with the questions of employment and working conditions and the reactions of SMEs to the challenges of internationalisation and increased competition. It also contained detailed thematic studies on SMEs and the environment and SMEs and the tourism sector. The report concluded that **micro-enterprises with fewer than ten employees have the greatest growth potential.**

The results of the 5th report and also those of the 4th report were presented at two conferences in 1997. These events replaced the Commission Communication on the Observatory report.

The 6th report of the European Observatory for SMEs was published in 2000¹⁹.

2. INFORMATION ON BUSINESSES

2.1. The Euro-Info-Centre network

Privileged link between Europe and SMEs, the Euro-Info-Centre network consists of 273 members in 38 countries and 14 correspondence centres²⁰.

In May 1998, the Euro-Info-Centre network was partly restructured in order to increase its performance in terms of quality and quantity. There are now 233 Euro-Info-Centres, including 17 "**network heads**". "Network heads" are EICs which have their own national network. This new structure ensures that the Euro-Info-Centre network now reaches more businesses.

In 1998, the Commission also signed agreements with 42 national, transnational and European organisations which represent SMEs. These organisations have the status of "**associate members**", based on the exchange of added value and information.

In September 1999, following a call for tenders, the Euro-Info-Centre received 44 new members in Bulgaria, the Czech Republic, Estonia, Hungary, Poland, Romania and Slovakia. This extension of the network will contribute to the success of the enlargement of the Union by supporting businesses.

There are now 273 EICs in 38 countries, plus 14 Correspondence Centres in the Mediterranean region and Switzerland, Lithuania, Latvia and Slovenia.

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

¹⁹ http://www.europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm

²⁰ <http://Europa.eu.int/comm/enterprise/networks/eic/eic.html>

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

European SMEs need simple, clear and efficient access to the European Union - its legislation, programmes and opportunities.

EICs serve as a local contact point for SMEs, a place where they can find simple, pragmatic answers to their requests, either directly or indirectly by being directed to the relevant specialists for more details.

This central role requires the development of close cooperation with the other SME intermediaries, including the other Community networks, such as the Innovation Relay Centres, the network of National Contact Points and the European Enterprise and Innovation Centres. The Commission intends to rationalise these networks, in an attempt to achieve synergy between them and to strengthen cooperation with the national networks.

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

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

In 1999, the firm Deloitte & Touche gave the following opinion in an evaluation:

"The Euro-Info-Centres are evaluated positively. They show a strong quantitative and qualitative impact, growing network effect and a development of added value to SMEs beyond their traditional role of EU information service providers. The technical assistance office in Brussels is performing well and systems for monitoring EIC activity levels and maintaining quality control have been improved during the third Multiannual Programme".

The range of services provided by EICs:

The Info-service

As disseminators of information, the EICs make a large number of documents available to businesses. As organisers of seminars and conferences, they actively participate in major events on priority issues in the EU Member States, the CEECs and Mediterranean countries. As part of the 1999-2000 information campaign on the euro, the EICs are organising over 270 measures for SMEs. In 1998, the EICs continued the awareness-raising campaign launched in 1997 on health and safety at work in SMEs. The EICs will be participating in awareness-raising measures under the eEurope "go digital" initiative, which aims to provide access to as many e-commerce SMEs as possible.

Help and advice

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

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

between businesses both within the EU and with non-member countries by using other Community networks and instruments.

In these various fields, the collective expertise of the network depends on the EIC expert groups, which develop the products and services. The main fields covered by these groups are the environment, the euro, external relations, the information society, public procurement and standardisation.

The flow of information from SMEs

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

2.2. Dialogue with Business: information, advice and feedback

In connection with the Euro Info Centres, the Dialogue with Business has been developed as a two-way communication in order to support SMEs, in a direct and interactive way, to help them benefit from the opportunities provided by the Internal Market, and to enable all operators (businesses, Member States and European Institutions) to learn from practical experiences of businesses operating through the Internal Market.

The Business Dialogue consists of two main elements:

- The **Dialogue with Business Website** (internet address: <http://europa.eu.int/business>) is a well established multilingual gateway to data, information and advice from many existing sources. It is a practical and free tool helping enterprises to win new business in the Internal Market and to overcome possible obstacles through a better knowledge of its operating rules. Several thousand companies use it daily to access support services at European, national and local levels.
- The **Business Feedback Mechanism** (launched in April 2000) will allow Member States and the European Commission to draw policy conclusions to be included *inter alia* as target priority actions in the annual review of the Internal Market Strategy²¹. This will be done on the basis of an in-depth analysis of large scale feedback of 20 000 business cases a year via 41 representative Euro Info Centres spread over the 15 EU Member States. In the context of the Commission Reform –and with direct relevance also for the subsequent Governance Initiative– the Commission is currently exploring the possibilities of extending the Business Feedback Mechanism's approach to cover a wider range of the Commission's policy areas. The more systematic use of feedback would enable the Commission to be more responsive to people's needs and render policy-making more inclusive.

²¹ COM (2000) 257 final of 3.5.2000 and COM (1999) 624 final of 24.11.1999.

3. IMPROVING THE BUSINESS ENVIRONMENT OF SMES

3.1. Business Environment Simplification Task Force (BEST)

Recognising the need for further consideration and assessment of the issues affecting entrepreneurship and competitiveness and following a mandate from the Amsterdam European Council, the Commission established the Business Environment Simplification Task Force (BEST) in September 1997. This was a group of entrepreneurs, public administrators and academic experts with a mandate to look at the impact on enterprise of legislation and administrative practices and to make concrete proposals for reducing the burdens which restrict the growth and job creation potential of businesses. The BEST Task Force presented their final report in May 1998 in two volumes²².

In response to the priority recommendations of BEST the Commission proposed an Action Plan on "Promoting Entrepreneurship and Competitiveness"²³, which was endorsed by the Industry Council on 29 April 1999²⁴. The Commission has recently launched the implementation process and is working with the Member States to ensure a vigorous follow-up. It presented a first report on implementation of the Action Plan in the second half of 2000.

This Action Plan, for the first time brought together under one umbrella all policy aspects impacting on enterprises. It tied in with other Community policies, in particular the Luxembourg Employment Process and the structural reforms of product, labour and financial markets as initiated by the Cardiff European Council. The main thrust of the Action Plan is the promotion of enterprise and entrepreneurship as a means of improving competitiveness and sustainable growth. It concentrates on the aspects which are most important to SMEs; that is new approaches in education, training and the workplace, easier access to finance and innovation, and better public administration.

3.2. Exchange of best practice: Concerted Action

The Integrated Programme for SMEs and the Craft Sector²⁵ was an important step in the development of a European Enterprise policy in that it provided a global framework for all actions to assist SMEs, enhancing both the profile of these actions and their effectiveness. The basis was established, first, for a co-ordination between enterprise policy and other Community policies or programmes affecting SMEs, and then for a co-ordination of the policies of the Member States through a series of Concerted Actions.

The characteristic feature of the Concerted Actions is that the role of the Commission is to help the Member States to improve their policies and programmes through encouraging the identification and exchange of best practice. The idea is that the efficiency of Member States' actions can be enhanced by a systematic comparison with the practices of other Member States.

When they were first launched, Concerted Actions focussed on the regulatory and administrative environment for businesses. The Commission Recommendation on Improving

²² Report of the Business Environment Simplification Task Force, Volumes I and II, 1998, available on the web: http://europa.eu.int/comm/enterprise/enterprise_policy/index.htm.

²³ COM(1998) 550 final du 30.9.1998.

²⁴ Industry Council Conclusions of 29.4.1999, ref. 7422/99.

²⁵ COM(1994) 207 final of 3.6.1994 and COM(1996) 329 final du 10.7.1996.

and Simplifying the Business Environment²⁶ published in 1997 and the Communication on the Transfer of SMEs²⁷, published in 1998 incorporated some of the early results. More recently, the emphasis has been on support measures and on improving the visibility and take-up of support services.

The approach of concerted action is initially to present good practice in a series of fora to which are invited public authorities, business support agencies and other sections of the business community. These fora have taken place at regular intervals since support initiatives for the creation of new enterprises was first considered in Madrid in 1995. A Forum in Baden in 1998 launched the examination of support services for growing enterprises. This was followed by a more intensive examination of support for rapid growth enterprises in Helsinki the following year. The theme of "Increasing the visibility and effectiveness of support services for SMEs" was considered at a Forum in Dublin in 1996.

Follow-up has taken different forms. With support measures, a sustained examination of operational detail is required. A number of follow-up seminars have therefore taken place. These focus on more specific issues than the fora and involve a smaller number of experts who can provide expert guidance in the identification of good practice. The result has been the identification and publication of some 20 good practices in the assistance of start-ups, in the areas of finance, training and in direct support in the form of incubators. Analysis of support for growing firms is proceeding in the same way. The intention now is to carry this debate through the organisation of electronic fora that can eventually involve a much broader range of the professionals that provide support to enterprises in the definition of best practice.

Finally, the Commission has taken a number of other steps to help the process of Concerted Action. Contractors have been engaged to create the "Support" database on assistance measures for SMEs, initially in the start-up phase and to develop Internet tools for centralising information and disseminating good practice. More fundamentally, studies are being conducted on the nature and quality of service provision for SMEs, with the aim of ultimately promoting greater coherence and quality in support for enterprises across Europe.

A report on Concerted Action with the Member States was adopted on 9th November 1999²⁸ and was very well received by the Council. All documents related to Concerted Actions and further information are available on the internet site²⁹.

²⁶ OJ L 145 of 5.6.1997, p. 29.

²⁷ OJ C93 of 28.3.1998, p. 2.

²⁸ COM(1999) 569 final of 9.11.1999.

²⁹ http://europa.eu.int/comm/enterprise/entrepreneurship/concerted_actions/index.htm.

SUMMARY OF MAIN ACTIVITIES UNDER THE CONCERTED ACTION PROGRAMME SINCE THE PREVIOUS REPORT

Main Fora and seminars		Results and follow up activities	
Business Support Measures	Start-Ups	Growth Phase	
	Madrid Forum 1995: support initiatives for new enterprises	Baden Forum 1998: key factors in improving competitiveness Helsinki Forum 1999: rapid growth and competitiveness through technology	<ul style="list-style-type: none"> • Dissemination of results and good practice through the web site and reports • Working group on best practice. • 20 Best Practices in start-up phase identified (brochure) • Electronic forum on incubators.
	Stockholm Seminar 1998: training for new starters	Paris Seminar 1999: the use of the Internet	
	Madrid Seminar 1998: finance for start-ups	Copenhagen Seminar 2000: SME support services in the face of globalisation	
	Helsinki Seminar 1998: incubator infrastructure and innovation support	Athens Seminar 2000: strategic support services for SMEs	
Visibility and take-up of Services	Rome Seminar 1998: The quality certification of support services to enterprises	Working group on visibility and take-up of business support services	
Training for entrepreneurship	Nice Forum: October 2000		

3.3. Transfer of enterprises

After the Lille Forum on the transfer of SMEs, the Commission adopted on 28 March 1998³⁰ a Communication to present the evaluation of progress made by the Member States in response to the 1994 Recommendation³¹.

The activities of the Commission have raised awareness of all the parties involved on the importance of the transfer of business and there has been progress in terms of concrete measures taken by Member States to facilitate transfer of business. For example, Spain has modified its Inheritance and Gift Tax law. Now it grants a 95 % exemption from the inheritance tax when business is transferred within the family. However, further efforts in this field are still needed, in particular, a lack of effective tax reductions and sufficiently easy access to finance for business transfers can be noted in most Member States.

Under a call for proposals published in 1998³², the Commission supported actions aimed at training of entrepreneurs and intermediaries, to provide them with practical skills on the various methods for transferring or taking over businesses, and to encourage support services in the field of business transfer.

3.4. Benchmarking

Benchmarking provides an instrument for improving performance by learning from best practices. It has been used increasingly in enterprise policy since 1997³³. In addition to its application in Concerted actions, benchmarking is currently being used to strengthen the competitive environment for enterprise and in the innovation action plan.

Strengthening the Competitive Environment for Enterprise

Framework Conditions: in 1997, a pilot initiative was undertaken to benchmark key areas of framework conditions impacting on competitiveness. Four projects, undertaken jointly with Member States and completed in 1998, benchmarked financing of innovation, ICTs and organisational change, skills and logistics. The pilot projects illustrated the potential of benchmarking as an instrument for improving the effectiveness of policy implementation³⁴.

The Council welcomed and expressed appreciation for these initiatives³⁵. It asked the Commission and the Member States to identify practical steps to ensure the ongoing development of benchmarking and to establish a dedicated **Benchmarking Competitiveness Group** for this purpose³⁶. This Group is currently overseeing the implementation of further benchmarking projects.

³⁰ OJ C 93, 28.3.1998, p. 2.

³¹ Recommendation on the transfer of SMEs of 7.12.1994 published in OJ L 385 of 31.12.1994, p. 14 and OJ C 400 of 31.12.1994, p. 1.

³² OJ C 263 of 20.8.1998, p. 13.

³³ Benchmarking: Implementation of an instrument available to economic actors and public authorities COM(1997) 153 of 16.4.1997.

³⁴ Benchmarking the competitiveness of European industry: assessment of the initiatives SEC(1999) 523 of 12.4.1999.

³⁵ Council Conclusions on benchmarking of 16.11.1998.

³⁶ Council Conclusions on benchmarking and competitiveness of 29.4.1999.

A *High Level Group on Benchmarking* was established by the Commission in 1997. It included representatives of SMEs, social partners and wider societal interests. It presented its final report in October 1998.

Enterprises: The *European Benchmarking Network* (consisting of benchmarking practitioners), was established in 1997 with Commission support to promote the adoption of benchmarking by SMEs. It has currently over 400 member organisations, drawn from across the 15 Member States. The Network has also facilitated the establishment of national benchmarking focal points, the publication of a benchmarking manual and CD-Rom for SMEs and the organisation of four European Benchmarking Conferences.

An initiative under the SME Initiative of the Structural Funds to establish an *transnational benchmarking database* for SMEs is currently underway.

Sectors: A number of projects have been completed to benchmark sector specific competitiveness issues. These include energy efficiency in the chemicals sector, work practices in the automobile industry and procurement in the ICTs industry. Projects are currently being undertaken in relation to innovation in the *biotechnology* sector, quality procedures in the *construction* industry, procurement practices in the *defence* sector and procedures for *standardisation* bodies.

Trend chart of innovation

A *trend chart of innovation* is being developed as a basis for benchmarking. The objective is to achieve a *common reference framework for analysing innovation performance and policies*. In this way, it is intended to promote dissemination and application of good practices. The trend chart will concentrate on four priority fields: innovation finance, development of innovative businesses, protection of technology and promotion of technology transfer. Four benchmarking projects are being launched, relating to each of these fields. As a first step, a network of correspondents has collected and processed information on more than 250 innovation policy measures in all Member States and identified relevant organisations and individuals.

3.5. The quality of legislative proposals, subsidiarity and proportionality

The European Commission holds a continuous commitment to improve existing Community legislation and to ensure that new legislation is efficient yet simple and transparent. The Commission publishes an Annual Report on the principles to be followed and the measures taken when considering legislative proposals. This includes the need to take account of and meet subsidiarity and proportionality tests, to improve the quality of drafting, to introduce simplification measures, to consolidate and codify existing legislation, and to ensure all interested parties have access to information. The most recent report, "Better Law Making 1999"³⁷, was considered at the Helsinki European Council where Heads of State and Government confirmed their commitment to better regulation. Besides, most legislative proposals are preceded by a period of informal consultation within interested actors. This is often done through a process of Green or White papers, the publication in real time of the responses received to the consultations on the Europa web server and a Commission report on the results of the consultations and orientations for future action.

³⁷ COM(1999) 562 final of 3.11.1999.

Further to the Lisbon summit of 23-24 March 2000, the Commission was asked to set out a strategy for coordination and simplification of the regulatory environment by 2001.

Assessing the impact of Community legislation on business

When a legislative proposal is likely to have a significant impact on business, the Directorates General responsible for drafting a proposal are required to complete a business impact assessment report. The aim of the **Commission's business impact assessment system** is to strike an appropriate balance between new requirements and compliance costs and other administrative burdens on business.

In 1997, 12 business impact assessments were completed. These included the proposal for a Directive on combating late payments in commercial transactions³⁸, copyright and related rights in the Information Society, taxation of energy products³⁹, a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States⁴⁰, liability for defective products⁴¹, and the framework agreement on part-time work negotiated by the Social Partners⁴².

In 1998, 21 business impact assessments were completed. These included proposals on such issues as establishing a general framework for the information and consultation of workers in the European Community⁴³, the organisation of working time for mobile workers performing road transport activities and for self-employed drivers⁴⁴, limit values for benzene and carbon monoxide in ambient air⁴⁵, laying down the regulatory framework for electronic commerce⁴⁶ and a proposal for introducing an effective minimum taxation of interest payments on savings income within the Community⁴⁷.

Furthermore, in 1998 the Commission produced a Report on the Business Impact Assessment System⁴⁸ as part of the Commission's commitment towards openness and transparency, and to help in discussion about the need for further improvements to the system as part of the drive to improve the quality of legislation for the benefit of the businesses, particularly SMEs, who have to implement it.

In 1999, 12 business impact assessments were completed. These included proposals on such issues as energy efficiency requirements for ballasts for fluorescent lighting, national emission ceilings for certain atmospheric pollutants, ozone in ambient air, structural statistics on labour costs, Directive on batteries and accumulators, and sub-indices of the harmonised indices of consumer prices.

However, in response to calls from the Council and the European Parliament for further improvements of the business impact assessment, particularly with respect of the need for more comprehensive regulatory impact assessment, including cost-benefit analysis, an

³⁸ COM(1998) 126 final of 25.3.1998.

³⁹ COM(1997) 30 final of 12.3.1997.

⁴⁰ COM(1998) 67 final of 4.3.1998.

⁴¹ COM(1997) 478 final of 1.10.1997.

⁴² COM(1997) 392 final of 23.7.1997.

⁴³ COM(1998) 612 final of 11.11.1998.

⁴⁴ COM(1998) 662 final of 24.11.1998.

⁴⁵ COM(1998) 591 final of 20.1.1999.

⁴⁶ COM(1999) 427 final of 17.8.1999.

⁴⁷ COM(1998) 295 final of 20.5.1998.

⁴⁸ Evaluating the Impact on Business - the European Commission's Impact Assessment System, 1998.

internal pilot project will be launched by the Commission to run in parallel to the normal system. A first evaluation report on the project is planned before the end of 2001.

Business Test Panel: an innovative additional consultation process

The Action Plan for the Single Market envisaged the creation of a panel of European companies to be consulted in addition to the consultations usually carried out by the Commission in the preparation of its legislative proposals. The Communication on “the Business Test Panel – A Pilot Project”⁴⁹ was adopted at the Internal Market Council on 30 March 1998. The work of the panel concentrates on the compliance costs and likely administrative implications for businesses of proposed new legislation.

The Test Panel has so far been consulted three times. The arrangements put in place by the Member States and the Commission have worked satisfactorily. On the third consultation concerning the proposal for a Directive on Waste from Electrical and Electronic Equipment 10 Member States participated. Parallel to the consultations in the Member States the Commission carried out a consultation on-line via the Dialogue with Business web-site. The use of this innovative procedure for consulting of businesses on draft Commission proposals has ensured that a wide range of enterprises have submitted their observations, which in some cases, resulted in changes to the draft legislation. The pilot project will be subject to an in-depth evaluation which will be carried out in association with the review of the Commission's Business Impact Assessment system.

3.6. Simplification of legislation on the Internal Market: SLIM

The SLIM (Simpler Legislation for the Internal Market) exercise launched in 1996, whose goal is to reduce the constraints that Internal Market rules impose on businesses, has brought tangible results. The conciliation procedure on the Intrastat proposal aimed at reducing the data elements collected for intra-EU trade statistics⁵⁰ was successfully concluded. Two Commission Regulations on the declaration of net mass and statistical value have been issued⁵¹. A Council Regulation to simplify the product nomenclature⁵² was adopted on 31 January 2000⁵³. The revised Directive on ornamental plants, clarifying its scope and reducing the administrative burden on both suppliers and administrations, has been adopted. In the third phase of SLIM, concluded in late 1998, SLIM teams made proposals on social-security co-ordination rules, electromagnetic compatibility and insurance. In the case of social-security the relevant amendments have already been prepared by the Commission in a proposal adopted in December 1998⁵⁴.

A complete list of all the recommendations issued by the three teams and the Commission's proposed follow up were published⁵⁵.

⁴⁹ COM(1998) 197 final of 30.3.1998.

⁵⁰ Regulation No 1182/1999 of the European Parliament and of the Council of 10.5.1999, OJ L 144, 9.6.1999 based on the Commission proposal COM(1997) 252 final of 30.5.1997.

⁵¹ Commission Regulation (EC) No 2385/96 of 16.12.1996, OJ L 326, 17.12.1996 and Commission Regulation (EC) No 860/97 of 14.5.1997, OJ L 123, 15.5.1997.

⁵² COM(1997) 275 final of 4.6.1997.

⁵³ OJ L 28 of 3.2.2000, p. 16-18.

⁵⁴ COM(1998) 779, OJ C 38, 12.2.1999, p. 10.

⁵⁵ COM (1999) 88 final of 25.2.1999.

The fourth phase of SLIM started in January 1999. Three sectors were reviewed: dangerous substances, company law and pre-packaging⁵⁶. The teams have issued their recommendations and the Commission has published a report to the Council and European Parliament on the outcome⁵⁷.

The Commission assessed the SLIM exercise and adopted a Communication on 28 February 2000⁵⁸ which contains measures to improve the implementation of SLIM.

3.7. Payment periods in commercial transactions

Late payments are the cause of one in four bankruptcies. This leads to 450 000 job losses each year and the loss of € 23.6 billion in unpaid debts. The effect of this is to considerably limit commercial transactions between the Member States, contrary to Article 14 of the EC Treaty on the functioning of the Internal Market. Surveys show that over 20 % of European businesses would export more if they could obtain shorter payment periods from their foreign customers. SMEs are particularly affected by late payments (since they are more vulnerable to variations in cash flow). The Commission has found it necessary to legislate to improve the situation. First it tried to redress the situation by means of a Recommendation to the Member States in May 1995⁵⁹. Since the Recommendation was ineffective⁶⁰, in March 1998 the Commission proposed a **Directive** to combat the problem⁶¹.

The proposed Directive has been through the codecision procedure of the European Parliament and the Council (Art. 251 of the EC Treaty). The Council approved the Directive on 18 May 2000 and it was finally adopted by the European Parliament on 15 June 2000. It is Directive 2000/35/EC of 29 June 2000⁶².

The Directive deals with late payments between all businesses, including those in the public sector. The main provisions deal essentially with a legal right to charge interest on late payments and effective procedures for redress to recover the payments due throughout the Union and the EEA countries. It provides for a penalty interest rate seven percentage points higher than the rate applied by the European Central Bank or equivalent rates for the Member States not in the euro zone and the EEA countries. It fixes a period of 30 days as a reference for late payments, against which it will be possible to judge the deadlines fixed in contracts. The Directive should have an immediate impact on the way contracts are negotiated and entered into. It should have a positive effect by shortening payment periods, improving cash flow, particularly for SMEs, and, in the long run, making jobs more stable in Europe.

3.8. Access to the Information Society and to Electronic Commerce

It is essential for SMEs to take advantage from the growth potential offered by digital technologies. However, evidence suggests that Europe is not benefiting to the same extent as

⁵⁶ Simpler Legislation for the Single Market: Extension to a Fourth Phase. SEC(1998) 1944.

⁵⁷ COM(2000) 56 final of 4.2.2000.

⁵⁸ COM(2000) 104 of 28.2.2000.

⁵⁹ OJ L 127 of 10.6.1995, p.19 and OJ C 144 of 10.6.1995, p.3.

http://europa.eu.int/comm/enterprise/regulation/late_payments/index.htm

⁶⁰ cf. Evaluation of the Recommendation contained in the Commission Communication of July 1997, OJ C 216 of 17.7.1997, p. 10.

⁶¹ OJ C 168 of 3.6.1998, p. 13 and COM(1998) 126 final of 25.3.1998.

⁶² OJ L 200 of 8.8.2000, p. 35.

international partners from the positive effects generated by the “new economy”. This concerns not only SMEs, but companies at large, citizens, administrations, schools etc.

Against this situation, the **eEurope initiative**⁶³, launched by the Commission on the 8th December 1999⁶⁴, aims to bring everyone in Europe - every citizen, every school, every company – into the digital age as quickly as possible. eEurope has received a strong support from Member States and the industry. The special European Council held the 23-24th March 2000 in Lisbon gave a commitment to key targets of the eEurope initiative and invited the Commission and the Council to prepare an Action Plan for the European Council of Feira, 19-20th June 2000.

The eEurope Action Plan⁶⁵ identifies 11 action lines. Three of these are particularly relevant for SMEs:

- e-commerce: improve legal certainty for SMEs offering e-commerce services across the Union; strengthen consumer confidence in e-commerce; accelerate the adoption of the legal and regulatory framework for e-commerce and its transposition and application in the Member States.
- Faster and Cheaper Internet: accelerate the adoption, transposition and application of the new regulatory framework for electronic communication services in order to boost the development of new fixed and wireless broadband infrastructures and to bring tariffs down.
- Working in the knowledge-based economy: enhance the digital literacy of workers and develop new skills adapted to market needs; take advantage of new possibilities offered by digital technologies, e.g. teleworking, to increase the flexibility of work organisation.

Multiannual Community Programme to stimulate the establishment of the Information Society in Europe: Promise

Promise⁶⁶ is a programme (1998-2002, budget: 25 M€) which provides awareness and encourages citizens to take advantage of the information technology services. At present, only a small number of people have access to and use network connections daily for their individual activities (e-mail, e-commerce or world-wide web). Only 15 % of the European SMEs use the new information technologies to improve their standards and compete in the global market. In Promise, many activities are relevant for SMEs notably: the ESIS inventory and the Eurobarometer surveys identifying the situation of SMEs versus the Information Society, the European Internet Fiestas and the ISPO information services. Also, European Information Society Awareness Weeks (EISAW) were organised in 1997 with the network of Euro Info Centres resulting in 27 events throughout the 15 Member States and the participation of 2 061 SMEs from various industry sectors. In 1998, a **call for proposals** was launched on "Optimisation of the socio-economic benefits of the Information Society in Europe" with a strong SME emphasis (Epsilon initiative). In 1999, a workshop on IS dissemination for SMEs brought together SMEs and relevant intermediaries/multipliers to

⁶³ http://europa.eu.int/comm/information_society/policy/index_en.htm

⁶⁴ COM(1999) 687.

⁶⁵ COM(2000)330 du 24.5.2000,

http://europa.eu.int/comm/information_society/eeurope/actionplan/index_en.htm

⁶⁶ http://www.ispo.cec.be/promotion/i_promise_wp_2000_en.html

provide a forum for discussion of best practice in dissemination and promotion of the IS for SMEs and to improve co-ordination and synergy between the main actors in this field.

Present priorities include the co-ordination of the various Community initiatives contributing to the establishment and the promotion of the Information Society. Focus is now more on identifying, giving visibility and promoting the implementation of IS best practices in specific areas to stimulate take-up and spreading of high quality applications, services and methodologies rather than on funding some new projects.

Promoting the information society in regions assisted by the EU

Measures concerning the information society in the regions assisted by the EU (RISI) are divided into two sections: RISI 1, which encourages partnership between the key players in the region for drawing up a regional action plan on the information society and RISI 2, which supports multi-regional pilot projects. In total, 31 projects have been selected, 21 of which have been financed by the ERDF and ten by the ESF. The multi-regional measures, such as Enterskillsnet, aim at developing a network of SMEs in rural areas in Tarn and Haute-Garonne (F), Andalousia (E), Etelä-Savo (FIN), Dublin and Lanford (IRL) and Scotland. Another measure, "Tourist", concerns the parties involved in regional tourism in Madeira (P), Burgenland (A), Lappi (FIN), Val d'Aoste (I), and Hampshire (UK).

Electronic commerce

Electronic commerce (e-commerce) is a new factor of competitiveness which, if properly developed, may be of benefit to all SMEs although it represents a major challenge, especially those from more traditional and labour intensive sectors. Electronic commerce can also foster entirely new activities, in particular new intermediaries, on-line business and logistic services.

The e-commerce concept covers any form of business, administrative transaction or information exchange executed using any information and communication technology. From the point of view of businesses, this concept encompasses relatively simple shopping systems as well as complex solutions that integrate the whole commerce cycle. From an organisational perspective, electronic commerce is acting as a powerful integrator as it enables the seamless operation of existing flows between businesses and consumers, businesses and businesses and finally the exchange of data between companies and the public sector. Moreover, electronic commerce is propitiating the emergence of new, innovative ways of co-operation among SMEs that will help them to successfully face the challenges of globalisation.

Within the eEurope action plan adopted by the Commission on May 24th 2000⁶⁷, accelerating e-commerce is one of the targets, the so-called "go digital" initiative. It will encourage SMEs to go digital through co-ordinated networking activities for the exchange of knowledge on best practices, e-commerce readiness and benchmarking (e.g. through "Researchers to SMEs fellowship schemes").

Electronic commerce has the potential of making companies more efficient and competitive. It enhances the opportunity to expand and refine the dialogue between producers/suppliers and consumers, thereby improving the quality of products and services. It enables SMEs to federate in order to pool their purchase capacity, reach new and distant markets at low costs, get access to market information, improve their logistics and develop co-operative R&D facilities.

⁶⁷ http://europa.eu.int/comm/information_society/eeurope/actionplan/index_en.htm

Nevertheless, SMEs lack awareness and skills and suffer from insufficient consumer acceptance of and trust in electronic commerce (especially as they do not have readily recognised brand status). In addition, small companies need a clear and simple regulatory environment as well as telecommunications tariff schemes adapted to the peculiarities of electronic commerce. There are, moreover, asymmetries of information, bargaining power and representation between the technology providers and small companies. Electronic commerce will have a full, positive impact on the competitiveness of European SMEs only when the Internet becomes effectively accessible and affordable by everybody to the same extent as electricity, gas and water utilities. Lack of awareness and training, high telecommunications costs and uncertainty about legal implications are very often identified as the main inhibitors for quick take-off of mass-market electronic commerce in Europe as they prevent the incorporation of a critical mass of business users to the electronic market.

The following actions are being implemented in 1999 and continuing into 2000:

- Promoting awareness: since 99 % of all businesses in Europe are SMEs, awareness actions for SMEs are of key-importance for the success of e-commerce. Therefore, an information campaign aimed at small and medium size traders will be carried on during the year 2000 in five Member States. This information campaign will encompass a number of different issues and hot topics related to e-commerce.

The use of electronic commerce among SMEs is being stimulated through the current initiatives:

- Establishment of a number of permanent on-line non-profit business services to stimulate the competitiveness of small businesses in e-commerce. The services developed will foster the creation of co-operative structures based on identified best practice. Partnership agreements between business users, regional and local authorities, professional organisations and technology providers will be promoted to help SMEs gain a competitive edge on e-commerce.
- Establishment of an on-line business certification and arbitration scheme for SMEs. This service, to be developed with the private sector, aims at providing SMEs business services like commercial advertising, certification, and quality label or payment schemes. The availability of these services on an affordable and reliable basis is essential for the success of SMEs in their Web ventures.

3.9. Promoting innovation

The promotion of innovation within SMEs is a crucial issue, which the European Union is treating as a priority. Action consists of the following:

- pilot measures and studies under the special programme for the "Promotion of innovation and encouragement of SME participation" as part of the Fifth RTD Framework Programme;
- instruments for the assisted regions of the Union, and
- the financing of innovative enterprises.

The financing of innovative enterprises is dealt with at the beginning of Chapter II in the part concerning financial instruments, and practical information is available on the Cordis site⁶⁸.

Pilot Action “Mechanisms to facilitate the setting-up and development of innovative firms”

On the basis of the conclusions of the first European forum for innovative enterprises, held in Vienna in November 1998, the Commission decided to launch a pilot scheme to stimulate the support mechanisms to facilitate the creation and development of innovative firms.

This pilot action aims to identify, analyse and validate regional (or infra-regional) initiatives of excellence contributing to the creation and development of innovative firms.

The added value of the initiative lies, in particular in the exchange of information, experience, skills and good practices, and in highlighting “success stories”. It is expected from this process to have a “European showcase” of innovation, which could have a large impact and knock-on effect for all the EU regions, encouraging economic areas to implement similar initiatives adapted to their local environment.

By its own pilot nature, this action should be achieved in a relatively short time (less than 2 years) in order to enable lessons to be drawn and to implement subsequent actions during the Fifth Framework Programme period.

A first **Call for Proposals** was published on June 15th 1999⁶⁹, with an indicative budget of 12 M€, inviting proposals for three types of actions: thematic networks, projects and accompanying measures.

- **Thematic networks** of areas of excellence, aiming to identify and to network European economic areas which can demonstrate successful schemes and conditions for the creation of innovative companies and which intend to share information, experience and methods.

A European label of excellence will be granted to distinguish and valorise accepted proposals representing individual economic areas which fulfil the criteria of excellence defined by the Commission.

- **Projects** having as objective to validate original instruments and approaches being used in the EU and Associated States to support the creation and development of innovative firms and to encourage private investment in these enterprises, as well as to test the transferability of those instruments and approaches to other contexts.

The following priorities are specifically targeted:

- interlinking and exchange of local financing mechanisms (such as regional funds or business angel networks) and/or mentoring schemes for innovative start-ups.
- integrated actions on training and support to innovative start-ups and on good practices in the preparation of business plans (e.g. business plans competitions).
- new services for innovative start-ups in technology parks, incubators or science parks.

⁶⁸ <http://www.cordis.lu/finance/src/acc-fin.htm>.

⁶⁹ OJ C 167 du 15.6.1999, p. 11.

- mechanisms to stimulate the transfer of knowledge and the creation of innovative start-ups (spin-out) by higher education (universities, etc.) and research institutes, in interaction with industry and investors.
- initiatives supporting the development of and access to international markets for innovative firms (e.g. investment fora, brokerage or partnering events, etc.).

This action is mainly addressed to universities, research organisations, public sector management organisations, at local, regional or national level.

- **Accompanying measures** seeking to prepare for, or to support, other actions like the network or the projects and contribute to the achievement of strategic objectives, such as the definition of EU innovation policy. Two types of accompanying measures are included in the call:

- support measures to facilitate networks interaction (e.g. workshops, website, etc.) and management, including exchange of information, transfer of best practices and organisation of promotional events (e.g. an annual European forum of innovative companies)
- an "Innovation policy interface" in co-ordination with other relevant EU policies, to extract lessons from the activities of thematic networks and projects, by establishing an interface with expert panels, visiting schemes, workshops, benchmarking exercises, etc.

- **Studies and good practices on innovation**

In 1999, 14 research-studies were launched to effectively support the **analysis and benchmarking of innovation performances in Europe**. The results of these studies, which will be available in 2000, will contribute to the dissemination of good practices towards enterprises and policy-makers. The studies cover those issues recommended as priority for action by **the European Action Plan for Innovation**, such as:

- innovative enterprises;
- financing of New Technology Based Firms;
- patent defence in Europe;
- technology transfer from large public research institutes.

In co-operation with Eurostat, the Commission Directorate responsible for Innovation also launched in 1999 a series of studies to exploit the results of the **Community Innovation Survey – II**, covering the **innovative performance of European firms in the period 1997-1998**. The topics addressed are:

- numbering (and percentage) of innovative enterprises by size-class;
- innovative enterprises by type of innovation;
- innovation intensity (percentage of expenditure on innovation activities against the firm's turnover);
- objectives for innovation;

- sources of information for innovation projects;
- hampering factors for innovation projects in firms.

The research and analysis on innovation performances and policies in Europe was pursued in 2000. A call for tenders was issued on 23 September 1999⁷⁰ to select the contractors for the carrying out of a new series of studies.

- **Innovation projects and accompanying measures**

In 1999, the Commission launched a **call for proposals**⁷¹ for Innovation Projects and Accompanying Measures (including cluster support measures, common promotional structures and innovation policy interface), receiving total funding of 15.6 M€. **42 % of the participants in these actions are SMEs.** Due to the nature of the work involved most of the beneficiaries when disseminating the results of these actions are also expected to be SMEs.

- **Innovation Relay Centre Network**

The Innovation Relay Centre Network has 53 members⁷². Its total budget amounts to € 100 million, of which the Community is contributing € 54 million for a period of 30 months under the Innovation Programme. The Innovation Relay Centres advise businesses on technological and innovation issues, in particular for transnational technology transfers.

The network's performance regarding SMEs in the period end-1997 to mid-1999 can be summarised as follows:

- number of contacts with clients (SMEs): 47 694
- number of SMEs assisted: 38 632
- number of negotiated technology transfers: 1 686
- number of signed technology transfer agreements: 222
- proposed RTD projects submitted: 1 870
- proposed RTD projects approved: 877.

- **Promoting innovation in the assisted regions of the EU**⁷³

RIS-RITTS: regional innovation strategies (RIS) and regional innovation and technology transfer strategies (RITTS)

Although the regional innovation strategies (RIS) are cofinanced by DG REGIO, and the regional innovation and technology transfer strategies (RITTS) are financed by the Innovation programme, these two initiatives are managed jointly.

Since 1994, over 100 regions have received funding for the creation of RIS and RITTS (€ 500 000 financed to the extent of 50 % by the European Commission and 50 % by the region).

⁷⁰ OJ C 269, 23.9.1999, p. 12.

⁷¹ OJ C 80 of 23.3.1999, p. 12.

⁷² <http://www.cordis.lu/irc/home.html>.

⁷³ <http://www.inforegio.cec.eu.int/wbpro/prord/prordi/pdia3 %5Fen.htm>.

The main objective is to establish an efficient regional innovation system by improving existing regional innovation capacity. The RIS are not limited to the high-technology sectors, but also cover the traditional sectors and the services sector (e.g. tourism), which are important in less-favoured regions and particularly concern SMEs.

The RIS have made it possible to identify new innovation projects in businesses, particularly in SMEs. They have also led to the creation of new regional partnerships for economic development and the promotion of cooperation between businesses and the public and private sectors. For instance, the steering committees of several RIS projects (including Belgian Limburg, Yorkshire & Humberside, Strathclyde, and Shannon) are chaired by businessmen, thus allowing these management bodies to maintain a strictly entrepreneurial vision. They also include politicians.

Over **5 000 SMEs** have been subject to technological audits and/or interviews.

A database (RINNO) is being set up to deal with regional innovation projects. It will provide an "intelligent" register, making it easier to identify good practices and disseminate them to regional decision-makers.

In addition, a network for RITTS-RIS⁷⁴ was set up to assist the regions to facilitate the exchange between regions involved in innovation strategies, to help networking between participating regions by creating a common platform between regions and to disseminate the resulting output to parties outside the Network.

TRIP (Trans Regional Innovation Projects)

TRIP projects aim at fostering cooperation in the practical development and implementation of measures, which reflect the outcomes of RITTS and RIS. The essence of TRIPs projects is to jointly develop new methods and not just to transfer experiences. It is expected that these projects will add value to the RITTS or RIS in each region by implementing concrete innovation actions, reinforcing the exchange and cooperation with other regions in innovation projects. Eleven TRIP projects with an overall budget of 4.5 M€ are being developed in the fields of Industry-Research links, integration of SMEs into the supply chain, regional economic intelligence and supporting innovation in the services sector.

The RTT projects (multiregional technology transfer projects), of which seven were selected, are intended to reduce imbalances between regions and encourage interregional cooperation on research and development and innovation. For example, the Footwear project is intended to adapt and demonstrate an Italian technology for the design and automated production of moulds and transfer it to SMEs in the footwear sector in the Objective 1 regions of Spain, Portugal and Greece. In another sector, the Esteem project concerns the transfer of environmental production technologies to small firms in the United Kingdom, Greece, Germany and Finland.

Promoting the creation of innovative SMEs in the EU assisted areas: European Business and Innovation Centres BICs

In order to support the development and innovation of SMEs and the creation of innovative businesses, a network of 150 Business and Innovation Centres – BICs – was promoted, mostly in the assisted areas of the Union, within an experimental programme carried out by

⁷⁴ <http://www.innovating-regions.org>

the Community regional policy. These are support centres, whose mission is to assist the development and creation of innovative enterprises, through a system of integrated guidance and coaching services to firms.

Following a positive assessment of the programme, in terms of business and jobs creation and development, the Commission formally acknowledged the BICs in the new Guidelines for structural funds 2000-2006⁷⁵ as a successful model of organisation of integrated services to SMEs and their role of instruments of regional policy. They recommended the national authorities a more intensive use of these instruments, both creating them in new areas and making more use of their services where they exist, for the implementation of public measures for SMEs.

New BICs are being launched, with regional aids, in areas assisted by structural funds, or without, outside those areas. In both cases, such Centres may join the European BICs Network – EBN⁷⁶, which develops its services of technical assistance to the members.

BICs are linked by **cooperation agreements** to the Euro Info Centres and Innovation Relay Centres, which allows all these bodies to combine their services to SMEs and enrich one another.

Patents to stimulate innovation by SMEs

The Communication of the Commission of 5 February 1999 on promoting innovation through patents⁷⁷ takes stock of the extensive consultation process on the Green Paper on the Community patent and the patent system in Europe of 1997⁷⁸. The Communication suggests among other things that a pilot action should be launched to back the efforts of national patent offices to promote innovation, in particular by SMEs and that the patent system should be made more attractive for SMEs. Furthermore, the conditions for the patentability of software-related inventions should be harmonised and made more transparent. Software patents can be essential for SMEs to attracting venture capital.

Community patent

The Commission presented on 1 August 2000 a proposal for a Regulation on the Community patent⁷⁹, which is a key priority in the field of intellectual property. A unitary patent covering the entire territory of the Community is essential to eliminate the distortion of competition which may result from the territorial nature of national protection rights. It will enable European companies, including SMEs, to adapt their production and distribution activities to the Community dimension and take up the challenges on the innovation and competitiveness fronts with respect to the United States and Japan. The Community patent should be affordable in terms of cost and should guarantee legal certainty adapted to the needs of companies, especially of SMEs.

⁷⁵ OJ C 267, 22.9.1999.

⁷⁶ <http://www.ebn.be>

⁷⁷ Communication to the Council, Parliament and the Economic and Social Committee: Promoting innovation through patents – The follow-up to the Green Paper on the Community Patent and the Patent System in Europe, COM(1999) 42 final, 5.2.1999.

⁷⁸ COM(1997) 314 final, 24.6.1997.

⁷⁹ COM(2000) 412 of 5.7.2000.

National patent offices promoting innovation

The consultation on the Green Paper showed that the national patent offices should play an active role in disseminating and promoting the system of industrial property and of accumulated know-how, in particular by greater cooperation with SME representative bodies, the craft enterprises, the professional associations and independent inventors, as well as with universities. The Commission has arranged three round table meetings with national patent offices to facilitate the sharing of best practice amongst national patent offices in the area of innovation promotion. Further initiatives involving national patent offices, including a pilot action under the 5th Framework Programme for RTD, are planned in this area. This pilot action should strengthen the current role of patent information, provide an initial evaluation of the invention to be protected and define a protection strategy, provide information on the procedures and deadlines required to succeed with this protection strategy and provide basic economic information regarding industrial property.

The pilot action would cover assistance to businesses over the entire field of industrial property: patents, but also trade marks, designs and utility models and thus provide real “innovation protection”. This new role, to be fulfilled by those patent offices wishing to participate in the initiative, could involve setting up a small specialised team, at national, multi-disciplinary level, which could be sensitive to enterprises’ needs as regards innovation protection and provide an adequate response to those needs. Possible initiatives for these teams might include the publication of brochures covering the entire field of innovation protection, the preparation of websites with the same content, the organisation of exhibitions on innovation and conferences on the Chambers of Commerce and Industry, in regional organisations and in universities and technical institutes, etc.

Making the patent system more attractive for SMEs

The Commission identified the cost of the patent in Europe as one of the major obstacles to the optimum use of the system, in particular for SMEs. The Commission therefore welcomed the decision of the European Patent Office to further reduce its fees. This decision does not however exclude specific provisions being made for SMEs and universities.

The innovation capacity of SMEs could also be supported and strengthened by creating posts for specially trained advisors in representative organisations (Chambers of Commerce or Trades, professional associations), with the task of providing direct information to enterprises and assisting them in their representations from the moment of innovation right up to the award of the patent and its commercial management.

Finally, the Commission has adopted a modified proposal for a Directive on utility models, a form of protection which is particularly suited to the technical inventions of which SMEs are a fertile source⁸⁰.

3.10. Improving competitiveness: commerce, the social economy and tourism

Retail businesses and the distributive trades

Eurostat most recent statistics show that it represents 30 % of businesses, 16 % of employment and more than 13 % of the GDP of the European Union, i.e. around 5 million

⁸⁰ Amended proposal for a European Parliament and Council Directive approximating the legal arrangements for the protection of inventions by utility model, COM(1999) 309 final, 25.6.1999.

businesses producing 640 billion euros and 21.5 million jobs split between retailers, wholesalers and intermediaries. The majority of the enterprises in the sector are SMEs but a very significant part of the sales volume of the sector is by large companies. The share of the female workforce averages over 50 % (54.8 %). The highest figures are found in the countries with the highest levels of turnover per person employed. As in the case of services overall, it is in retailing sector that female employment has recorded the highest rates, reaching 57.6 % of total employment in this sector.

A White Paper on Commerce⁸¹ was published in January 1999 as a follow-up to the Commission's Green Paper on Commerce⁸², adopted in November 1996 which launched a consultation process on the sector, on its challenges and on possible ways of remaining competitive, thus maintaining its major contribution to employment and social cohesion.

A major attention will be brought to a better integration of the needs of the sector into Community policies and programmes. This implies a close follow up of the evolution of the sector especially e-commerce and concentrations, the establishment of statistics in cooperation with Eurostat and a strengthening of the relations with all the actors of the sector, Member States, officials and professional organisations at European level.

A campaign "European Days of Commerce" was decided in 1999 and will be launched to raise awareness on the challenges and consequences of electronic commerce and the euro for the sector.

The Commission's work to identify best practices for small shops in rural areas was published on the Europa web site⁸³.

A conference was held in Malaga in May 1999 about the problems of neighbourhood shops in urban areas; work on identification of problems and practical solutions are underway with the Member States.

Social economy: cooperatives, mutual societies, foundations and associations

In June 1997, the Commission adopted a communication on "**Promoting the role of voluntary organisations and foundations in Europe**"⁸⁴, with the aim of drawing decision-makers' attention to the growing importance of associations and foundations to Europe and the problems and challenges they face. It presented specific measures for the development of the sector at Community, national and sector levels.

Since then, a series of internal consultations, seven national conferences and nine experts' meetings have been held on the subject of communication. A follow-up report will present the results, which deal in particular with the needs regarding professionalism and training.

Two European Conferences were held in this period. First, the **Sixth European Conference on the social economy** was held in Birmingham in June 1998. Apart from job creation, it stressed the ability of the social economy to reform the welfare state, its role in the development of European citizenship and its contribution to entrepreneurship and life-long training.

⁸¹ COM(1999) 6 final of 27.1.1999.

⁸² COM(1996) 530 final of 20.11.1996.

⁸³ <http://europa.eu.int/comm/enterprise/services/commerce/index.htm>.

⁸⁴ COM(1997)241 final of 6.6.1997.

Finally, the Conference on **Cooperative entrepreneurship in the Europe of 2000** was held in Bologna in December 1998 with over 500 participants.

Tourism

Tourism is a fast growing industry. Although the Commission proposal on the Philoxenia programme did not reach an agreement in the Council, activity is carried out on issues such as the euro, the contribution of tourism to job creation or new technologies.

Data collected in the frame of the Council Directive 95/57/EC⁸⁵ on the collection of statistical information in the field of tourism has been regularly disseminated since 1997. In particular, "Tourism in Europe - Key figures" has been published on a yearly basis (in May or June) including data from the previous three years on the capacity of collective tourist accommodation, utilisation of bed-places, resident and non-resident guest flows and travel receipts and expenditure⁸⁶. The particular challenges faced by tourism SMEs were the subject of recommendations presented to the Commission following a conference held in May 1998 supported by both the Commission and the UK Presidency⁸⁷. Another conference, held by the Commission in October 1998, examined the practical implications for tourism SMEs for the introduction of the euro⁸⁸. This conference was prepared by the **Euro-Tourism Working Group** whose role was to help the tourism sector in succeeding its transition to the euro. The report of the **High Level Group on Employment and Tourism**, presented to the Commission on 22 October 1998, stressed the importance of activities for tourism SMEs at European, national and regional levels⁸⁹.

Further to the Commission's Communication on **Enhancing Tourism's Potential for Employment**⁹⁰ and the Conclusions of the Council meeting on the Internal Market, 21 June 1999, an **Internet Roadmap for the Tourism Sector**⁹¹ is available to provide information on Community programmes for tourism SMEs.

The Council's conclusions invited the Commission and the Member States to co-operate closely on other issues relevant to tourism SMEs such as dissemination of information, training, quality as well as environmental protection and sustainable development. Consequently, the Commission has established 4 Working Groups on these issues that are composed of experts nominated by the Member states. It will present a Progress Report to the Council in late 2000.

Since 1990, the European Social Partners meet to develop common opinions on issues relevant to tourism. In 1999, these meetings have been institutionalised in the form of the **Sectoral Social Dialogue Committee Horeca**⁹²/tourism. They are presently discussing issues like: feasibility of a qualification passport in the Horeca sector, recommendations on

⁸⁵ OJ L 291, 6.12.1995, p. 32

⁸⁶ "Tourism in Europe - Key figures 1997-1998", (1999), Eurostat. "Tourism in Europe - Key figures 1996-1997", (1998), Eurostat "Tourism in Europe - Key figures 1995-1996", (1997), Eurostat

⁸⁷ "Agenda 2010 for Small Businesses in the World's Largest Industry", Llandudno/Wales, 20-22.5.1998, Final Communiqué, 30.6.1998.

⁸⁸ "Conference on the euro and tourism: opportunities and strategies for businesses", Brussels, 16.10.1998, Final Report.

⁸⁹ "European Tourism – New Partnership for Jobs", October 1998.

⁹⁰ COM(1999) 205 final of 28.4.1999.

⁹¹ http://europa.eu.int/comm/enterprise/services/tourism/index_en.htm

⁹² HORECA: HOtel, REstaurants and Cafés.

how to promote employment in the European Horeca sector such as labour time flexibility, and the possibility of putting the sectoral social dialogue on a contractual basis.

On information society technology the Commission's services undertook joint actions on issues such as tourism SMEs' needs in new technologies or impact of electronic commerce on tourism SMEs. This also led to the inclusion of a specific research action line on tourism in the 5th Framework Programme on RTD. On 12 November 1999 a conference on **Tourism in the Information Society** was held in Brussels. In view of the increasing role of information technology, tourism businesses will have to rethink their products, their entire internal procedures and structures, the marketing of their products, their co-operation with business partners and their relations with their customers in order to remain competitive.

3.11. Rules on judicial cooperation in civil and commercial matters

A number of texts and initiatives in the field of judicial cooperation in civil and commercial matters will be of direct benefit to SMEs:

- Common rules regarding jurisdiction, recognition and the enforcement of judgments in civil and commercial matters were drawn up in the Brussels Convention of 27 September 1968⁹³. This Convention will be replaced (except for Denmark) as from 1 March 2002 by the Regulation (EC) No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters⁹⁴. This Regulation updates the rules on private international law of the Member States regarding jurisdiction and improves and accelerates the recognition and enforcement of judgments in civil and commercial matters.
- As regards the law applicable, the Convention on the law applicable to contractual obligations establishes rules on the matter.⁹⁵
- As regards the transmission of documents in civil procedures, on 29 May 2000, the Council adopted Regulation (EC) No 1348/2000⁹⁶ on the service in the Member States of judicial and extrajudicial documents in civil or commercial matters. This Regulation, which governs the arrangements for the transmission of judicial and extrajudicial documents between the Member States, will improve and accelerate the process.
- Finally, on the question of bankruptcy, on 29 May 2000, the Justice and Home Affairs Council adopted Regulation EC 1346/2000⁹⁷ on insolvency proceedings. The Regulation aims to improve and accelerate insolvency proceedings with cross-border effects by establishing common rules on the question of jurisdiction, recognition and applicable law in this field.

⁹³ Consolidated version published in OJ C 27 of 26.1.1998.

⁹⁴ OJ L 12 of 16.1.2001, p. 1.

⁹⁵ Consolidated version published in OJ C 27 of 26.1.1998.

⁹⁶ OJ L 160 of 30.6.2000.

⁹⁷ OJ L 160 of 30.6.2000.

4. REGULATORY AND LEGISLATIVE ENVIRONMENT

4.1. Internal Market

Internal Market Strategy

Regular reports on implementing the Action Plan for the Single Market have been provided in the twice-yearly Single Market Scoreboard. The Action Plan is succeeded by the Strategy for Europe's Internal Market⁹⁸ which sets four strategic objectives to ensure that the full potential of the Single Market is realised. These include: improving the quality of life of citizens; enhancing the efficiency of Community product and capital markets; improving the business environment and exploiting the achievements of the Internal Market in a changing world.

The various elements of the Internal Market Strategy, including the results of the first Internal Market Council discussion of each year, will provide an input to both the Commission's proposals for the review of target actions and the Commissions' recommendations for the Broad Economic Policy Guidelines. The first Review was adopted by the Commission on 3 May 2000⁹⁹ which sets out priorities to improve the functioning of the Internal Market and to maximise the benefits to business and citizens alike.

The strategy takes account of the importance of a properly co-ordinated and coherent enterprise policy across the Community, and with special attention being paid to the needs of SMEs, to ensure that their full potential for innovation, growth and job-creation is realised.

Company law

Within the SLIM exercise (mentioned previously) a group of experts has been set up to examine in particular the First and Second Company Law Directives. The working group concluded its work in July 1999 and came up with a number of recommendations which could contribute to a simplification and modernisation of the rules concerning disclosure of company documents and the requirements regarding the minimum share capital for public limited liability companies. A first discussion with Member States' experts took place on 30 September and 1 October 1999. A second discussion with Member States' experts took place on 5 June 2000. The Commission intends to come forward with proposals for amending the First Company Law Directive in 2000. As regards the Second Company Law Directive, a third discussion with the Member States' experts will be organised.

The Commission is also examining the possibility of introducing proposals **on cross-border mergers and the transfer of the corporate seat for companies**, which are not subject to worker participation. This would primarily benefit SMEs.

Recognition of qualifications

Following a Commission proposal in 1996¹⁰⁰, the European Parliament and the Council adopted the Directive 1999/42/EC on 7 June 1999¹⁰¹ establishing a mechanism for the **recognition of qualifications in respect of the professional activities** covered by the

⁹⁸ COM(1999) 624 final of 24.11.1999.

⁹⁹ COM(2000) 257 final of 3.5.2000.

¹⁰⁰ COM(1996) 22 final of 8.2.1996.

¹⁰¹ OJ L 201, 31.7.1999, p. 77.

Directives on liberalisation and transitional measures and supplementing the general system for the recognition of qualifications.

This Directive aims to recast the main provisions of the “transitional measures” and “liberalisation” Directives relating in particular to commerce, industry and small craft industries, so as to simplify Community legislation in this area. This Directive also aims to establish a mechanism for the recognition of qualifications in respect of professional activities which have been covered by the “transitional measures” Directives until now. This mechanism will enable migrants to request the recognition of their qualifications if they do not have the professional experience required to apply for recognition on this basis.

Accounting rules

Directive 78/660/CEE¹⁰² on the annual accounts of certain types of companies and Directive 83/349/CEE¹⁰³ on consolidated accounts allow the Member States to exempt from some of their obligations SMEs or small groups of companies which do not exceed certain threshold levels. Article 53(2) of Directive 78/660/EEC stipulates that these levels may be revised every five years in the light of economic and monetary trends in the Union. In this regard the Commission has adopted on 13 June 2000 a communication¹⁰⁴ on the new financial reporting strategy.

The latest revision increasing the amounts of previous thresholds with 25 % was adopted by the Council in June 1999¹⁰⁵. This means that Member States could grant derogations to a greater number of SMEs on the preparation and publication of annual accounts. Given the introduction of the euro, the amounts are now expressed in euro.

The results from the questionnaire on accounting in SMEs will be taken into account when proceeding with the modernisation of the Accounting Directives as outlined in the Financial Services Action plan¹⁰⁶.

Public procurement

Initiatives taken by the Commission to simplify existing public procurement legislation, render procedures more transparent, promote increased use of electronic means for procurement and facilitate access to procurement should benefit SMEs involved in public procurement.

Simplification of public procurement legislation

In its two recent proposals for directives relating to the coordination of procedures for the award of public supply contracts, public service contracts and public works contracts¹⁰⁷, and the coordination of procurement procedures of entities operating in the water, energy and transport sectors¹⁰⁸, the Commission seeks to simplify and modernise existing Community legislation on public procurement. It does so principally by consolidating the existing

¹⁰² OJ L 222, 14.8.1978, p. 11.

¹⁰³ OJ L 193, 18.7.1983, p. 1.

¹⁰⁴ COM(2000) 359 final of 13.6.2000

¹⁰⁵ Council Directive 1999/60/EC of 17.6.1999, OJ L 162, 26.6.1999, p. 65.

¹⁰⁶ COM(1999) 232 of 11.5.1999.

¹⁰⁷ COM(2000) 275 final of 10.5.2000.

¹⁰⁸ COM(2000) 276 final of 10.5.2000.

directives on supplies, services and works into a single coherent text, and by presenting both proposals in a clearer and more user-friendly manner.

In addition, the proposals contain the following measures that should increase transparency and accessibility of procurement procedures for SMEs and other suppliers.

Publication in the tender notice of relative weighting of contract award criteria by contracting authorities: this should increase transparency in the award process and should give SMEs and other suppliers the opportunity to evaluate better, from the start of the procurement procedure, their chances of meeting the criteria and being awarded a contract, and to concentrate their efforts accordingly.

Simplification of rules regarding technical standards: the Commission has proposed that technical standards be defined in terms of the performance to be attained by the product or service, as opposed to requiring products or services to comply with given international, European or national standards. At present, the obligation imposed by EC public procurement directives to refer in calls for tender to existing standards has often been interpreted as making compliance with such standard(s) compulsory. This has had the effect of excluding potential tenders not only from suppliers whose products or services did not meet the relevant standards but which might equally meet the needs of the contracting authorities, but also from suppliers for whose innovative products and services no standard existed. By clarifying this point, the proposal of the Commission is intended to offer greater flexibility to SMEs and other suppliers in the products and services they propose.

Increasing understanding by suppliers of tender notices: use of the Common Procurement Vocabulary (CPV). The CPV is a nomenclature that defines the characteristics of individual works, products and services which may be the subject of a tender notice. The proposals provide that use of the CPV should be compulsory in drafting tender notices. SMEs and other suppliers can thus establish the exact nature of the works, services or supplies required by a contracting authority.

Promoting use of electronic means for tendering

Increased use of electronic means is seen as a way to make access to tender notices and procurement information easier and quicker, to make procedures more transparent, and to reduce the time and expense for SMEs and other suppliers involved in procurement procedures.

The Commission's proposals for directives mentioned above seek to encourage contracting authorities to submit electronically not only tender notices, but also the technical specifications file and accompanying documents, to the Office for Publications of the EC. All these documents will be made available, free of charge, on the TED (Tenders Electronic Daily) database which may be consulted through the internet¹⁰⁹ at the same time as the tender notice. This should result in savings in time, effort and expense for SMEs and other suppliers involved in public procurement.

The Commission has also developed the SIMAP (Information System for Public Procurement) website¹¹⁰, which provides general information on the public procurement market, on recent news and developments, and on procurement rules and procedures. SIMAP

¹⁰⁹ <http://ed.eur-op.eu.int>

¹¹⁰ <http://SIMAP.eu.int>

also provides access to tender notices on the TED database. SIMAP can be used by contracting authorities to provide information on their internal procedures, future procurement plans, previous contracts awarded and, in respect of ongoing procedures, the contractual and technical specifications relating thereto. They can do so by creating their own “Purchaser Profile” on SIMAP.

SIMAP provides SMEs and other suppliers with a search and retrieval mechanism that allows them to seek out general information regarding contracting authorities and specific information regarding tender opportunities. The Commission is examining the need for initiatives to assist SMEs to adapt to the increased use of electronic means in the public procurement field.

Facilitating access to procurement markets

The Commission has mandated the European standards bodies, CEN and Cenelec, to develop and adopt European standards covering works, products and services that are the subject-matter of many public procurement contracts, with a view to reducing barriers to participation in public procurement. CEN and Cenelec have also been mandated to develop and adopt a European standard for qualification of construction enterprises.

4.2. Competition policy

The objective of the Community's competition policy is to defend and develop **effective competition** in the common market. It does not enter into play until such time as trade between Member States is affected by restrictions of competition. Competition policy focuses on four main areas of action based on the EC Treaty (Articles 81 to 90) and the Council Regulation known as the Merger Regulation:

- (1) The elimination of agreements which restrict competition and of abuses of a dominant position (e.g. price-fixing agreements between competitors)
- (2) The control of mergers between firms (e.g. a merger between two large groups which results in their dominating the market)
- (3) The liberalisation of monopolistic economic sectors (e.g. telecommunications)
- (4) The monitoring of state aid (e.g. the prohibition of a state grant designed to keep a loss-making firm in business even though it has no prospect of recovery).

Even though effective competition between firms is mainly to the benefit of consumers, it is also in the interest of enterprises. This is particularly true for SMEs, which like the final consumer, usually suffer the most from the market power and restrictive practices of large competitors or suppliers. Furthermore, competition policy favours new entries in markets, which are frequently SMEs.

The Commission recognises, however, that compliance with competition rules is a potential burden for SMEs and that such enterprises and state measures to help them are less likely to have negative effects on trade between Member States.

Some recent policy initiatives in the area of antitrust and State aid are likely to positively affect SMEs. They concern the definition of certain categories of agreements between firms and of certain types of State aids, which will be exempted from the ban imposed by

competition rules. Also, a process of modernisation of the rules that apply the competition provision of the Treaty was initiated with likely consequences for SMEs.

Competition rules applicable to enterprises

Vertical agreements

Some agreements between enterprises impair competition. The most familiar example is an agreement on prices, or cartel, whereby firms fix price levels jointly so that consumers are unable to take advantage of competition between suppliers to obtain competitive prices. Agreements of this type are prohibited by Article 81 of the EC Treaty. However, some agreements may encourage competition, because they promote technical progress or improve distribution. Under Community law, those agreements can be exempted from the prohibition because they ultimately have a beneficial effect on the market. Exemptions can be granted to individual agreements between firms or to entire categories of agreements of the same nature – e.g. distribution agreements – these latter are the so-called “**block-exemptions**”.

In December 1999, the Commission issued a block-exemption dealing with vertical agreements¹¹¹, i.e. agreements between firms operating at different levels of the production or distribution chain. This regulation is aimed at dealing with the mass of vertical agreements, which according to their own nature and to the structure of the relevant market are likely to qualify for an exemption from a possible ban imposed by competition rules. In addition, the Guidelines¹¹² adopted by the Commission on 24.5.2000 clarifies the application of Article 81 of the Treaty outside the scope of the block exemption regulation. The adoption of **such a regulatory framework reduces the compliance burden for companies** by providing the parties with a “safe-harbour” within which they do not have to worry about the application of EC competition rules and by making the applicability of Article 81 to vertical agreements more predictable. These advantages are particularly evident in respect of SMEs, for which the complexity of the previous block exemption Regulations implied a rather high compliance burden.

It is also specified in the Guidelines that vertical agreements between SMEs are considered unlikely, subject to specific exceptions, to have an appreciable effect on trade between Member States and, as such, falling outside the scope of application of Article 81.

Modernisation of the procedural rules

At present, only the European Commission can exercise the power to exempt a restrictive agreement under Article 81. To obtain an individual exemption, firms must notify their agreements to the European Commission. In recent years, the Commission has received on average over 200 such notifications annually. In 1999, in the framework of a modernisation process of its rules and procedures, the Commission suggested terminating this centralised notification of all agreements between enterprises. Many agreements that are notified do not involve serious problems for competition. The Commission therefore hopes to concentrate more on agreements that seriously harm competition in the common market, particularly cartels. It also hopes to involve the competition authorities and courts of the Member States more directly in the application of the Community competition rules.

¹¹¹ Commission Regulation (EC) No. 2790/1999 of 22 December 1999 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices, OJ L 336, 29.12.1999, p. 0021-0025.

¹¹² <http://europa.eu.int/comm/competition/antitrust/legislation>

Accordingly, on the 28th of April 1999, the Commission adopted a White Paper on modernisation of the rules implementing articles 81 and 82 of the EC Treaty¹¹³. This document proposes the abolition of the current authorisation system. It advocates a new enforcement system in which not only the Commission but also national Authorities and Courts would be competent to apply article 81 as a whole. Exemption decisions and notifications would no longer be required: restrictive agreements would be valid ab initio if they fulfil the four conditions of article 81(3) and they would be void if they do not fulfil all these conditions. The Commission and national authorities would act on the basis of complaints or ex officio procedures. They all would be in a position to concentrate their action on the prosecution of serious infringements such as cartels.

This reform, if it is implemented, would have two beneficial effects for SMEs.

It would relieve them from the burden of notification in the rare cases where they are covered neither by the de minimis notice nor by a block exemption regulation. This would suppress notification costs that can be particularly heavy for SMEs.

But SMEs are often complainants: they are the first victims of restrictions of competition between companies enjoying market power. In allowing the Commission and national authorities to act more efficiently against serious restrictions and to deal speedily with complaints, the proposed reform would improve their situation as complainants. **SMEs would also have the possibility to lodge a complaint directly to a national court and to seek damages:** the companies attacked would no longer be in a position to block the national procedure with a notification to the Commission.

State aid

The Commission's policy in the area of State aid has always taken account of the special situation of SMEs and is accommodating towards many measures taken by Member States to stimulate their development. This attitude is reflected in the guidelines on State aid to SMEs of 1996¹¹⁴ which stipulate that within certain limits aid to SMEs may be eligible for the exemption provided for in Article 87(3)(c) of the Treaty and is thus deemed to be compatible with the common market. In addition, the *de minimis* rule dispenses Member States from the obligation to notify the Commission very small amounts of aid which are assumed not to affect trade between Member States. **The threshold below which aid to an enterprise needs not be notified is set a 100 000 € over a period of three years, irrespective of the type of aid**¹¹⁵. Although the *de minimis* rule does not set a limit on the size of the recipient enterprise, it is obvious that it concerns mainly SMEs.

To further improve the administration of State aid for SMEs, the Commission adopted on 28 July 1999 **three drafts of group exemption Regulations that affect SMEs**¹¹⁶. They concern **State aid to SMEs, training aid** and the *de minimis* rule. The Regulations will exempt these categories of aid from the requirement of prior notification to the Commission. It is the first time that the Commission has used **block exemptions** with respect to State aid,

¹¹³ OJ C 132, 12.5.1999, p. 1.

¹¹⁴ OJ C 213, 23.7.1996, p. 4.

¹¹⁵ Commission notice on the *de minimis* rule for State aid, OJ C 68, 6.3.1996, p. 9. Export aid is not covered by the dispensation.

¹¹⁶ Documents SEC(1999) 1179, SEC(1999) 1177, SEC(1999) 1176 adopted by the Commission on 28.7.1999, PV (1444).

after the Council enabled it to do so in 1998¹¹⁷. The Regulations may declare certain categories of State aid compatible with the rules of the EU if they fulfil certain conditions, and exempt them therefore from the requirement of prior notification and Commission approval. The Regulations set out clearly defined rules, which follow the lines so far defined in the respective Community guidelines and frameworks. The Commission's main objective is to free resources from assessing numerous standard cases whose compatibility with EU rules is not normally problematic. This will increase efficiency and give the Commission's services more room to concentrate on important cases. Member States will take greater responsibility in the application of EU State aid rules. Business, notably SMEs, will benefit from administrative simplification and increased transparency.

4.3. Tax and Customs Duties

The Commission aims to establish a fair system of taxation and customs duties for citizens and businesses, which requires both the development of the internal market and the simplification of administrative obligations.

Furthermore, the current level of compulsory taxes on labour (income tax and social security contributions) discourages businesses from recruiting staff. This is particularly the case for small enterprises, which are often more labour intensive than large ones. However, new businesses, which are mostly SMEs, play an important role in job creation. In accordance with the guidelines on employment adopted by the Council in 1998, 1999 and 2000 (see paragraph 6.1.1.), the Member States have been invited, as part of the restructuring of their taxation systems, to **gradually reduce the tax burden on indirect labour costs**, particularly on less skilled labour (and low-paid jobs). **SMEs, where such jobs account for a relatively high proportion of employment, should therefore be the first to benefit from this reduction when it takes place.** Furthermore, administrative simplification (e.g. the creation of one-stop shops as contact points for SMEs for everything concerning tax and social security contributions) should also primarily benefit SMEs, which rarely have the necessary administrative resources.

4.3.1. Business taxation

Taxation is one of the areas where large differences exist between the Member States and common rules have yet to be established. In October 1997, the Commission adopted a Communication¹¹⁸ proposing a set of measures to combat harmful tax competition in the EU. The Council agreed with this approach on 1 December 1997¹¹⁹. Two areas of particular interest to businesses emerged, namely the taxation of businesses and the problem of withholding taxes on cross-border payments of interest and royalties between associated companies of different Member States.

As regards the taxation of businesses, the Commission has proposed drawing up a "**Code of Conduct**"¹²⁰, implementation of which should make it possible to prevent the erosion of tax bases through harmful tax competition. The Code of Conduct aims at measures which have or could have a significant effect on the location of economic activities within the Community. The Council's Code of Conduct Group (business taxation), which was set up to identify the

¹¹⁷ Regulation No 994/98 of 7.5.1998 on the application of Articles 87 and 88 of the EC Treaty establishing the European Community to certain categories of horizontal State aid.

¹¹⁸ COM(1997) 495 final of 1.10.1997 http://europa.eu.int/comm/taxation_customs/taxation/taxation.htm.

¹¹⁹ Conclusions of the Ecofin Council of 1 December 1997, OJ C 384 of 10.12.1998, p. 3.

¹²⁰ First report available COM(1998) 595 of 25.11.1998.

tax measures that could be covered by the Code, reported to the Ministers of Economic Affairs and Finance in November 1999¹²¹. In addition, the Commission proposed a directive¹²² which aims at **abolishing withholding taxes on cross-border payments of interest and royalties between companies in different Member States**. In fact, withholding tax can involve very long formalities, result in cash flow losses and sometimes lead to double taxation. This set of measures is currently under discussion by the relevant bodies.

In December 1998, the Council asked the Commission to produce a **study on company taxation**. The study is to highlight the differences between the actual taxation levels of companies in the EU and analyse the obstacles caused by taxation to cross-border activity in the internal market. The study will take into account the specific situation of SMEs.

4.3.2. *Indirect taxation: VAT*

As regards indirect taxation, in July 1996 the Commission proposed a work programme for the introduction of a common system of VAT¹²³. This programme provided for a very tight schedule, according to which all the proposals necessary for introducing the new common VAT system had to be submitted before the end of 1999.

It was not possible to observe the timetable. Although the Commission made some important proposals, it soon became obvious that the adoption of the proposals which were to form the preparatory phase for the new proposed common system (e.g. change in status of the VAT Committee and the level of the normal VAT rate) could not happen within the proposed deadlines.

Furthermore, new Commission initiatives not planned as such in the work programme became necessary after 1996. These initiatives resulted mainly from the SLIM exercise (Simpler Legislation for the Internal Market) regarding VAT¹²⁴ and Community policy on employment.

Without intending to call into question the idea of a definitive system of taxation in the Member State of origin of transactions giving rise to consumption in the Community as a **long-term Community goal**, the Commission reappraised the programme it proposed in 1996 in the interest of improving the functioning of the internal market in the **short term**. It has recently defined a new strategy to improve the operation of the current VAT system within the context of the internal market¹²⁵. It is based on four main objectives: **simplification** and **modernisation** of current rules, **more uniform application** of current rules and **closer** administrative cooperation.

The proposals of direct interest to SMEs are as follows.

Right to deduct VAT

It proposes harmonising the rules governing the **right to deduct Value Added Tax** on expenditure not eligible for a full deduction (e.g. expenditure on passenger cars, food and

¹²¹ Report available to the public on the Council's site: <http://ue.eu.int/newsroom> under "Miscellaneous".

¹²² COM(1998) 67 final of 4.3.1998.

¹²³ COM(1996) 328 final of 22.7.1996.

¹²⁴ COM(1997) 618 final of 24.11.1997.

¹²⁵ COM(2000)348 final of 7.6.2000.

drink, and hotel accommodation)¹²⁶. This proposal has not yet been adopted by the Council because of the implications for the Member States.

Cross-border deduction system

The Commission has proposed a directive to simplify the procedures allowing taxable persons established in the Community to recover taxes paid in a Member State in which they are not established, replacing the Eighth Directive by a **system of cross-border deduction** accompanied by a compensation mechanism between the Member States. It is one of the proposals for harmonising the deduction rules under discussion by the Council¹²⁷.

Abolition of tax representation

The Commission has also proposed a directive on the determination of the person liable for payments of VAT¹²⁸ which provides for the **abolition of tax representation** between Member States and for taxable persons in non-member countries with which there is no agreement providing for mutual assistance for tax collection. This proposal has not yet been adopted by the Council.

Commission has noted that the objective of the SLIM VAT exercise, namely to rapidly simplify the obligations of operators regarding VAT, has not yet been achieved, since no agreement has been reached at Council level, although these proposals have received the support of the European Parliament, the Economic and Social Committee and operators.

New rules for electronic commerce

In order to give Community operators the opportunity to operate under the best conditions on the world market, on 7 June 2000, the Commission proposed to amend the current rules so that electronically delivered services supplied for consumption within the EU are subject to VAT and those supplied for consumption outside the EU are exempt from it. This proposal also contains a number of facilitation and simplification measures aimed at ensuring that the administration and collection of VAT takes full advantage of the potential benefits afforded by electronic technology. These measures should also be of benefit to SMEs by enabling them to find a favourable position in this fast-growing sector.

General revision of the VAT system applicable to SMEs

The special schemes applying to small businesses, in particular the exemption schemes, which differ widely from one Member State to another, are often cited as needing a thorough overhaul. The Commission is aware of the fact that the current Community legal framework set up under the Sixth VAT Directive is difficult to apply under the different national laws. This question is one of the subjects identified in an Annex to the Communication of 7 June 2000 as requiring a thorough reappraisal. It was discussed at one of the seminars held under the Fiscalis 2000 programme on 9 and 10 October in Faro (Portugal). Proposals could be included in the new Commission VAT Strategy.

¹²⁶ COM(1998) 377 of 17.6.1998.

¹²⁷ COM(1998) 377 of 17.6.1998.

¹²⁸ COM(1998) 660 final of 27.11.1998.

VAT and Employment

Implementation of the various Community policies has led to the emergence of new priorities. For instance, in order to promote sustainable employment in Europe and combat unemployment and the black economy, the European Council of Vienna (11-12 December 1998) asked the Commission to submit a draft directive authorising the Member States which wished to do so to test a formula of reduced VAT for labour-intensive services which were not exposed to cross-border competition. The Commission adopted this proposal on 17 February 1999. It provides for the possibility of authorising Member States that request to do so to apply, on a three year experimental basis, a **reduced VAT rate on labour intensive services**. This proposal was adopted by the Council¹²⁹ with a reduction in its field of application (only the services included in Annex K are concerned). The requests submitted by nine Member States were the subject of a decision adopted by the Council on 28 February 2000¹³⁰. The application of the reduced rate should have a favourable impact on SMEs, which are often involved in labour-intensive sectors. The property sector was the most successful, having been selected by seven Member States.

The effectiveness of this experiment will be assessed in terms of job creation and efficiency regarding the operating of the current tax system, on the basis of a report drawn up by each of the Member States involved. The Commission will then carry out an overall assessment and will submit the appropriate follow-up proposals.

4.3.3. Customs environment

The action programme Customs 2002¹³¹ aims to modernise national customs authorities and to encourage cooperation between them and the Commission. Its objective is to ensure that Community legislation is applied uniformly at external borders and that the internal market can function in an optimum fashion.

Article 6(2) and Article 9 of the programme provide a coherent framework for the Commission to carry out measures to simplify customs rules and procedures, with the aim of facilitating the participation of businesses in external trade. The main measures carried out in this field concern:

- the adaptation and simplification of **customs transit** systems: a change in the Community Customs Code was adopted for external transit by the European Parliament and the Council in April 1999; the corresponding amendment to the provisions implementing the Code, as regards Community transit and the agreement concerning a common transit system concluded between the Community and the EFTA and Visegrad countries, is being finalised and should be applied by mid-2001; the initial computerisation phase of these transit procedures began in May 2000 in a small number of countries and will be extended between 2001 and 2003 to all 22 countries applying the Community/common transit system with new functionalities. Together these measures should increase the security and efficiency of the systems, which meet an important need of economic operators;
- the simplification of **customs procedures with economic impact**, which will result in amendments to the Community Customs Code and its implementing provisions, in order to

¹²⁹ Directive 1999/85/EEC of 22.10.1999.

¹³⁰ Decision 2000/185/CE. OJ L 59 of 4.3.2000, p. 10.

¹³¹ OJ L 33 of 4.2.1997, p. 24.

allow businesses to use third-country goods without excessive formalities in accordance with the principle of Community preference.

- the amendment of the **Community Customs Code**, in order to allow in particular the relaxation of the obligation to submit certain accompanying documents with the declaration, thus simplifying the computerisation of customs procedures, and to provide a more balanced solution to the question of the good faith of importers of goods at preferential rates.
- finally, the standardisation and simplification of **preferential origin rules** resulted in the first half of 1997 in the adoption of a single text for the protocol on "origin" rules, annexed to the free trade agreements which the Community signed with its European partners. Since then, the same text has been proposed to the Mediterranean countries. It is applied in the Agreement with Palestine, Jordan and Egypt. A similar text is now applicable in relations with the countries covered by the System of Generalised Preferences (since 1 January 1999), Albania and the former Yugoslavia, ACP countries (since March 2000) and South Africa

5. FINANCIAL ENVIRONMENT

The success of businesses depends on the creation of a financial environment suitable for their establishment and development. Various European initiatives are contributing to this, such as the preparations for the introduction of the euro, the simplification of cross-border transfers, the action plan on financial services, the Bankers' Round Table, the setting up of business angel networks and the preparation of enterprises for their entry onto the stock market.

5.1. Preparing SMEs for the introduction of the euro

Preparing all companies, especially SMEs, for the introduction of the euro is a Commission priority¹³². In 1997, a working party was created on *Small businesses and the euro*, which helped to identify the particular difficulties of small businesses in their preparation and suggested solutions for raising awareness amongst SMEs¹³³. Another working group was set up on *Accepting new prices and value scales in euros*. The report of this group identified the conditions likely to encourage the use of the euro during the transitional period through a joint commitment from retailers, entrepreneurs and consumers¹³⁴.

The conclusions of these two groups served as input for the two Communications on the practical aspects of the introduction of the euro¹³⁵, issued in October 1997 and February 1998. They also served as a basis for a Recommendation¹³⁶ adopted on 23 April 1998 on dialogue, monitoring and information to facilitate the transition towards the euro. Emphasis is put on the need for companies to **prepare in time** so as to benefit from the opportunities brought about by the euro such as transparency of prices, reduction in transaction costs, easier access to markets.

In addition, consumers' representatives at European level on the one hand, and trade, tourism and craft industry professionals on the other hand signed, on 30 June 1998, an agreement

¹³² General information on the euro is available at: <http://europa.eu.int/euro>

¹³³ cf. Euro Paper n°20. http://europa.eu.int/comm/economy_finance/document/europap/eupidxen.htm

¹³⁴ cf. Euro Paper n°18. http://europa.eu.int/comm/economy_finance/document/europap/eupidxen.htm

¹³⁵ COM(1997) 491 final of 1.10.1997 and COM(1998) 61 final of 11.2.1998.

¹³⁶ OJ L 130, 1.5.1998.

covering voluntary commitments to be respected during the transitional period. These include: respect of conversion and rounding rules, dual pricing, information to consumers, training of staff and optionally payments in euro. Compliance is symbolised by a logo created by the Commission. This agreement is now being implemented at Member States' level.

The task force on "Communication on the euro", set up by the Commission as part of the Prince action (information programme for the European citizen) developed with the European Parliament and the Member States has helped to introduce consistency in the implementation of all information actions from the European Union aimed at preparing SMEs and citizens for the euro. It brought together all Commission services involved in the preparation of the changeover for the euro and succeeded in bringing Member States' attention to the situation of SMEs. A large number of actions directed at SMEs, such as seminars, publications, training and promotional actions were supported.

The Commission published various calls for proposals to encourage awareness-raising actions amongst SMEs¹³⁷ and to support the training of entrepreneurs on the subject of the introduction of the euro¹³⁸. The booklet with CD-Rom entitled "**Your business and the euro – a strategic guide**", published in April 1999, is available through the Euro Info Centres network¹³⁹. Some 650 000 copies have already been disseminated. The information campaign on the euro launched by the Euro-Info-Centres at the beginning of 1999 continued until June 2000. It consisted of 270 measures (e.g. euro-clubs, diagnosis, seminars in rural areas, etc.) aimed at promoting simple, practical understanding of the euro, particularly for businesses which, because of their size or geographical situation, do not receive information locally. Other Commission initiatives include the publication of documents such as a **practical guide on the strategic and technical issues related to the changeover of information systems to the euro**¹⁴⁰ or **how the introduction of the euro should be reflected in financial statements**¹⁴¹.

5.2. Cross-border credit transfers

The cross-border credit transfers Directive¹⁴², which entered into force on 14 August 1999, applies to credit transfers of small amounts up to 50 000 € which will benefit consumers and is particularly relevant for small businesses. It provides for greater information and transparency and for money to be transferred more quickly and reliably. Member States must ensure effective complaints and redress procedures.

The Directive also:

- outlaws unauthorised double charging (all transfer costs are to be paid by the originator unless the originator explicitly agrees that the recipient can also be charged);
- requires cross-border credit/debit to be completed within 6 days;
- requires banks to provide clear advance information to consumers on tariffs and

¹³⁷ OJ C 5, 8.1.1999.

¹³⁸ OJ C 263, 20.8.1998.

¹³⁹ <http://europa.eu.int/comm/enterprise/networks/eic/eic.html>

¹⁴⁰ "Preparing Financial Information Systems for the euro",
http://europa.eu.int/comm/internal_market/en/company/general/euren.htm

¹⁴¹ "Accounting for the introduction of the euro",
http://europa.eu.int/comm/internal_market/en/company/account/news/545.htm

¹⁴² Directive 97/5/EC, OJ L 43, 14.2.1997, p. 25.

- requires Member States to nominate an ombudsman to whom consumers may complain.

The Commission's Communication "Retail payments in the single market"¹⁴³ further addressed cross-border credit transfers, in particular their cost, calling on banks to make significant improvements in their services by 1 January 2002. Banks themselves need to do more to improve the infrastructure for handling small-value cross-frontier transfers. The Communication also addressed the cross-border inefficiencies of electronic means of payment, calling on service providers to ensure cross-border inter-operability of all types of electronic functions.

The Commission released on 23 May 2000 findings of a survey on bank charges¹⁴⁴ in the 11 euro-zone countries. It reveals that consumers are still being charged on average a fee of 17.10 € for transferring 100 € between Member States while domestic credit transfer normally costs less than 1 €. Moreover, in 25 % of cases the recipient was charged part of the transfer costs despite the specific request that all charges should be borne by the originator. Unauthorised charges violates the cross-border Directive mentioned above. On the positive side, the study found that in all cases the correct euro conversion rate was used for cross-border transactions and charges for cross-border transfer are lower than in 1994.

The Commission encourages consumers, including small businesses to complain to the ombudsmen that exist in each Member State¹⁴⁵ if they encounter problems with cross-frontier transfers. The directive provides rights to the user, for example he can get indemnity when the six days delay has not been fulfilled.

Major improvements will appear in 2001 with the automation of cross border credit transfers through the network established by the Euro Banking Association. At the same time, will be developed an international numbering system for bank accounts (the International Banking Account: IBAN) and a standard form, the International Payment Instruction (IPI).

5.3. Financial Services Action Plan

The Financial Services Action Plan adopted by the Commission on 11.5.99¹⁴⁶, aims to improve the general financial conditions under which companies operate irrespective of their field of activity or of their size. Its impact will be felt in the reduction of the cost of capital for both large companies and SMEs. It is more general than the Risk-Capital Action Plan¹⁴⁷ which aims to improve the general financial conditions affecting specifically SMEs and in particular those SMEs showing a fast-growth profile. All the measures of financial nature identified in the Risk-Capital Action Plan have been integrated in the Financial Services Action Plan so as to achieve coherence and maintain the pressure for change in order to improve the access to finance of SMEs. At the request of the Cologne European Council, the Commission presents semi-annual progress reports to the Ecofin Council. The Lisbon European Council gave the highest priority to its implementation and set a clear deadline:

¹⁴³ COM(2000) 36 du 31.1.2000.

¹⁴⁴ Survey by European Interregional Institute for Consumer Affairs, April 2000:
full text: http://europa.eu.int/comm/dgs/health_consumer/library/surveys/sur14_en.html
summary: http://europa.eu.int/comm/internal_market/en/finances/payment/26en.pdf

¹⁴⁵ List is available at http://europa.eu.int/comm/internal_market/en/finances/payment/26en.pdf

¹⁴⁶ COM(1999) 232 of 11.5.1999,
http://europa.eu.int/comm/internal_market/en/finances/actionplan/index.htm

¹⁴⁷ The Risk-Capital action plan was presented in June 1998 further to the Communication SEC (1998) 552 of 31.3.1998 and progress was assessed in October 1999 in COM (99) 493:
http://europa.eu.int/comm/economy_finance/document/financialmrkt/financialmrkt_en.htm

2005. For the Risk Capital Action Plan the deadline was fixed for 2003. A second progress report was adopted by the Commission on 30 May 2000 which shows that overall progress is satisfactory, but that further progress is required in certain priority areas. Of particular relevance for SMEs are measures to reduce costs and red-tape to access the deep and liquid capital market in the EU that has emerged since the introduction of the euro. Proposals to introduce a simple and streamlined procedure for information to be provided to markets will be made in 2000. Furthermore, a proposal for legislation to remove barriers to investment of pension fund assets will stimulate the flow of funds to available for private sector investment. Pension fund assets are set to grow from around 2 000 billion € (half of total EU bank deposits) to 3 000 billion € by end 2005.

5.4. 3rd Round Table of Bankers and SMEs

Following the launch of the Round Table on 15th October 1998, 11 expert workshops were held (2 in 1998, 9 in 1999) in which key areas of SME financing were examined in detail. These included: risk assessment and rating, segment-specific SME products, micro-finance, additional support services for SMEs, financing transfers of businesses, transnational financing and non-traditional banking channels (i.e. electronic banking). The workshops identified a wide range of good practices that could be disseminated more widely throughout the EU. The Round Table adopted and published its final report on 19 June 2000¹⁴⁸. It contains a limited number of recommendations to the European Commission and a large number of practical suggestions to SME organisations, banks, other financial institutions and national governments, which could help to improve SMEs' access to finance.

5.5. Business Angels

Business Angels are often wealthy former businessmen who wish to participate in new businesses. Apart from providing capital, they often make their network of contacts available to young entrepreneurs and support them as they develop. To promote this concept, a **call for proposals**¹⁴⁹ was issued in 1998 to finance dissemination measures, feasibility studies and pilot projects. A contract was signed for the organisation of 35 seminars in eight Member States. The **call for proposals** made it possible to fund three feasibility studies in 1999 (one in Italy and two in Belgium) with the aim of assessing the possibility of creating Business Angel networks and granting aid for the launch of six projects to link Business Angels and young entrepreneurs (France, Spain, Belgium, UK, Italy and Sweden). Awareness-raising seminars were also held in most Member States. The positive impact of dissemination measures and the increasing awareness of Business Angel activity is reflected in the large number of proposals for the second round of proposals (more than 60) and the success of the second EBAN seminar (300 participants), held in 2000. The Commission has supported the creation of the European Business Angel Network (EBAN) in order to promote the exchange of good practices and networking¹⁵⁰.

5.6. Self-assessment guide for SMEs to going public on a stock exchange

In order to improve access for SMEs to equity capital in general and to encourage more companies to take advantage of an Initial Public Offering the Commission published in 1999 an open call for tenders for the production of a self-assessment guide for SMEs to going

¹⁴⁸ Document available at:
http://europa.eu.int/comm/enterprise/entrepreneurship/financing/round_table.htm#3roundtable

¹⁴⁹ OJ C 263 of 20.8.1998, p. 10.

¹⁵⁰ www.eban.org.

public on a stock exchange¹⁵¹. This guide will explain the pros and cons of a stock market listing, the preconditions, relevant rules, legislation and procedures. It should help SMEs to assess whether a stock market listing would be an appropriate means of funding for them. It should be available at the end 2000.

5.7. Mutual guarantee schemes

Mutual guarantee societies are a possible solution to public guarantee schemes to solve the problem of obtaining bank loans for enterprises lacking collateral. MGS build up their funds from SME contributions. These funds give financial guarantees (around 50 %) to banks on behalf of the SME members looking for credit. Based on the assessment of the Mutual guarantee society and the financial guarantee, the financial institution will then grant the credit to the SME.

To promote this system in countries where it does not yet exist or barely developed, the Commission co-finances¹⁵² either feasibility studies to create such mutual guarantee societies and the setting up of such companies. In 1999, the Commission co-financed 3 feasibility studies (in the UK, Finland and France) and supported the launch of 4 schemes (one in Ireland and Italy, two in the UK). In 2000, one feasibility study has been selected in Spain and 2 projects, in France and Finland for the establishment of mutual guarantee companies.

Recently a successful conference organised by AECM (Association Européenne de Cautionnement Mutuel) took place in Brussels with the presence of more than 80 actors of the sector from Europe and Eastern Countries.

6. INTERFACE BETWEEN ENTERPRISE POLICY AND OTHER POLICIES

6.1. Social environment and employment

6.1.1. *The European Employment Strategy and the entrepreneurship pillar*

In response to Title VIII of the Amsterdam Treaty on Employment, Member States have agreed on a joint employment strategy for Europe and acknowledged the benefit of co-ordinating employment policies according to common objectives. The employment guidelines, which make up the core of the process, are focused on four pillars of priorities: employability, entrepreneurship, adaptability, and equal opportunities for men and women.

The second pillar devoted to Entrepreneurship is built on the recognition that the development of new enterprises, and the growth of SMEs, is essential for job creation. The aim is to create a climate where companies can thrive and individuals are encouraged to exploit their creative energies and new ideas to the full.

The gender equality dimension should be integrated into all pillars of the Employment Strategy, including the pillar on entrepreneurship¹⁵³.

¹⁵¹ OJ S 74 of 16.4.1999.

¹⁵² OJ C 263 of 20.8.1998, p. 10.

¹⁵³ Council Decision of 13 March 2000 on guidelines for Member States' employment policies for the year 2000, OJ L 72 of 21.3.2000, p. 15-20.

Since the significance of entrepreneurship was recognised in the first set of guidelines for 1998, this has been further endorsed in the guidelines for 1999 and 2000. In line with these, Member States have committed themselves to develop entrepreneurship by:

Making it easier to start up and run businesses, by e.g.:

- reducing significantly the overhead costs and administrative burdens for businesses,
- encourage development of self-employment by examining any obstacles which may exist, especially those within tax and social security regimes, to moving to self-employment and the setting up of small businesses,
- promoting training for entrepreneurship and targeted support services for entrepreneurs and would-be entrepreneurs.

Exploiting the opportunities for job creation, by e.g.:

- promote measures to exploit the possibilities offered by job creation at local level, in the social economy, in the area of environmental technologies and in new activities linked to needs not yet satisfied by the markets,
- develop framework conditions to exploit the employment potential of the services sector and industry-related services.

Making the taxation system more employment friendly, by e.g.:

- gradually reducing the overall tax burden (in particular on relatively unskilled and low-paid labour)¹⁵⁴.

In addition, the third pillar regarding adaptability also concerns directly SMEs. It calls for encouraging adaptability of businesses and their employees. This means fostering the modernisation of work organisation and the renewal of skill levels in enterprises. In particular, social partners are invited to negotiate at all levels agreements to modernise the organisation of work and, Member States are called to examine the possibility of incorporating in their laws more adaptable types of contract.

An improved balance flexibility/security in enterprises and a higher level of skills could foster competitiveness. In other words, innovation can also be linked not only to products and processes, but also to organisational structures. In order to raise awareness on this subject, the European Work Organisation Network (EWON)¹⁵⁵ was established in March 1999 to study and disseminate new forms of work organisation and provide useful ideas and solutions to enterprises for possible changes.

The 1999 Joint Report on Employment¹⁵⁶ refers to a large number of Member States initiatives to improve entrepreneurship. The range of initiatives reflects the acknowledged importance of encouraging a more entrepreneurial society. The role of small businesses in providing the major impetus for economic growth and job creation is generally recognised, and Member States reported on some encouraging progress in reducing the administrative

¹⁵⁴ See also specific point on taxation in this Report.

¹⁵⁵ http://europa.eu.int/comm/employment_social/soc-dial/workorg/ewon/index_en.htm

¹⁵⁶ COM(99) 442 of 8.9.1999, http://europa.eu.int/comm/employment_social/empl&esf/ees_en.htm

burdens, which hamper their job creation potential. Most Member States refer to measures associated with the promotion of the information society and care services. However, the Joint Report states that the lack of precise targets and deadlines, as well as scarcity of comparable indicators, make the assessment of achievements rather difficult, including as regards job creation in services. More needs to be done to develop the services sector, enhance local development and the job creation at local level. The need to make taxation more employment friendly is generally recognised by Member States but concrete initiatives are scarce.

6.1.2. Social Dialogue

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

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

Today the Commission consults around 40 employers' and workers' organisations on legislative proposals in the social policy field.

SMEs are organised in UNICE (Union of industrial and employer's confederation of Europe), the general cross-industry employers' organisation and, depending on the structure of the respective sector, more or less in the sectoral organisations consulted by the Commission. They are also organised in UEAPME (European Association of Craft and SMEs), their specific representative organisation, which is also consulted by the Commission.

European Social Dialogue at Cross-Industry Level

Representation of SMEs in the social dialogue at cross-industry level was contested in the past. Thus, the framework agreement on parental leave, concluded between UNICE, the CEEP (European Centre of Enterprises with Public Participation) and the ETUC (European Trade Union Confederation) in 1995, and adopted as a Council directive in 1996, was strongly contested by SME organisations on the grounds that they were not party to the negotiations.

In December 1998, UNICE and UEAPME concluded an agreement on their future cooperation in social dialogue meetings, including negotiations, which enabled the concerns of SMEs to be taken proper account of.

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

With the cooperation agreement and the reformed standing Committee, SME representation in the cross-industry social dialogue has considerably improved. The latest framework agreement negotiated by the social partners (on fixed-term contracts) and transformed into a Council directive on 28 June 1999 was not contested by any SME organisation.

European Social Dialogue at Sectoral Level

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

With the reform of Community sectoral social dialogue of May 1998¹⁵⁷, the Commission has established a new framework which is applicable on the same terms to all sectors wishing to take part in social dialogue.

Following the reform, 25 Sectoral Dialogue Committees have been set up, replacing the old structures, as far as they existed. These new Committees will constitute the key forum for sectoral dialogue (consultation, joint action and negotiations).

Although sectors equipped with a sectoral dialogue Committee differ considerably according to company sizes, social dialogue is well established in some of the sectors where SMEs are predominant: traditionally both in the primary industries of agriculture and fisheries and in transport sectors such as road transport shipping and inland navigation, (where "Joint Committees" have existed long before the reform) and in classical service sectors such as commerce, HORECA (HOTel, REstaurant and CAFés), as well as in emerging sectors just in the process of defining their structure, such as cleaning, personal services and private security (where there were no or only very loose social dialogue structures existing before the reform).

SMEs are also well represented in industrial sectors such as building, leather and footwear and textiles, which also saw their status in the sectoral social dialogue upgraded in the process of the reform.

6.1.3. Consultation of the business community

Consultation of the business community is an essential part of the enterprise policy to take proper account of the specific needs and constraints of the wide spectrum of the SME population.

Consultation with the European SME Business Organisations

The European SME Business Organisations represent enterprises all over the EU, covering all industry and service sectors – retail and distribution, Chambers of Commerce, tourism – as well as the self-employed, micro-enterprises, co-operatives, associations, crafts, banks, insurance, agriculture, retail and wholesale. Regular meetings have been held with a number of these representative organisations, with the aim of consulting them for their views on legislative proposals and other actions and, through them, of keeping businesses informed of the issues which are of concern to them. This ongoing consultation also helps the Commission to understand business culture and the problems which businesses face. In 1999, the consultation meetings covered topics such as SME participation in public procurement, the Commission's Support Programmes for SMEs and the Concerted Actions, the Business Test Panel and SLIM Projects (as well as the newly launched web site "Dialogue with Business"), Subcontracting and Quality Standards issues, guidelines for the Structural Funds Programmes, and the Multiannual Programme (2001-2005) for Enterprise and Entrepreneurship.

¹⁵⁷ COM(1998) 322 final of 20.5.1998.

Consultation of the social economy

A Consultative Committee for Cooperatives, Mutual Societies, Associations and Foundations (CCCMAF) was formally set up in March 1998¹⁵⁸, taking over from the informal committee set up in 1994. The Committee responds to requests for an opinion from the Commission and may issue opinions on its own initiative. Before becoming official, the Consultative Committee gave several opinions in 1997 and 1998, notably on local development, the introduction of the euro, the information society, and education and training. Aware of shortcomings in the Committee and anxious to improve the consultation process, the Commission is currently considering new forms of consultation by means of networks which would be consulted by written procedure and which would be invited to meet in the form of seminars.

Consultation of representatives of commerce and distribution

The Committee on Commerce and Distribution¹⁵⁹, which is composed of owners and senior directors of commercial enterprises held a number of plenary meetings and meetings of working groups. Opinions were adopted on various matters including electronic commerce, vertical restraints and practical aspects of the introduction of the euro. The Commission is presently considering changing the consultation process with the sector which could take the form of written procedures and seminars on specific issues of interest to the sector.

6.1.4. *Local development and employment*

The Commission has launched a **pilot project** called the **Third System and Employment** to support the development of the local component of the pillar on promoting entrepreneurship (see paragraph 6.1.1). This experimental project, with a Community budget of € 20 million, is being implemented in accordance with the wishes of the European Parliament in order to identify and promote the employment potential. It aims to meet a series of growing needs which neither the market nor the public sector are currently able to satisfy in areas such as personal and community services, the environment and cultural and leisure activities. The first results show that there is an entrepreneurial drive in the EU which is leading operators traditionally not involved in commercial business to set up original service structures which are beginning to meet the unsatisfied needs of the population and at the same time are creating jobs. Although the legal form of these service structures varies depending on the institutional set up of each Member State, increasing use is being made of the term "**social enterprise**". For example, between 1994 and 1998 the number of such enterprises (cooperatives) rose from 2 300 to 4 800 in Italy and the number of jobs from 38 000 to over 108 000. Although this is a growing phenomenon, it is nevertheless fragile, which is why support policies such as those developed for SMEs are essential.

6.2. Environmental legislation and measures

6.2.1. *The Fifth Environmental Action Programme*

The integration of environmental requirements aspects into other Community policy areas with the view to achieve sustainable development is one of the key priorities of the 5th Environment Action Plan. It also aims at broadening the range of instruments, ensuring

¹⁵⁸ Commission Decision of 13 March 1998 setting up a Consultative Committee for Cooperatives, Mutual Societies, Associations and Foundations (CMAF) OJ L 80 of 18.3.1998, p. 51.

¹⁵⁹ Commission Decision 81/428/CEE of 20 May 1981, OJ L 165 of 23.6.1981, p. 24.

better improvement and enforcement of environmental measures, improving information, communication, education and training on environmental aspects and furthering international cooperation in the environmental field.

The European Parliament and the Council Decision of 24 September 1998 on the review of this programme, adopted in 1998¹⁶⁰ addressed the specific role of SMEs, emphasising in particular further promotion of environmental awareness, improved dissemination of cleaner technologies, promotion of environmental best practices and removal of the technical and financial obstacles for the development of cleaner technologies.

The Global Assessment of that Programme was adopted in 1999¹⁶¹ and will serve as the main input for the development of a proposal for the 6th Environment Action Plan to be presented at the end of 2000.

For the financial instrument for environment, LIFE, see chapter II point 14.

6.2.2. *Environmental Management and Audit Scheme*

The EMAS Regulation¹⁶², allowing voluntary participation by companies in the industrial sector in a Community eco-management and audit scheme, aims to promote improvements in the environmental performance of industrial companies. This scheme requires the establishment and implementation of environmental policies, programmes and management systems at production site level. This is accompanied by systematic and regular evaluation of the environmental performance of sites participating in the scheme, and the publication of annual environmental statements validated by an accredited independent environmental verifier.

Following an assessment of the system, the Commission submitted a proposal for an amendment¹⁶³, the main objectives of which are to enlarge the field of application of the EMAS Regulation to all activities, to make it compatible with ISO 14001 and to increase the participation of SMEs through a set of measures designed to support them.

As far as SMEs were concerned, the re-examination of the Regulation revealed that the question was less how to adapt the Regulation than how to provide SMEs with the support they needed to implement it. The new EMAS has therefore been designed with all sizes of organisation in mind, so that each has the opportunity to distinguish itself from the competition on the basis of the same reference point. Nevertheless, the need for supporting SME is recognised by the proposed Regulation, which stresses the importance of technical assistance, access to state financial aid and cooperation between big companies with their suppliers. The Member States are also requested to ensure that the administrative formalities linked to the operating of the EMAS do not constitute a pointless burden, particularly on SMEs. The Commission will actively monitor the implementation of these provisions to

¹⁶⁰ Decision No 2179/98/EC of the European Parliament and of the Council of 24.9.1998 on the review of the European Community programme of policy and action in relation to the environment and sustainable development "Towards sustainability", OJ L 275, 10.10.1998, p. 1-13.

¹⁶¹ COM(99) 543 of 24.11.1999

¹⁶² EEC Regulation 1836/93, OJ L168 of 10.7.1993, p. 1

¹⁶³ Proposal for a Council Regulation (EC) allowing voluntary participation by organisations in a Community eco-management and audit scheme - COM(1998) 622 final, OJ C 400 of 22.12.1998, p. 7. Amended proposal for a European Parliament and Council Regulation (EC) allowing voluntary participation by organisations in a Community eco-management and audit scheme (EMAS)-COM(1999) 313 final of 23.6.1999.

ensure that the participation to SMEs in the EMAS remains significant. In order to assist SMEs, the Commission is producing, in association with UEAPME, guidance to verifiers on the verification of SMEs to help them better understand the application of management systems in the SME culture.

A helpdesk-service is available for all enterprises interested in EMAS¹⁶⁴.

6.2.2.1. Eco-management Guide

The Eco-management Guide for SMEs, produced by a group of Euro-Info-Centres in 1996, was updated in 1998. This is an inter-active tool, consisting of software and a guide intended to help businesses take the first steps necessary for their participation in the EMAS system.

The Euro-Info-Centres in the Environment experts group have produced a Guide to FAQs (Frequently Asked Questions) for their colleagues in Central and Eastern European Countries. They have also drawn up a guide on packaging and waste.

6.2.2.2. Results of the pilot project on Euromanagement-Environment

One of the main results of the Euromanagement-Environment pilot project carried out in 1996 and 1997 to help SMEs participate in EMAS was the production of a manual for SMEs, which is now available on the Internet.¹⁶⁵

The aim of this Manual is to provide guidance to a SME developing an Environmental Management System (EMS) with the purpose of obtaining an EMAS registration. Previous knowledge of what is EMAS is expected as the Manual is written for a SME manager who took the decision to pursue an EMAS registration. Although based on the experience of 49 consultancy organisations and SMEs, this Manual has limitations. The approach and instruments proposed are supposed to be valid for all types of SMEs: whether small or medium-sized, independently of sector and country. The situation for a small bakery employing 6 and a chemical company employing 250 persons are not comparable, especially when considering EMAS. This manual is designed to be of assistance to all SMEs. There is in this Manual a combination of: a step-by-step guide through the process from the decision to pursue EMAS up to registration; examples of instruments and how they are used; a set of instruments and tools that can be used by a SME in developing its EMS. The Manual is written for the management of a SME developing an EMS on its own. It is in theory possible for a SME to successfully develop an EMAS registration without any help. Still, in most cases external expertise is being used to complement the company's capacity and know-how. Advice is available throughout Europe, often at subsidised rates for SMEs. The methodology consists of: a Manual entitled "Guidelines for a SME preparing an EMAS registration".

6.2.3. *The Community Eco-label Award Scheme*

The Community eco-label award scheme¹⁶⁶ aims to promote products which have a reduced environmental impact during their life-cycle and to provide consumers with better information on the environmental impact of products. It is a third-party certification scheme which takes into account the whole life cycle of a product, from "cradle to grave". For a given product group, ecological and fitness-for-use criteria are established which are used to assess

¹⁶⁴ This Helpdesk can be found at: http://europa.eu.int/comm/environment/emas/helpdesk_en.htm

¹⁶⁵ www.yellowwindow.be/main_frame.html

¹⁶⁶ Council Regulation No 1980/2000 of 17.07.2000, OJ L 237, 21.09.2000.

whether a given product can be awarded the eco-label and therefore bear the eco-label "flower" logo¹⁶⁷. Criteria have been established for a range of consumer goods, including copy paper, tissue products, laundry and dishwashing detergents, refrigerators, washing machines, dishwashers, light bulbs, PCs, paints and varnishes, textile products, footwear, mattresses and soil improvers. Some 250 products from 55 manufacturers have so far been awarded the eco-label.

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

The eco-label gives an opportunity to SMEs to market and distinguish their products on the basis of their environmental excellence. Moreover, in the new Eco-label Regulation, **provision is made to reduce the fees for SMEs using the eco-label, and to reinforce the participation of SMEs in the consultation process.** The scope of the scheme is extended to cover services as well as products. A helpdesk for the Eco-label Scheme is foreseen to become operational towards the end of 2000.

6.3. Energy, transport and telecommunications infrastructures

Energy¹⁶⁸

The three priority energy policy objectives - security of supply, competitiveness and protection of the environment - were first established in a Green¹⁶⁹ and then a White Paper¹⁷⁰ on the Energy Policy for the European Union and further elaborated in a Communication concerning "an overall view of energy policy and actions"¹⁷¹. All these energy policy objectives contribute positively to the position of the European SMEs, but the most direct and concrete positive impact energy policy may have on SMEs stems from the improvement of conditions for competition making energy available at competitive prices.

Common rules for the internal market in electricity and gas were established through the adoption of the Electricity Market Directive¹⁷² and the Gas Market Directive¹⁷³. **These Directives require the Member States to gradually open their electricity and gas markets for competition.** In 1999, the Member States had to open at least 26 % of their electricity market for competition, but in fact many Member States have gone further than that and consequently more than 60 % of EU electricity demand is already liberalised. In several Member States all customers are free to choose their electricity supplier. **There is evidence that electricity prices have started to go down improving the competitive position of the European industry, including that of the European SMEs. In 1998, prices have gone down by 6 %.** The same positive effect can be expected from the liberalisation of the gas market. As the Member States have until 10 August 2000 to transpose the Gas Market Directive, it is too early to evaluate the effect any further.

¹⁶⁷ Detailed information can be found on the eco-label web-site (<http://europa.eu.int/ecolabel>), including the product-related criteria and the contact information for the national Competent Bodies administering the scheme.

¹⁶⁸ http://europa.eu.int/comm.dgs/energy_transport/index_en.html

¹⁶⁹ For a European Union Energy Policy, COM(1994) 659 final of 11.1.1995.

¹⁷⁰ An Energy Policy for the European Union, COM(1995) 682 final of 13.12.1995.

¹⁷¹ COM(1997) 167 final of 23.4. 1997.

¹⁷² Directive 96/92/EC, OJ L 27 of 3.1.1997, p. 20.

¹⁷³ Directive 98/30/EC, OJ L 204 of 21.7.1998, p. 1.

The Altener II and Save II programmes, which aim to promote renewable energies and energy efficiency, are described in Chapter II, which deals with support programmes.

Transport¹⁷⁴

Community financial aid in the field of trans-European transport network is allocated, as a general rule, to the public authority (Member State, region or local authority) which is responsible for the preparation and implementation of the relevant infrastructure project. Private companies which, for example, have been granted a concession for the implementation (and possibly operation) of certain projects, can also directly benefit from TEN-Transport financial aid.

SMEs play a role in executing the works necessary to create or extend parts of transport infrastructure (road, rail, sea ports, inland waterways). Detailed data on the share of SMEs in the implementation of transport TEN projects are however not available to the Commission; they are likely to vary from one Member State to another, depending on the degree of implementation of special policies for SMEs.

It is estimated that, out of the 38.4 billion € which were invested in the Transport TEN during 1996/1997, a significant part concerns contracts granted to SMEs.

Transport infrastructure works, generally executed under the responsibility of public authorities, are subject to the Community rules on public procurement which apply equally to SMEs and large companies. Therefore, the Commission is not pursuing any specific policy action to promote SMEs in the field of transport infrastructure.

The transport TEN will benefit the European economy as a whole and will have an indirect impact on SMEs, in particular those in more remote areas, which will gain from improved links to central European markets.

Telecommunications¹⁷⁵

On 1 January 1998, the telecommunications networks and services were liberalised in almost all EU Member States¹⁷⁶. The developments in technology, innovation in service offerings, lower prices and improvements in quality brought about by the introduction of competition have provided the basis for Europe's transition to Information Society. The achievements of the current regulatory framework are documented in the 5th Implementation Report¹⁷⁷.

¹⁷⁴ http://europa.eu.int/comm/dgs/energy_transport/index_en.html

¹⁷⁵ http://europa.eu.int/comm/information_society/index_fr.htm

¹⁷⁶ Initially, Greece, Ireland, Luxembourg, Portugal, and Spain received a derogation. Only Greece benefited from a derogation until 31.12.2000.

¹⁷⁷ Fifth Report on the Implementation of the Telecommunications Regulatory Package, COM(1999) 537 or <http://www.ispo.cec.be/infosoc/telecompolicy/5threport.html>

Telecommunications liberalisation has produced significant reductions in retail call charges for SMEs. Competing operators have undercut the incumbents' tariffs in the long-distance and international voice telephony markets. **Data show that during the period of 1997-1999, standard international tariffs decreased to the benefit of residential and business users by 40 % and 25 % respectively¹⁷⁸**. Furthermore, most Internet Service Providers (ISPs) provide discount packages especially aimed at Internet usage of business users¹⁷⁹.

Competition in telecommunications infrastructure has also provided less expensive and faster alternatives for SMEs in terms of access to Internet services. The Commission's Recommendation on leased lines aims to bring down tariffs for use of leased lines allowing for relatively lower priced access for higher bandwidth¹⁸⁰. The Commission's Recommendation on unbundling the local loop of April 2000 allows for faster and less expensive access to the network and is expected to stimulate the market for 'always-on' Internet service access¹⁸¹. Both of these measures are expected to promote the provision of a full range of telecommunications services, including broadband multimedia and high-speed Internet.

The Commission adopted in July 2000 a package of legislative proposals which is foreseen to be in place in year 2002. The new regulatory package consists of five harmonisation Directives (including a Framework Directive and four specific Directives on authorisation; access and interconnection; universal service and users' rights; and data protection), a Regulation on the unbundling of the local loop, a Decision on Community radio spectrum policy, and a draft Commission Liberalisation Directive¹⁸². The aforementioned Recommendation on unbundling the local loop is therefore reinforced by the announcement of the proposal for a **legally binding Regulation that requires Member States to unbundle their local loop by 31 December 2000¹⁸³**. The unbundling of the local loop is also a key

¹⁷⁸ These percentage changes are EU averages and reflect standard incumbent international tariffs. See COM (1999) 537.

¹⁷⁹ A more comprehensive analysis on discount packages for business users can be found in the "Telecommunications Tariff Report" by Teligen (2000), see <http://www.ispo.cec.be/infosoc/telecompolicy/en/Study-en.htm>

¹⁸⁰ Commission Recommendation on leased lines interconnection pricing in a liberalised telecommunications market, C(1999) 3863, November 1999.

¹⁸¹ Commission Recommendation on unbundled access to the local loop, C(2000) 1059, April 2000.

¹⁸² New Regulatory Framework available at: <http://www.ispo.cec.be/infosoc/telecompolicy/review99/Welcome.html> and <http://europa.eu.int/comm/competition/liberalization/others/>

¹⁸³ Proposal for a Regulation on unbundled access to the local loop, COM(2000) 394, see: <http://www.ispo.cec.be/infosoc/telecompolicy/review99/Welcome.html>

element of the eEurope Action Plan that was endorsed at the Feira Summit in Portugal, and is essential if Europe is to bridge the gap with its global competitors with respect to the use of Internet. This new regulatory framework is expected to promote more competition and more alternatives for all users, including SMEs, through its encouragement of further market based innovations in terms of prices, range of services and quality of services. This new regulatory framework is expected to promote more competition and more alternatives for all users, including SMEs, through its encouragement of further market based innovations in terms of prices, range of services and quality of services.

CHAPTER II: FINANCIAL INSTRUMENTS AND PROGRAMMES IN SUPPORT OF SMEs

The principal direct and indirect aid to SMEs provided under the Union's financial instruments and programmes aim mainly to improve SMEs' access to finance and credit (loans, guarantees and venture capital), to regional support, to inter-enterprise cooperation, to research and to vocational training.

7. ACCESS TO FINANCE AND TO CREDIT

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

The European financial institutions, the European Investment Bank (EIB) and the European Investment Fund (EIF), have increased their operations for SMEs¹⁸⁴. Also, new financial schemes were created under the "Amsterdam Special Action Plan" such as the European Technology Facility (ETF) and the "Growth and Employment Initiative" which is a follow up to an initiative from the European Parliament and the Luxembourg Special Job Summit in 1997. This latter includes three schemes¹⁸⁵: the European-Technology-Facility-Start-up, the SME Guarantee Facility and the Joint European Venture programme (JEV) presented below. Further to the Lisbon Summit in March 2000, these instruments will be reviewed.

7.1. Loans

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

7.1.1 EIB global loans

The EIB finances SME investments indirectly via its global loans. Over the past five years, **the importance of global loans has increased** both in terms of volume and as a percentage of the EIB's total lending activity within the European Union, **from € 3.9 billion and 22 % respectively in 1994 to € 8.3 bn and 33 % in 1998**. Overall, between 1994 and 1998, the EIB provided the partner institutions acting as intermediaries for these loans with a total of **€ 29 bn**. Over the last five-year period more **than 49 000 SMEs in the Union have benefited from global loans** among which **85 % had fewer than 50 employees**.

During 1998, some € 2.4 bn global loan allocations was distributed among 8 464 SMEs throughout the European Union, 70 % of which located in assisted areas. During 1999, € 2.8 bn global loans affected 11 500 SMEs.

¹⁸⁴ EIB site <http://www.bei.org/index.htm> and EIF site <http://www.eif.org/sme/default.htm>.

¹⁸⁵ Council Decision 98/347/EC of 19.5.1998, OJ L155, 29.5.1998, p. 43.

In response to the Amsterdam European Council Resolution on Growth and Employment in June 1997 and the Luxembourg European Council on Employment, in November 1997 the EIB formulated the "Amsterdam Special Action Programme". Contracts worth € 268 million have been signed for operations based on risk-sharing arrangements with the banking sector.

7.1.2 The SME Facility: subsidised loans for job-creating SMEs

The SME Facility, a facility extending interest subsidies from Community budgetary resources for loans taken by SMEs to finance investment projects involving the creation of employment. The facility, applied to € 1 bn of EIB global loans for SMEs, was enacted in 1994 by the Council of Ministers¹⁸⁶. An agreement was signed between the European Commission and the EIB in June 1994 on the implementation of this facility by the EIB.

The facility, which is now exhausted, offered an interest rate subsidy of 2 % per year calculated on a five-year loan. It was open to enterprises with net fixed assets not exceeding € 75 million and with a maximum of 500 employees but at least 60 % of the recipients should be SMEs with fewer than 250 employees.

The results of the SME facility

In 1999, the Commission's fifth report on the implementation of the facility showed that **4 336 SMEs** in the 15 Member States benefited from this facility and that **53 789 new jobs were created**. The total investment volume associated with the facility was approximately € 3.8 bn and the **average individual investment € 890 000. Average investment per job created was approximately € 74 450 and the average subsidy per job € 1 716.**

7.2. Guarantees

Guarantees are mainly provided by the European Investment Fund (EIF). The EIF, created in 1994, is a public-private partnership owned by the EIB (40 %), the Commission (30 %) and 76 financial institution from all 15 Member States. Its main objective is to act as a catalyst in:

- facilitating the participation of private capital in trans-European network projects,
- making it easier for SMEs to access investment finance at reasonable cost,
- promoting investment in innovative SMEs via specialised venture capital funds.

The instruments which EIF are authorised to use are guarantees and equity investments. In addition to its own resources the EIF manages programmes on behalf of the Commission and the EIB.

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

So far, guarantee operations signed in favour of SMEs amount to € 879 million of which € 671 million for the pilot project "Growth and Environment". The SME operations

¹⁸⁶ Council Decision EC/94/217 of 19.4.1994, OJ L 107, 28.4.1994, p. 57.

account for 33 % of the EIF's guarantee operations.

Examples of EIF own resources guarantee operations in 1998 to assist SMEs:

- *Conorzio Banche Popolari dell'Emilia Romagna Marche, where the EIF has issued a loan portfolio guarantee to a consortium of regional co-operative banks in Italy;*
- *Fidi Toscana, where the EIF has issued a counter-guarantee to the mutual guarantee society of the Tuscany region which itself issues guarantees covering lending to SMEs by the vast majority of banks operating in the area.*

Both these facilities aim at substantially increasing the loan volumes available to SMEs in the respective regions.

7.2.2 The "Growth and Environment" pilot project

Promoting environmentally-friendly investments of small SMEs

The "Growth and Environment" pilot project, launched in December 1995 at the initiative of the European Parliament is operated by the EIF. It provides **a partial guarantee on loans to SMEs with fewer than 100 employees** (preferably SMEs < 50 employees) **for investments resulting in significant environmental benefits**. The Community finances the premiums for the loan guarantees granted by the EIF to lending intermediaries in the Member States.

This loan guarantee instrument facilitates SME access to loans for investments with environmental benefits and lowers the cost of financing such investments by SMEs.

The system operates as follows:

- the guarantees cover loans for investments which have a minimum maturity of three years (no working capital) and are for less than € 1 million;
- only investments generating directly or indirectly significant environmental benefits (e.g. prevention/reduction of all forms of pollution, energy savings, environmental improvement of production processes, and improved products and services resulting in enhanced environmental protection) are eligible under the programme;
- the guarantees offered by the EIF cover up to 50 % of the cost of the entire project;
- only new loans are eligible for guarantees under the system.

To date, the EIF had signed 27 contracts with financial intermediaries covering all Member States¹⁸⁷. **The EIF's total guarantee commitment under this project amounts to € 671 million, which will result in loans of up to € 1.3 billion.**

¹⁸⁷ List available at <http://www.eif.org/sme/g&e/listinterm.htm>.

7.2.3 The SME Guarantee Facility

The objective of the SME Guarantee Facility¹⁸⁸ is to stimulate job-creation by supporting the investment activity of innovative SMEs through increased availability of loan finance.

The facility aims to enhance the capacity of guarantee schemes in Member States to provide:

- higher volumes of guarantees for their existing guarantee products
- access to financing to a larger population of small companies for a wider variety of investments
- guarantees for riskier loans.

The facility targets SMEs with up to 100 employees, with growth and job creation potential. It is expected that around € 168 million of Community budget resources will be allocated to the programme between 1998-2000. The EIF operates the programme on behalf of the Commission and is establishing a network of intermediary institutions across the Union through which the SMEs can benefit.

So far, the EIF had signed contracts with 15 financial intermediaries covering a maximum guarantee portfolio amount of € 3.3 bn.

List of EIF intermediaries for the SME Guarantee Facility¹⁸⁹

Country	Name
Austria	Bürges Förderungsbank
Belgium	Fonds de Participation/Participatiefonds
Finland	Finnvera
France	Sofaris
Germany	Deutsche Ausgleichsbank
Italy	Artigiancredit Emilia Romagna Artigiancredit Lombardia Artigiancredito Toscano Confidi Padova Confidi Sardegna Federfidi Lombarda Unionfidi Piemonte
The Netherlands	Dutch Ministry of Economic Affairs
Spain	Compañía Española de Reafianzamiento S.A. (CERSA)
Sweden	ALMI

¹⁸⁸ OJ C302, 1.10.1998 pp. 11-12.

¹⁸⁹ For contact details see <http://www.eif.org/sme/SME-GF/gremp1.htm>.

7.3. Venture capital

Promoting risk capital is one of the Union's priorities. Various initiatives aim to foster its development in support of technology enterprises such as the European Technology Facility (ETF and ETF Start-up) operated by the EIF, the start-up and transfer of enterprises (CREA) and innovative enterprises (I-TEC).

Since mid-1996, the EIF has been able to also make equity investments. The total amount committed from the EIF's own resources stood at € 58.5 million at the end of 1998. The EIF's equity investments are targeting venture capital funds which provide equity or quasi-equity to innovative SMEs with high growth potential, in particular those developing and exploiting new technologies or products.

7.3.1 The European Technology Facility (ETF)

In 1997, the EIB mandated the EIF to administer € **125 million** under a programme called the European Technology Facility (ETF). The funds are used to acquire stakes in venture capital funds or companies specialising in providing equity for innovative and growth-oriented SMEs. **At the end of 1998, € 61.7 million or 49 % of available resources had been committed to 25 funds in 10 countries of the Union. The anticipated leverage effect in terms of capital injections for SMEs is put at € 500 million to € 800 million.**

Venture capital funds benefiting from the ETF¹⁹⁰

Member State	Name of fund
UK	Advent Private Equity II Fund Alta Berkeley VC V Amadeus I Fund Baring European Private Equity Fund Elderstreet Capital Partners Kennet I Limited Partnership MTI Three B Limited Partnership Prelude Trust Plc Vision Capital L.P.
D	Enabling Technology Partners Strategic European Technologies NV Technostart Ventures
B	Capricorn Venture Fund NV IT Partners
F	Auriga Ventures I Banexi Ventures 2 Galileo II Sofinnova Capital 2 and 3 SPEF Pre IPO European Fund
NL	NeSBIC CTE Fund

¹⁹⁰ List available at <http://www.eif.org/vca/etf/eif.etf.htm>.

P	Kiwi Venture Partners I
IRL	Trinity Venture Fund
SW	Baltic Rim Fund Limited
SF	Eqvitec Technology Fund I LP
OS	Horizonte Technologiefonds Österreich BV

7.3.2 The ETF Start-up Facility

The ETF Start-up Facility¹⁹¹, funded by the Community budget and operated by the EIF under mandate from the Commission, focuses on investing in venture capital funds such as:

- Smaller and newly established funds
- Funds operating regionally
- Funds focused on specific industries or technologies
- Funds financing the exploitation of R&D results e.g. funds linked to research centres or science parks.

The principal aim of selected funds is to provide equity to SMEs with growth potential, especially SMEs in their early stages and innovative SMEs. The facility targets funds with a higher risk level than those targeted by the ETF. Priority is given to funds, which target SMEs with up to 100 employees.

Total Community budget resources of around EUR 168 million is expected to be invested in the period 1998-2000. At the end of December 1999, the EIF had signed legal agreement with **seven venture capital funds for € 38 million**. These venture capital funds have **raised € 178 million providing a substantial leverage to Community funds**.

List of Venture Capital funds participating in the ETF Start-up Facility¹⁹²

Country	Operator
France	Natexis Ventech (Member of I-TEC) Rhône Alpes PME Seeft Ventures
Germany	Wellington Finanz Beratungs (Member of I-TEC)
United Kingdom	Quantum Healthcare Fund Manager (Member of I-TEC)
Sweden	Innap Fund 2
Finland	Aboa Venture II Ky

¹⁹¹ OJ C302, 1.10.1998 pp. 8-10.

¹⁹² List available at <http://www.eif.org/vca/etf.start-up/etfsuf.htm>.

7.3.3 CREA

With the aim of stimulating start-ups and transmission of innovative enterprises with potential for growth and job creation, on 5 November 1998 the Commission launched a new seed capital action entitled CREA¹⁹³ with a 1999-2000 budget of € 10 million.

CREA's aims are:

- To support and encourage seed funds or similar organisations in their early years,
- To create a Community-wide network for seed capital funds and to stimulate an exchange of best practices and training.

In practical terms, CREA helps seed capital to get through their start up phase by providing reimbursable advances covering up to 50 % of the operating costs of the selected funds (a total of € 500 000) for a maximum three years.

Following a **call for proposals** in late November 1998¹⁹⁴, 12 funds were selected in 1999; a second selection is under way.

Funds participating in CREA

Microventure GmbH SEED GmbH Techno Nord VC GmbH	Germany
Innovations Agentur GmbH	Austria
Gemma Frisius Investsud SA Pythagoras	Belgium
CapitalNet A/S Denmark Udvinglings parken Aarhus	Denmark
Tampere Seed Capital Fund	Finland
Yorkshire Fund Managers	U.K.
Teknoseed	Sweden

7.3.4 Financing innovation: I-TEC

To finance innovation, and following its Communication on risk capital, the Commission is implementing an Action Plan to develop this financial instrument, which is indispensable to the growth of innovative enterprises and the creation of highly-qualified posts. The I-Tec initiative, which helps risk-capital companies to invest in the start-up phases of innovative projects, has turned in encouraging accounts for its first year.

¹⁹³ C(98) 3330.

¹⁹⁴ OJ C 363, 25.11.1998, p.30.

I-Tec, launched in 1997¹⁹⁵ (and with a budget of € 11 million) allowed the selection of 28 risk capital funds which have undertaken to put more than € 490 million into early investment in innovative SMEs over the next three years. The Commission has launched an invitation to tender for the second stage of the FIT project, which seeks to disseminate best practice as regards the development of sustainable links between the worlds of finance, innovation and technology.

"LIFT help desk" has been set up as a new support service for participants in specific programmes on the financing of innovation and exploiting the results of research.

The Information Technology Programme also launched in 1997 a mechanism aimed at **bringing together promising IT start-ups and venture capitalists**. This mechanism, known as the Investment Forum, takes place on an annual basis and makes it possible for IT innovators and start-ups to present their business plans to a large number of venture capitalists over the course of a 3-day event.

7.3.5 *Eurotech Capital action*

The purpose of Eurotech Capital is to encourage financing of transnational high technology projects (THTPs) through private capital. As a result, the Commission has granted the Eurotech Data label to European venture capital funds having a minimum investment capacity of € 50 million and which have agreed to earmark at least 20 % of their capacity to SMEs developing THTPs.

To date, the Eurotech Capital network consists of 14 members in most of the Member States. This network has undertaken to invest a total amount of € 233 million in THTPs. The total commitment of the Community budget is € 9.5 million.

7.4. **Joint European Venture: JEV**

The JEV programme, with a guideline budget of € 84 million for the period 1997-2000, aims to stimulate cooperation between SMEs by fostering the creation of transnational joint ventures between European Union SMEs. In its first phase, JEV finances 50 % of all the costs arising from the conception and setting-up of the joint venture (up to a maximum € 50 000). After that phase, the two enterprises decide whether and in what form the joint venture should be established. A grant of 10 % is planned for the investments realised by the new joint venture. Total support for each JEV project is limited to € 100 000. SMEs submit their projects to a network of 80 financial intermediaries in the 15 Member States¹⁹⁶.

In all, 65 projects were adopted in 1999, compared with 11 in 1998; some 40 more are currently being examined.

In order to publicise JEV in the business community, a "promotion facility" has been adopted¹⁹⁷ and a number of seminars organised around Europe. The Commission has participated in more than 20 conferences on JEV organised by representatives of SMEs and financial intermediaries. The JEV "promotion facility" provides for a maximum grant of

¹⁹⁵ <http://www.cordis.lu/finance/home.html>.

¹⁹⁶ <http://europa.eu.int/comm/enterprise/entrepreneurship/financing/index.htm>

¹⁹⁷ OJ C 113, 24.4.1999, p.29.

€ 20 000 and 50 % of eligible costs of organising the event, plus a maximum grant of € 10 000 and 50 % of eligible costs of promotional material.

JEV was extended to the EEA countries by a Decision of the EU-EFTA joint committee in June 1999¹⁹⁸. The SMEs of Liechtenstein, Norway and Iceland are thus also eligible.

8. SUPPORT FOR SMEs THROUGH REGIONAL POLICIES

The Structural Funds, which account for more than a third of the Community budget, are the Union's main instruments for financial support for SMEs.

It should be recalled that the Structural Funds rely on four main principles: multi-annual programming, concentration on priority objectives, partnership and additionality. The 1994-1999 programming period comprised seven priority objectives¹⁹⁹ and 13 Community initiatives, and had a budget of € 141 billion, of which 70 % were for Objective 1. Structural Fund interventions are mainly conducted (90 % du budget) in the form of national initiative programmes, with Community initiatives accounting for 9 % and pilot projects, which are the subject of Community calls for tender, 1 %.

In view of their **contribution to the realisation of economic and social cohesion, SMEs are generally recognised as a priority target** in a large number of programmes, which frequently include measures in support of them.

In order to gain a better understanding of the many support provisions, and enhance SME access to the Structural Funds, the Commission launched a thematic evaluation, the principal results of which follow. This study meets the observations made by the Court of Auditors in its annual report of 1997 (relating to accounting year 1996)²⁰⁰ notably the lack of visibility and targeting of Community finance for SMEs, and the lack of evaluations. The European Parliament also insisted on the need for the Structural Funds to be better targeted towards SMEs.²⁰¹ The following results do not relieve the Member States of the responsibility to conduct similar analyses to underpin evaluation of their own actions in support of SMEs.

In addition, and with a view to ensuring greater visibility of Structural Funds support for SMEs, the horizontal theme of the Ninth annual report on the Structural Funds, covering 1997 and published in 1998²⁰² was devoted to support for SMEs. This report uses examples to illustrate Structural Fund action for SMEs in the Member States. In particular, text boxes highlight support for SMEs according to the various forms of Structural Fund intervention,

¹⁹⁸ No 72/1999 of 15.6.1999.

¹⁹⁹ (four regional objectives: 1 (regions lagging behind in development), 2 (industrial decline), 5b (rural development) and 6 (least densely populated) and three horizontal: 3 (combating long-term unemployment), 4 (young people starting work) and 5a (adapting agricultural structures).

²⁰⁰ OJ of 18.11.1997.

²⁰¹ EP Resolution adopted on 4.11.1998 on the coordination of activities to assist SMEs and the craft sector.

²⁰² published in the 11 languages by the Publications Office, Luxembourg, Cat. No CX-17-98-443-FR-C, and available on the Internet:http://www.inforegio.cec.eu.int/wbdoc/docoffic/official/raka/raka_en.htm.

Member State by Member State. The Tenth report²⁰³, devoted to local development, also closely concerns SMEs, as well as the craft trades, distributive trade and tourism.

Detailed information by Member State on the full range of programmes supported by the Structural Funds may be consulted on the Internet:

http://www.inforegio.cec.eu.int/erdf/pays_reg/rpland.htm.

The new rules adopted in 1999 and applicable to the Structural Funds for 2000-2006 confirms the priority accorded to interventions in support of the manufacturing sector, with some differences of detail. The guidelines to Member States on drawing up their programmes give priority to support for SMEs. But it is too early yet to analyse the programmes for 2000-2006, since not all measures had been decided as this report was adopted in Autumn 2000.

8.1. Support for SMEs in the 1994-1999 programmes

8.1.1 National initiative programmes

8.1.1.1 Finance for SMEs in regional objectives

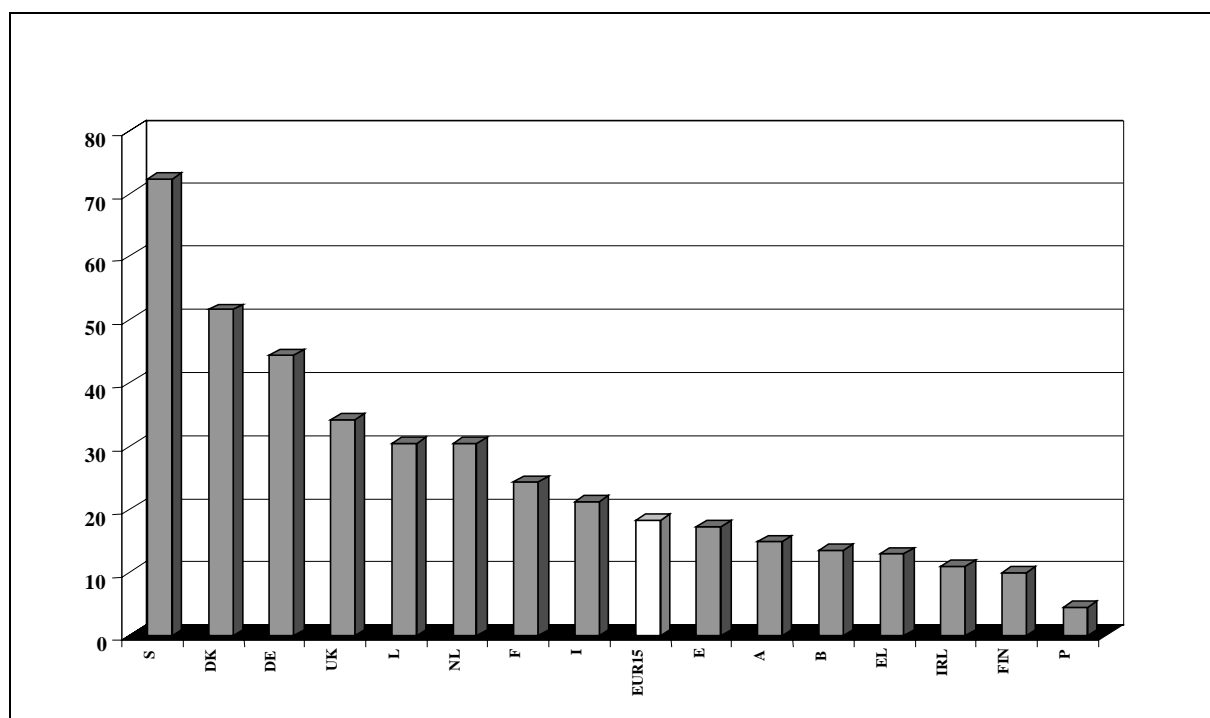
The results of the thematic evaluation²⁰⁴ show that **almost one-fifth (18,2 %) of the total Structural Fund interventions - € 21.3 billion - directly benefited SMEs under the multi-annual programming period just ended (1994-1999)**. The study differentiates the various types of support, the impact of interventions, and business community's evaluation of them.

The proportion of Structural Fund expenditure explicitly attributed to SMEs varies widely between Member States and between regions. It ranges from 4.4 % to 70 % according to Member State, with a mean of 18.2 %. Structural Fund expenditure accounts for around 14.5 % of total expenditure in Objective 1 regions (i.e. those whose development is retarded, principally in Spain, Ireland, Greece and Portugal); 35 % in Objective 2 regions (those undergoing industrial reconversion); 31.5 % in Objective 5b regions and areas (rural reconversion) and 25 % in the sparsely-populated Arctic regions of Objective 6. But precise estimates are difficult to arrive at, because the classification of Structural Fund expenditure differs from one Member State to another. The following table sets out the amounts allocated by each Member State to SMEs, together with the Community average.

²⁰³ COM(1999) 467 final du 15.10.1999, available in the 11 languages on the Internet:
http://www.inforegio.cec.eu.int/wbdoc/docoffic/official/rastru98/rastru_en.htm.

²⁰⁴ Thematic evaluation of Structural Fund impacts on SMEs, Ernst & Young for the European Commission - 1999, available on Internet:
http://www.inforegio.cec.eu.int/wbdoc/docgener/evaluation/sme/index_en.htm.

**Direct expenditure in favour of SMEs
(in % of Structural Funds total expenditure) ***



* Source: Ernst & Young

Although it is relatively easy to identify programme measures which directly target SMEs, it is much more difficult to assess those which benefit them indirectly. For example, actions on transport infrastructure equipment, or access to new information and communications technologies, R&D actions conducted from university centres, those aimed at raising the level of education and training which may also be financed from programmes, also contribute to improving the environment of the production system and its development.

Each regional programme forms part of a local development strategy. The strategy adopted will depend on the region's general situation and its comparative advantages. Enhancing the region's competitiveness and attractiveness, making full use of local resources, mean that the tools of sectoral policy must be adapted to the needs of regional and local enterprises. The programme allows support not only for a wide range of interventions benefiting local economic activities, but also for the local area and for the men and women who promote them. The knock-on effects between different sectors and projects are particularly worthwhile targets, as are the effects of interventions on employment.

In the fragile rural zones, where employment in agriculture (average 5 % of the active population) is falling steadily, SMEs benefit from special support aimed not only at helping them start up and ensuring their survival, but also improving their environment and their competitiveness. The utilisation of new information technologies holds very significant potential for sparsely-populated and outlying zones.

8.1.1.2 Estimated impact of actions and measures

The evaluation has enabled a fairly precise typology of measures to be established, and their impact measured.

The 18 million SMEs in the Union provide two thirds of all member state employment and generate more than half of total turnover. More than seven million were located in areas eligible for assistance under Objectives 1, 2, 5b and 6. Of these, **around 800 000 will actually receive Structural Funds assistance during 1994-1999 i.e. 11 % of the SME population in eligible areas.**

Amongst the estimated € 21 billion in Structural Funds expenditure allocated to measures directly targeting SMEs, conventional grant aid (i.e. non-repayable finance) accounts for nearly a third whilst training measures represent 17 %. Financial engineering - commercial type measures such as the development of venture capital funds specialising in the SME sector - accounts for just 3 % of the total.

Estimated structural Fund expenditure on SMEs by type of assistance (1994-1999) *

Type of Assistance	Expenditure	
	€ '000	%
Financial Aid (grants)	6 820.2	31.9
Financial Engineering	570.3	2.7
Business Support Services	2 684.4	12.6
Innovation and Technology	2 499.4	11.7
Physical Infrastructure	2 126.2	10.0
SME Training Measures	3 607.3	16.9
Sectoral Measures	1 195.8	5.6
Other	1 850.4	8.7
Total	21 353.5	100.0

* Source: Ernst & Young

Financial assistance schemes are beginning to move away from straightforward investment in production and towards the promotion of SME competitiveness through, for example, the selection of firms with obvious growth potential. Private sector input is increasing with the involvement of established intermediary bodies such as banks and sectoral representatives in the administration of programmes, schemes and projects. In some cases, this has resulted in a better targeting of interventions on SME needs as well as in greater administrative efficiency. It has also tended to introduce more rigorous project selection measures based on strict business criteria. The number of **financial engineering schemes** - seed and venture capital funds, loans, interest rate subsidies and other private sector-type assistance - is small but growing and there is an increasing tendency to link financial assistance to the provision of business advice. In short, there is some evidence of movement towards an approach, which is both more commercial and characterised by greater integration between different types of support.

Regarding the provision of **business support services**, the evaluation noted a growing tendency towards the provision (or facilitation) of “softer” types of SME support services. These include consultancy and expert placements, notably initiatives assisting SMEs to identify or “diagnose” their particular needs. The evaluators also commended the facilitation of business networks as a particularly beneficial approach. Horizontal networks or clusters - those involving SMEs only - offer small firms the opportunity to co-operate with and learn from one another, realising potential economies of scale and putting into practice the concept of the “learning organisation” through the exchange of best practice. However, there is evidence that certain SMEs resist participation in networks of this kind on the grounds that these entail co-operation with potential competitors. Such firms are sometimes more willing to become involved in vertical networks involving larger firms with which they are not in direct competition.

The rationalisation of delivery mechanisms through, for example, the establishment of a **single service provider or “one stop shop”** was also highlighted as a potentially valuable development. Once again private sector input was identified as a factor contributing to the overall success of the approach.

The evaluation identified as a central issue the need to raise awareness among SMEs regarding the potential use that could be made of **new technology** in everyday business activities. It was noted that many SMEs, particularly micro firms, focus excessively on the risks and costs of new technology but not on the benefits that it can deliver. Schemes attempting to raise SME awareness of the benefits of Innovation and Technology were therefore seen as being of considerable value.

The evaluation also noted the importance of integrating technology issues into **broader support packages** as well as the value of establishing links between SMEs and existing R&D centres such as universities. But SMEs are not always technologically naïve. Frequently, in fact, it is in the field of technology that they possess a clear, competitive advantage. The creation of “knowledge networks” whereby SMEs can co-operate to pool their expertise and sell it as a service to outside clients capitalises on this kind of business strength and offers a model for future projects.

The kinds of **physical infrastructure** project assisted under Structural Funds include business incubator units, workspace and technology centres. Incubator units have been seen as especially important to the development of SMEs. This is most true in the case of start-up firms, which frequently experience problems acquiring appropriate accommodation at an affordable cost. The evaluation points to the importance of targeting this category of assistance on SMEs in a single sector or in related sectors as well as to the value of combining physical infrastructure projects in a general package of SME support. Incubator units were also found to be effective in the context of general regional development, notably in areas with a poor image among potential entrepreneurs and investors although regions differ in terms of the level of success achieved

In **SME Training measures**, it is felt important for projects to overcome the reluctance of many SMEs to engage in training and development on account of perceived opportunity and

other costs. The value of customising schemes to meet the needs of small businesses was also highlighted.

From documentary research, case studies and a survey²⁰⁵, the evaluation concludes that the support of the Structural Funds has the following beneficial effects:

- **Employment.** It is estimated that between 460,000 and 2.7 million jobs were created or safeguarded in SMEs assisted from Structural Funds resources during the 1994-1999 programming period²⁰⁶.
- **Additionality.** Around 70 % of beneficiaries stated that, in the absence of EU assistance, their project would not have proceeded at all; have proceeded on a smaller scale; or have taken longer to develop. But a relatively high proportion - 26 % - reported that, even without EU assistance, their project would have proceeded as planned; in other words, that it was dead-weight.
- **Service Delivery.** Close to 90 % of beneficiaries reported that the assistance they had received had been delivered professionally. However, around 75 % of all beneficiary firms had had to pursue their own enquiries as to the kinds of EU assistance available suggesting that there was scope for intermediary bodies to be more proactive in alerting SMEs to relevant programmes.

The evaluations also throw light on critical aspects such as the need for better targeting of actions and for more transparent selection criteria, as well as the need to introduce a more systematic approach to evaluation for the measurement of results and impacts.

In general, the evaluations point to the need for a clearer reorientation of actions towards innovation in local SMEs, the quality of human resources and networking of players, notably SMEs, at trans-regional and transnational level. Account should be taken of these lessons in the programmes for the next programming period.

8.1.2 Community Initiatives Programmes

Two of the 13 Community Initiative Programmes (CIP) implemented during the period 1994-1999 were more directly concerned with SMEs: SME and Leader. But a significant range of actions benefiting SMEs could be found in most other Community Initiatives, particularly Interreg II (trans-frontier cooperation) and those concerned with the reconversion of industrial regions (Konver, Rechar II, Resider II and RETEX). Community initiatives accounted for 9 % of the budgeted Structural Funds over the period 1994-1999.

²⁰⁵ 90 SME-relevant projects representing the main categories of SME assistance were reviewed; 1072 SMEs participated in the survey.

²⁰⁶ Survey responses indicate that 5,092 SME-based jobs were created or safeguarded on account of EU assistance. These effects can be scaled up and extrapolated to the wider population of assisted SMEs taking account of factors such as firm size.

8.1.2.1 The SME initiative

The SME Community Initiative, which covered the regions of Objectives 1, 2, 5b and 6 had a budget of € 1.1 bn, including € 800 million for the Objective 1 regions. Its aim is to help SMEs adapt to the single market, to go international and become more competitive. Most Member States have set up national programmes; some have opted for regional programmes. Improving the terms for financing SMEs is a major aspect of the SME initiative. This support may take the form of a financial stake in setting up risk capital, seed capital or guarantee funds. The programmes also include measures to foster environmental audits (in Germany), consultancy, access to markets through networks, new information technologies (in Sweden, Spain, Northern Ireland and Austria). They sometimes contribute to strengthening ties between research and training, to the application of the technical rules of the single market, and clusters of activities (in Finland) and improving training and management.

The last programmes were adopted in 1997. Their state of progress varies from one Member State to another.

SME Community Initiative: progress of payments and commitments, end 1999

Country	Number of CIPs *	Amount decided	Commitments		% committed	Payments		% Paid /Decided	% Paid /Committed
			1999	1994-99		1999	1994-99		
B	3	12,2	-0,2	12,2	100 %	1,4	5,6	46 %	46 %
DK	1	2,6	0,1	2,6	100 %	0,0	0,8	29 %	29 %
D	19	192,9	29,0	190,0	98 %	21,7	134,5	70 %	71 %
EL	8	80,6	34,9	80,6	100 %	0,2	23,4	29 %	29 %
E	10	248,8	70,2	248,8	100 %	14,7	162,8	65 %	65 %
F	6	59,0	17,5	58,5	99 %	20,1	34,0	58 %	58 %
IRL	1	29,6	0,5	29,6	100 %	0,7	23,0	78 %	78 %
I	5	165,2	89,0	165,2	100 %	50,5	88,4	54 %	54 %
L	1	0,4	0,0	0,3	80 %	0,0	0,1	21 %	26 %
NL	2	10,7	0,4	10,7	100 %	0,0	3,1	29 %	29 %
A	2	6,9	-2,5	7,2	105 %	0,1	3,0	44 %	42 %
P	4	107,4	1,3	24,4	23 %	0,3	11,8	11 %	48 %
FIN	2	11,9	0,8	11,9	100 %	4,2	7,5	63 %	63 %
S	2	18,3	0,8	18,0	98 %	8,6	13,8	75 %	76 %
UK	9	69,5	0,7	69,4	100 %	5,6	40,2	58 %	58 %
EU	5	9,3	4,0	9,3	100 %	0,4	2,1	23 %	23 %
Total	80	1 025,1	246,4	938,5	92 %	128,5	554,0	54 %	59 %

* the total of Community Initiative Programmes (CIPs) also includes transnational projects

Source: European Commission

In Ireland, for example, 80 % of the programme relates to a financial engineering measure (interest rebates) for small enterprises (up to 50 employees) which is completely committed and spent.

In France, calls were made for projects on inter-enterprises cooperation for modernisation and innovation, and for transnational partnership. These two measures stand alongside the financial engineering project set up by SOFARIS/Banque de Développement des PME (SME

development bank) with a view to taking over part of the costs of guaranteeing loans granted to SMEs. The programme is fully committed.

In the Netherlands, the emphasis has been on inter-enterprise cooperation and technological innovation in cooperation with research centres.

Actions in Italy have related in particular to quality, the environment and financing. In Spain, on the other hand, three areas of intervention relate to measures for inter-enterprise cooperation, distributive trades and advanced technology services. In Portugal, there were delays in setting the programme in motion, notably on account of the existence of numerous Objective 1 programmes.

In the United Kingdom, the programme has centred on inter-enterprise cooperation to facilitate their access to new markets and public procurement. It thus significantly supplements the financial support measures under national initiative programmes.

Implementation of the SME Community Initiative Programme is based on a strategy of support for business development ("Business Support Strategy").

In Greece, the programme is concentrated on grouping activities to achieve economies of scale, and on assistance to SMEs to modernise their production activities and organisation ("business plans").

In Saxony (Germany), the programme seeks to support product development, and to promote their marketing by helping SMEs with access to new markets such as Eastern Europe and south-east Asia.

It is too soon yet to draw conclusions from this Initiative but evaluations are under way in the Member States, France in particular. Italy has conducted a thematic study of financial engineering, as well as a case study of the Campania region.

TRANSNATIONAL ACTIONS UNDER THE SME COMMUNITY INITIATIVE:

€ 25 million has been set aside for transnational actions between Member States. These comprise actions of three types:

- **Tourism and Internet SMEs: “Enjoy Europe -Teletourism”**

To help tourism sector SMEs in the least favoured regions with access to and use of the "Information superhighways", the Internet in particular, the Commission launched PMETOUR²⁰⁷ with the aim of bringing together and managing SME online promotion using local or regional servers linked to a single access point for the whole of Europe. 40 regional projects were set up, allowing tourist-sector SMEs to create their own advertising page on the Web and set up net-based reservation and payments systems. In time, the network will be self-financing.

- **International Buyers’ Exhibitions (“IBEX”)²⁰⁸**

This concept, launched in the framework of enterprise policy and aimed at improving the sub-contracting situation of SMEs, has been taken over under regional policy for the SMEs in disadvantaged regions. In this context, support has been given to 16 IBEX including Magdeburg (Germany, energy sector), León (Spain, agri-food) and Libramont (Belgium, timber trade), all in 1998; Kavala (Greece, construction materials), Galatina (Italy, agri-food), Cordoba (Spain, furniture), all in 1999 and, planned for 2000, Klagenfurt (Austria, organic food), Porto (Portugal, packaging), Leipzig (Germany, metal trades) and Jyväskylä (Finland, electronics).

- **Exchange of experience and best practice**

The Reacte project seeks to foster exchanges of experience and the assembly of transnational projects, and in this context the Commission has organised two conferences, the first in Lille (France) in November 1998 and the second in Valencia (Spain) in November 1999. Six cooperation projects were approved in 1999, relating in particular to managing innovation, advice to SMEs in difficulty during start-up, benchmarking, new information technologies and electronic trade for high quality food and craft trade products. More information may be found on the Reacte website²⁰⁹.

8.1.2.2 Leader II

Support for SMEs and the craft trades is a major dimension of LeaderII, an initiative devoted to rural development, comprising a total of 102 programmes/global subsidies. The Community contribution totalling € 1 755 million should allow more than € 4 bn to be invested in 1 000 Leader areas. **It is estimated that an average of more than 20 % of the funds go to support SMEs and the craft trades sector.** This percentage varies from one

²⁰⁷ <http://www.enjoyeurope.com>

²⁰⁸ <http://www.inforegio.cec.eu.int/wbpro/prord/guide/ibex/ibex01.htm>.

²⁰⁹ http://www.reactecerrm.com/Reacte_frm_fr.htm.

area to another, and reflects only a part of the support provided by Leader to SMEs and the craft trades. Some of the measures financed from Leader II benefit SMEs directly (*access for SMEs and craft trades to business services, creation of proximity services such as one-stop shops, support for innovative investments, support for business creations, facilities for teleworking*), whilst others help indirectly. This is the case with the various technical support measures for rural development, measures to exploit and market local agricultural, forestry and fisheries produce, and training measures. But what characterises Leader above all is its approach to an integrated development strategy on the scale of the local area with the participation the individuals concerned and innovation. Leader projects allow SMEs to develop their activities in the context of a more global development project and to try out new organisation and marketing modes, and new products.

Finally within Leader II, the **transnational cooperation** aspects, with a Community contribution of **€ 139 million**, have allowed beneficiaries to jointly design, produce and market products and services, in all domains of rural development.

8.1.3 *Pilot projects and innovative actions*

8.1.3.1 Pilot projects

Article 10 of the ERDF regulation permits the financing of pilot projects, some of them relating to SMEs, either as innovative actions at regional level (e.g. "new sources of jobs"), or under internal interregional cooperation (Recite II) and external (Ecos-Ouverture II). The vast majority of the 100 interregional cooperation projects have a significant SME aspect, and at least a third of them relate to **stimulation of innovation in SMEs and their internationalisation**.

The Commission also supports the development of innovative SMEs in assisted regions of the Union through the European Business and Innovation Centre network (see under innovation).

8.1.3.2 Territorial employment pacts

The territorial employment pacts were proposed in 1996 as part of the Confidence Pact. The proposal was to use the Structural Funds' margin of flexibility (funds not yet committed) available in programmes under way to redirect funds towards initiatives fostering employment proposed by local players committed to working in partnership.

In 1998 the vast majority of actions plans were finalised and approved by Commission for the **89 Territorial employment pacts** covering some 10 % of the population of the Union. Drawn up with Community technical support of € 200 000 per pact, the plans aim to develop, in the framework of broad local partnership, an integrated employment action targeting both demand and supply. The measures concentrate on valorising human resources (notably the programmes aimed at vocational training and day-release training), and on the development of local potential, where the accent is laid on support for SMEs and financial engineering benefiting them. These measures account for more than half the financial resources committed. The other main actions relate to minor infrastructure, in particular those related to development of the manufacturing fabric, and to insertion mechanisms, with priority going to insertion through the economy.

Detailed analysis of these action plans shows that, in comparison with traditional Structural Fund interventions, they represent a **significant qualitative step forward from the point of view of the type of measure provided to support the business community.**

It should be stressed that the **partnership approach** set up by local players has frequently permitted enterprises and their associations to play an active role in defining the guidelines for action plans.

Globally, the early results of this pilot plan are encouraging. In terms of **reallocating resources to benefit employment**, the pacts' 89 action plans will by the end of 1999 have benefited from a total budget of more than € 1 600 million reallocated from Structural Fund appropriations.

Quantitatively, the apportionment of the overall budget provided for in the action plans between the various lines of intervention shows that valorising local potential, notably the measures aimed at developing the economic fabric, enterprises, tourism and new sources of jobs, and valorising the economic environment surrounding businesses such as activities associated with marketing and financial engineering account for 44.7 % and 6.2 % of interventions respectively. Globally, **half the expenditure on the pacts goes on support for enterprises**, SMEs in particular. This is in addition to measures to valorise human resources, particularly training for the business community, which has generally been included in the lines of interventions mentioned above.

Provision is made for financial engineering measures totalling 2.6 % of the global budget, notably in the area of risk capital.

A conference on the Pacts, held in November 1999, brought together more than 800 participants, and highlighted the benefits of promoting this type of procedure in future programming. A Commission document, "Guide to Territorial Employment Pacts 2000-2006" was distributed, along with a presentation of best practices distilled from the 89 pacts. It is estimated that 200 Pacts may be achievable for the period 2000-2006.

8.2. The political future of Cohesion and SMEs (programme 2000-2006)

8.2.1 New rules and budgets

Support for SMEs is an explicit priority for Structural Fund interventions. The new Council Regulation²¹⁰ provides that the Community seeks to promote the harmonious, balanced and sustainable development of economic activities. It relates to regions whose development is lagging, (Objective 1), areas undergoing conversion (new Objective 2) and support adapting and modernising policies and systems of education, training and employment (new Objective 3). SMEs evidently take a leading role in these development efforts.

²¹⁰ Regulation 1260/99 of 21 June 1999 laying down general provisions on the Structural Funds, OJ L 161, 26.6.1999, p.1. The regulation may be consulted on the Internet: http://www.inforegio.cec.eu.int/wbdoc/docoffic/sf20002006/regul_en.htm.

The variety of actions and measures which can be co-financed by the funds remains extremely wide, and will continue to be promoted across the range of regional and horizontal objectives. The following specific points in the regulation should nevertheless be noted:

Fund participation will be subject to new maxima in the case of direct investment in enterprises. **The intervention may not exceed 35 % of total eligible costs in Objective 1 regions, and 15 % in Objective 2 areas.**

However, in the case of investments in SMEs, and in order to encourage the use of financial engineering measures, whose value has been stressed in evaluations, **these rates may be raised by a further 10 % for forms of finance other than direct assistance.**

In the framework of the new regulation's provisions strengthening strategic analysis, a quantified description of the situation of enterprises in the region concerned is required. **The indicators and aims quantified must include SME indicators as proposed by the Commission in its methodological documentation²¹¹ and must distinguish beneficiary SME by size class.**

Article 41 of the Regulation requires that the *ex ante* evaluation must take account of the situation of SMEs, and of the results of evaluations of earlier programming periods.

The economic and social partners, including representatives of SMEs, become full partners in the process, with the same status as the public and institutional partners, and regional and local authorities.

Furthermore, the partnership is extended to new areas: in addition to the preparation and financing of interventions, it now embraces their evaluation. Member States must satisfy themselves that all partners are associated with all stages of programming at the appropriate territorial level and in the framework of their own institutional system; in their plans they must indicate the results of consultation and the measures taken to associate partners.

Lastly, to ensure the visibility of structural interventions during the period 2000-2006, the Commission adopted on 24 May 2000 a Regulation on information and publicity actions to be taken by the Member States with regard to Structural Fund assistance²¹². The aim is to improve the transparency of the Structural Funds to beneficiaries, and raise public awareness of the role played by the Union in regional development, and this is particularly relevant in the case of SMEs.

The Berlin Council of 24 and 25 March 1999 decided the total amount to be allocated to the Structural Funds, the financial instruments of economic and social cohesion policy, for the next programming period (2000-2006). The total amount is € **195 billion** for the seven years, falling slightly after 2003; in addition there is € 18 bn for the Cohesion Fund (finance for major environmental protection or communications infrastructure projects). The four future Community Initiatives will have a global budget of € 10.442 billion, as follows: Interreg III: € 4 875 million; EQUAL: € 2 847 million; Leader+: € 2 020 million and URBAN: € 700 million.

²¹¹ http://www.inforegio.cec.eu.int/wbdoc/docoffic/working/sf2000_en.htm.

²¹² http://www.inforegio.cec.eu.int/wbdoc/docoffic/art46_20002006/art46_en.htm.

8.2.2 *Commission guidelines*

Support for SMEs also occupies an important role in the guidelines notified to Member States for the implementation of structural interventions. A section of the guidelines²¹³ deals with support for enterprises (including micro-enterprises, young business owners, and women entrepreneurs) tourism and the social economy. These activities contribute directly to job creation and to the competitiveness of regional economies.

In order to help the creation or expansion of competitive enterprises and thus the creation of sustainable jobs in order to foster regional economic development, **assistance under the Structural Funds to stimulate the productive sector must focus in particular on small and medium-sized enterprises (SMEs).**

Priorities for the new programming period 2000-2006 include:

- Shifting the emphasis from capital grants towards alternative sources of finance such as reimbursable advances, risk and venture capital, loan capital and revolving funds, mutual guarantee schemes.
- Improving the delivery of assistance by better targeting according to the specific needs of each SME category or sector and the development of integrated and clearly identifiable support packages, including measures such as easier access to finance, business support services and training measures.
- Supporting the development of sectors, such as the information society and services in general, which will be a priority in almost all regions, given their importance in employment creation. Within the services sector, commerce has a particular role to play at the local level. Furthermore, experience in the current programmes has shown that there are some sectors where this potential for employment creation is very significant but has so far been under-utilised. These include support for environmental improvement and environment-related products and services, tourism and culture as well as the social economy.
- Taking account of the inter-dependent nature of relations between larger and smaller enterprises. Support for large enterprises should thus be continued therefore but related to their added value for the regional economy, notably through networks established with SMEs.
- The involvement of the private sector in the formulation of strategies to create broad partnerships in order to improve the quality of programmes.
- Placing increasing emphasis on the skills of the workforce generally.
- The significance of business support services for the successful creation, growth, and transfer of enterprises, in particular SMEs, is well established. Such services enable companies to increase their competitiveness and their capacity to identify new markets. They have tended to concentrate in the more prosperous and central regions, where

²¹³ OJ C 267, 22.9.1999.

demand for such services has been strongest. Measures under the Structural Funds to support their development in the disadvantaged regions should include assistance for technology transfer, the promotion of marketing and internationalisation, innovation in organisation and management and assistance for the creation and development of financial instruments such as start-up capital or mutual guarantee companies.

The SME thematic evaluation provides additional recommendations towards a renewed commitment to the SME sector. However, in future, activity should focus, not on the proportion of Structural Funds expenditure allocated to this area, but on the programme content and administration. More specifically:

- Private sector involvement in project administration has led to improved targeting and greater efficiency and was therefore recommended as an approach which could be adopted more widely during future interventions.
- Financial engineering schemes - seed and venture capital funds, loans, interest rate subsidies and other private sector-type assistance – were viewed as a sustainable and effective form of intervention.
- Business Support Services. A trend towards the provision of “softer” types of SME support service (e.g. consultancy, expert placements) was identified and evaluated positively. Also commended were the facilitation of business networks and the rationalisation of delivery mechanisms (e.g. “one stop shops”). It was suggested that, where appropriate, assistance could be made conditional upon the acceptance of business advice.
- Innovation and Technology. The evaluation recommended making SME managers more aware of the potential value of new technology and of integrating technology issues into broader support packages. The development of links between SMEs and R&D centres such as universities was also recommended.
- Physical Infrastructure Projects. Incubator units were identified as significant to SME development. It was suggested that, in future, these could address specific sectors or regions with a poor image among potential entrepreneurs and investors.
- SME Training Measures. It was seen as imperative for projects to aim to overcome the reluctance of many SMEs to engage in training and development on account of perceived opportunity and other costs. The value of customising training schemes to meet the needs of small businesses was highlighted as an effective approach.

The Commission guidelines and the recommendations resulting from evaluations form the basis for appraising the development and conversion plans submitted by Member States to the Commission in late 1999 (Objective 1) and early 2000 (Objective 2). The Commission will in due course report on the results of this appraisal, after it has adopted all the Community support frameworks and other programming documents. This report on results will seek to give due weight to the specific problem of SMEs and the priority lines in their support decided upon for the new programming period 2000-2006.

9. MEASURES BENEFITING AGRICULTURAL SMES

Objective 5a (adaptation of agricultural structures)

Certain forms of aid granted under Objective 5a relate specifically to farm holdings and enterprises processing and marketing agricultural produce. Regulation (EC) 950/97 on improving the efficiency of agricultural structures provides for investment grants for farm holdings to adapt or diversify production, reduce the costs of production, improve living and working conditions, or the conditions for the hygiene and welfare of animals. **40 000 holdings benefit from this aid each year.** Setting-up grants also help 23 000 young farmers each year. These holdings may be counted amongst small enterprises.

Regulation (EC) 951/97 on improving the processing and marketing conditions for agricultural product, and Regulation (EC) 867/90 on improving the processing and marketing conditions for forestry products allow grants to be awarded to finance investments for packaging, preserving, processing, marketing and improving the quality of products. **This aid is destined principally for SMEs.** For example, during the current programming period, 65 % of the projects approved in Spain have been carried out by SMEs, and 50 % in Finland and Sweden.

10. INTER-ENTERPRISE COOPERATION

10.1. A legal instrument encouraging transnational cooperation: the EEIG

The European Economic Interest Group (EEIG) is a legal instrument permitting transnational cooperation between enterprises or between enterprises and public bodies. In 1999 the Commission published the second edition of the EEIG handbook for SMEs²¹⁴ in order to make the concept and its benefits better known and offer practical advice on setting up an EEIG. An EEIG can be particularly useful in setting up transnational structures under the Interreg III Community Initiative Programme.

10.2. Europeanising enterprises

10.2.1 *Europartenariat and Interprise*

Europartenariat

Europartenariat²¹⁵ is directed towards the economic development of regions eligible for the Structural Funds by stimulating transnational cooperation between SMEs. This programme offers enterprises the opportunity to meet potential partners to discuss and negotiate possible cooperation agreements. Two events a year are held in the European Union. The organisation follows the following methodology: a host country is chosen, SMEs located in the chosen area and wishing to enter into a partnership are selected (about 400), a catalogue with the profiles of the selected enterprises is produced, the catalogue is distributed throughout the 15

²¹⁴ published in the 11 languages by the Publications Office, Luxembourg, Cat. No CT-11-97-229-**-C and available on the Internet at http://europa.eu.int/comm/dg23/bus_cooperation/geie/eeig.htm

²¹⁵ <http://europa.eu.int/comm/enterprise/entrepreneurship/partnership/index.htm>

Member States and third countries, individual business meetings are arranged, and the results of the contacts are evaluated and followed up.

The success of the formula has led Europartenariat to cover more than 60 countries. In collaboration with the Directorates-General responsible for external relations, the promotion of each event now extends to the Mediterranean partners, the countries of Central and Eastern Europe, the USA, Latin America and Asia. In addition, Partenariat events, following the Europartenariat formula, have been incorporated into the different programmes for these countries (Asia-Invest, Meda, AI-Invest, TASBI).

Europartenariat in figures:

In 1998, the Netherlands and Spain

- ***Europartenariat the Netherlands (Apeldoorn, 11-12 June 1998)***. 420 Dutch SMEs met close to 1 700 visiting companies from around the world. Out of the 1 690 registered visiting firms, 1 016 came from the EU, 40 from EFTA countries, 219 from Central Europe, 94 from Eastern Europe, 220 from the Mediterranean, 30 from Asia, 25 from Latin America, 18 from North America, and 28 from South Africa. In total, 12 282 meetings were arranged during the event.
- ***Europartenariat Spain (Valencia, 12-13 November)***. 518 Spanish SMEs (from Valencia, Murcia and the Balears) met close to 2 500 visiting companies from around the world. Out of the 2 583 registered visitors, 1 431 came from the EU, 45 from EFTA countries, 259 from Central Europe, 64 from Eastern Europe, 331 from the Mediterranean, 91 from Asia, 364 from Latin America, and 24 from North America. In total, 19 365 meetings were arranged during the event.

In 1999, Austria and Germany

- ***Europartenariat Austria (Vienna, 10- 11 May)***. The Europartenariat was combined with a PHARE-Partenariat. 575 Host firms (455 SMEs from Austria at the Europartenariat and 120 SMEs from Hungary, Bulgaria, the Czech Republic, Romania, Slovakia and Slovenia at the PHARE-Partenariat) met with over 2 100 of their visiting counterparts coming from around the world. Of the more than 2 100 visiting firms, 1073 came from the EU, 60 from EFTA countries, 525 from Central Europe, 89 from Eastern Europe, 235 from the Mediterranean, 143 from Asia, 13 from Latin America, 15 from North America, and 24 from South Africa. In total 15 496 meetings were held during the event.
- ***Europartenariat Brandenburg (Potsdam, 28-29 October)***. Also this Europartenariat was combined with a PHARE-Partenariat. 510 host firms (402 from Brandenburg, Berlin and Thüringen, and 108 from Poland, Lithuania, Estland and Latvia) met with around 2 000 visiting firms coming from around the world.

In 2000, Denmark and Italy

- ***Europartenariat Denmark 2000 (Aalborg, 8-9 June)***. Denmark's first Europartenariat event was hosted by the harbour city of Aalborg, capital of North Jutland, a region moving out of primary industries and shipbuilding into services and innovation. Denmark's 417 host SMEs discussed and negotiated business opportunities with entrepreneurs from all over the world. Of the 1,453 visiting firms, 759 were from the EU, 115 from EFTA countries, 269 from Central Europe, 40 from Eastern Europe, 118 from the Mediterranean, 136 from Asia, 4 from North America and 22 from South Africa. In all 10,424 pre-scheduled meetings were held during the event: 7,554 between host and visiting firms, 2,722 between visiting firms and 148 between host companies.
- ***Europartenariat Sud Italia 2000*** will take place on 3-5 December in Palermo, Italy. Business meetings are being arranged with some 400 host SMEs from the Mezzogiorno, a region eligible for EU structural (regional policy) funds. Altogether, there will be around 2,000 participating firms.

Interprise

The purpose of Interprise²¹⁶ is to boost local, regional or national initiatives to stimulate SME transnational cooperation through face-to-face meetings between heads of enterprises.

This programme is based on the Europartenariat methodology. There are, however, a number of differences between the two programmes. Interprise supports small-scale events (about 100 SMEs) focused on one or two sectors of activity covering all European regions, whether or not they are eligible for the Structural Funds.

As a result of these features, local operators can use Interprise to provide a practical illustration of an economic development policy in a chosen sector of activity. The formula is proving a great success. There have been over 250 projects since the programme was launched in 1990.

29 Interprise events held in the Member States in 1997 mobilised close to 3 000 enterprises. Per event, just over 100 firms participated and an average of around 550 meetings took place. 23 events were supported in 1998, and 27 events in 1999.

As in the case of Europartenariat, Interprise-type events have been incorporated into the different programmes for third countries (Asia-Invest, Meda, AI-Invest).

Whilst acknowledging the validity of the Interprise programme, the Commission does not intend to provide any further financial support and invites beneficiaries, including Member States, to investigate the means of pursuing these actions.

10.2.2 Transnational subcontracting

Subcontracting is an increasingly important factor of competitiveness of industry in the EU. More and more large companies are contracting out part of their activities to reduce the size of their operations and concentrate on their core business. This process offers opportunities for subcontractors and could help stimulate growth and employment in enterprises throughout the EU.

The Commission aims to promote the creation of a truly European subcontracting market, the internationalisation of European subcontracting and the strengthening of its competitiveness in the global economy. So far, initiatives have been carried out under the Third Multiannual Programme for SMEs. Joint initiatives were also developed with other Commission services.

The current subcontracting work programme implemented as from 1992 was thoroughly evaluated and was subject to consultation with European subcontracting associations, namely during the Second European Subcontracting Forum which took place in Graz, Austria, in October 1998. The Graz Forum underlined the need for continued and improved action in support of European subcontracting at Community and other levels. It has also highlighted that subcontractors are faced with new challenges, which are likely to change the perception of subcontracting and the role and importance of subcontractors within supply chains.

²¹⁶ <http://europa.eu.int/comm/enterprise/entrepreneurship/partnership/index.htm>.

Further to a **call for proposals** for projects in the field of subcontracting, outsourcing, supply chain management launched in 1999²¹⁷, ten projects are being carried out in the following six areas: subcontracting development poles, benchmarking, clustering and networking, integrated suppliers' training, internationalisation of European subcontractors and dissemination of good practice.

In addition, a call for tender for a study on the legal environment affecting inter-enterprise relations and subcontracting in three Central and Eastern European Countries (Poland, Czech Republic and Romania) was launched in August 2000²¹⁸. The Commission has also launched, in co-operation with Eurostat, a call for tender aiming at establishing an **EU-wide statistical definition for subcontracting in the construction** sector. Other activities included the creation of a comprehensive **Web page on EU initiatives in the field of subcontracting**²¹⁹ and the update of an exhaustive **database** of subcontracting organisations.

IBEX: International Buyers' Exhibitions

The IBEX concept was launched and tested under enterprise policy to test the formula of inter-enterprise meetings organised to meet the demands of large enterprises for the development of new inter-industry partnerships (buyers' exhibitions). This concept was then taken over in the context of regional policy within the SME Community Initiative to support IBEX event in less favoured regions.

The IBEX programme organises planned meetings between large enterprises and SMEs on an international scale, focusing on the needs clearly identified by large enterprises and the specific capacities of SMEs to meet them. These inter-enterprise contacts, directed towards a particular strategic sector (motor industry, agri-food, textile or wood) are intended (a) to assist large enterprises in their international search for partner SMEs for specific cooperation requirements and (b) to promote relations between large enterprises and SMEs by offering SMEs opportunities for direct contacts with large enterprises interested in their products and services or their know-how. The IBEX events optimise the quality and benefits of bringing together SMEs and large enterprises and offer the participants savings in time and financial commitment compared with traditional subcontracting fairs.

Under its enterprise policy, the Commission supported five IBEX in 1998 and 1999:

- VIBEX in Göteborg in March 1998 (vehicle industry), where 46 buyers met 196 subcontractors in the course of 2 200 meetings;
- Aeromart in Toulouse in December 1998 (aeronautical sector), where 111 buyers met 213 suppliers in the course of 5 500 meetings;
- Satcar in Clermont Ferrand, in June 1999 (motor industry), where 85 buyers met 87 suppliers in the course of 4 500 meetings;
- Citext in Troyes in June 1999 (textile industry), where 105 buyers met 92 suppliers in the course of 3 000 meetings and
- IBEX-Tampere (metal working industry) was held in Tampere in September 1999.

²¹⁷ OJ C 245, 28.8.1999, p. 31.

²¹⁸ OJ S 149, 5.8.2000.

²¹⁹ <http://europa.eu.int/comm/enterprise/entrepreneurship/supply/subcontracting.htm>.

As in the case of Interprise, the Commission does not consider that it should continue providing financial support for IBEX. The idea is a good one, but should preferably be taken up by the private sector.

11. SUPPORT FOR ENTERPRISE SPIRIT AND FOR TARGET GROUPS

11.1. Craft trades, small enterprises and micro-enterprises

Potential and needs of the sector

Enterprises with no employees (self-employed) and micro enterprises with 1-9 employees, represent 93 % of all EU enterprises and account for 1/3 of total employment²²⁰. According to the most recent figures available²²¹, very small enterprises (1 to 9 employees) showed the strongest proliferation throughout the economy in 1997 in all sectors, with an overall growth of 5.5 %. In terms of job-creation, this category of enterprises recorded the biggest increase in the EU, with an overall progression of more than 1 %. On the contrary, the number of enterprises without employees decreased by 0.8 % thus leading to an overall declining by more than 1 % in the number of jobs. Small enterprises contribute to employment expansion in higher proportion than other businesses and employ more women and young workers.

Target groups of entrepreneurs (e.g. young people, women, minorities) are mainly small businesses. Actions for these target groups aim to promote their access to economic life and tailored support services.

The business environment for small and craft enterprises is changing rapidly. This sector faces special difficulties regarding: internationalisation, external advice and innovation, and new technology, territorial cohesion, acquiring and increasing know-how and market knowledge. On the other hand, it also presents strategic strengths: flexibility to the fluctuation of the economic cycle, strong job-creation potential (mainly in the service sector), local economic dynamism, integration in the economic life and in the labour market of special target groups affected by unemployment such as young people and women.

Initiatives for craft, small businesses and target groups under the Third Multiannual Programme for SMEs include pilot projects, studies, conferences and seminars. Their objective is twofold: to identify, anticipate and meet the specific needs of small and craft businesses and target groups; and to identify shortcomings and success stories in order to promote policy action for these specific economic sectors and actors.

²²⁰ Eurostat, Enterprises in Europe, Fifth Report p. 90-113.

²²¹ Eurostat, Statistics in focus, Industry, Trade and services, Theme 4, 11/2000, July 2000.

Background for action

In 1997, the European Parliament proposed the creation of a specific budget line (B5-3201²²²) to support actions under the 3rd Multi-annual Programme for SMEs, more particularly in favour of the smallest enterprises with specific attention on women entrepreneurs and collaborating spouses.

Moreover, the European Parliament adopted in June 1998 the report “The role of co-operatives in the growth of women employment”, issued by the committee on women's rights.

The three European Conferences of Crafts and Small Businesses, organised in 1990 (Avignon), 1994 (Berlin) and 1997 (Milan), have shown that the special needs of small businesses require specific action.

The Third Multiannual Programme for SMEs (1997-2000) took account of the heterogeneity of SMEs. This built on the recommendations of the 1994 Berlin Conference²²³ where the need to target policy action on micro and small businesses and specific groups of entrepreneurs (young, women and minorities) was stressed.

Overview of main actions since 1997

Under the Third Multiannual Programme for SMEs, over € 10 million were committed, so far, to support pilot projects, conferences and studies. Action is designed to improve the business environment for crafts and small enterprises, to encourage entrepreneurship and improve the management capabilities of entrepreneurs. Particular attention was given to women entrepreneurs, co-entrepreneurs (entrepreneurs assisting their spouses in running a business), young entrepreneurs and entrepreneurs from disadvantaged minorities.

Focus was on promoting access to finance and credit, support small businesses in disadvantaged regions, internationalisation of small enterprises, strengthening competitiveness, improving access to research, innovation and training, promoting entrepreneurship and greater consideration of the environmental dimension.

Follow-up of the 1997 Milan Conference

The Third European Conference of Crafts and Small Businesses, held in November 1997 in Milan attracted 2 000 participants from 32 countries, including Ministers from seven Member States. The Conference was prepared by 11 pre-conferences which tackled crucial issues affecting the sector (see 1998 report).

Conclusions identified the following priority areas:

- to encourage the economic success of small and craft businesses by creating an environment conducive to their development;

²²² OJ, 14.2.1997.

²²³ COM(1995) 502 of 26.10.1995: “The craft industry and small enterprises, keys to growth and employment in Europe. Results of the Second European Conference on the Craft Industry and Small Enterprises in Berlin, 26 and 27 September 1994, follow-up measures and recommendations to the Member States”.

- to promote the emergence and development of a European small business culture;
- to ensure that the special features of the small and craft business sector are taken into account from the very outset in the planning of national and Community measures and/or policies in economic and social areas, in particular, in consultation and negotiation at all levels;
- to encourage small and craft businesses and their representatives to become involved in the processes of exchange and co-operation, both intra-Community and with non-member countries;
- to increase competitiveness and innovation in small and craft businesses.

After the Conference, the “Milan Follow-up Group” was established to bring together sectoral representatives and Commission officials to implement the Milan conclusions. A table to monitor progress was first published in December 1998²²⁴.

Pilot projects, studies and seminars

After a first call for proposals in 1996²²⁵, aimed at providing assistance for transnational cooperation between crafts and small businesses, a second call for proposals was published in 1997²²⁶. Its aim was to promote transnational cooperation, joint participation of crafts and small businesses in trade fairs and exhibitions, a European business culture and entrepreneurship, finance and access to credit, vocational training for craftsmen and those setting up small businesses, access to information and services through computer applications and the training of Euro-advisers. Twenty-two projects, covering all 15 Member States plus two countries from Eastern Europe and North Africa were selected. Examples are presented below.

The promotion of young entrepreneurs and women entrepreneurs in the craft sector and micro enterprises (€ 497 515): the project aims at creating 5 support-centres, 4 in Greece (Athens, Larissa, Ioannina, Thessaloniki), 1 in Italy (Bologna) specialising in support services for young entrepreneurs and women entrepreneurs. The objective is to promote entrepreneurship and develop a financial tool, with local and regional authorities, adapted to specific target groups. Each support centre forecasts the creation of 60 enterprises to be monitored during three-years.

Raising awareness on opportunities in the small and craft enterprises (€ 265 130): the objective is to strengthen the role of the young people and women in the craft sector and small enterprises. The purpose is to secure, in Denmark and Sweden, the interaction between the educational system and the culture of craft and small enterprises. The project will attempt to establish a firm organisation within every educational institution, in order to promote entrepreneurship

²²⁴ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-third-conference/thirdconference.htm>.

²²⁵ OJ C 232, 10.8.1996, p. 31.

²²⁶ OJ C 117, 15.4.1997, p. 17.

Within a general call for proposals launched in 1998²²⁷ for training and related support services for SMEs, lot 10 calls for a promotional campaign aimed at secondary schools, to help raising awareness and interest amongst students in careers as entrepreneurs, and avoiding misunderstandings and prejudices on entrepreneurship amongst parents and teachers. Selected projects will be completed between December 2000 and June 2001.

Monitoring and other follow-up actions

In 1999, action focused on consolidating and monitoring projects selected under the 1996, 1997 and 1998 calls for proposals. An evaluation, launched in 1999, on the projects financed under the Second Multiannual Programme (1993-1996), is now available. A brochure was published to inform national, regional and local authorities as well as business organisations and entrepreneurs on the projects that were selected for small and craft enterprises. Both the evaluation and the brochure are available on the Internet²²⁸.

Moreover, three studies were launched in 1999²²⁹, results should be published soon:

- relating to young entrepreneurs, women entrepreneurs and co-entrepreneurs, and ethnic minority entrepreneurs to examine the specific characteristics of each target group and the obstacles they face in setting up and maintaining a successful business. It also presents a number of study cases of entrepreneurs belonging to those target groups. The study has already been published and is available at the address:
<http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-studies/entrepreneurs-young-women-minorities.htm>.
- aiming at identifying organisations (networks) and the methods of transmission of know-how in the sector of rare craft trades;
- aiming at the creation of a European network of international fair organisers for small and craft businesses.

Three local development seminars

As a joint initiative between the Commission, the Committee of the Regions and local authorities, three seminars took place in 1999 (Gijon on 18-19 March, Bayreuth on 22-23 April, Kemi, Finland on 23-24 June) to encourage local and regional authorities to promote entrepreneurship and provide a platform for the exchange of practices. The objective was to establish European benchmarking for good practices as a means of promoting entrepreneurship and to integrate new technologies into training systems; to identify the needs of small and craft enterprises in Central and Eastern Europe, to facilitate the process of adaptation and to assess new opportunities for locally-based enterprises resulting from the globalisation. The conclusions were presented at the SME forum organised on 25-26 September 1999 under the Finnish Presidency.

²²⁷ OJ C 263, 20.8.1998, p. 13. This call is open until 30 June 2000 with deadlines for submitting proposals every six months.

²²⁸ <http://europa.eu.int/comm/enterprise/entrepreneurship/craft.html>.

²²⁹ Call for tender published in OJ S 137 of 18.7.1998.

Gathering statistical data on craft-related activities

So far, there is no common European definition of crafts. This makes it difficult to identify craft activities. Therefore, action was recently launched to identify in existing Community databases, activities of a craft-based nature, thus enabling Eurostat to issue a publication on craft activities in the EU. This will allow the development of a methodology to define craft-related activities in the future.

Enterprises Electronic Networking: Screen

A European Web service directory is being created as a support service for small businesses: Screen (Small and Craft Enterprises Electronic Networking). The aim is to coordinate the development of European Web services for small and craft enterprises and to collect and disseminate examples of good practices via a network of interested parties. A restricted call for proposals for awareness actions was launched via the EIC network on 27 May 1999.

Raising awareness on entrepreneurship

Promotional and awareness-raising activities were carried out to provide a positive image for the sector and to overcome prejudices concerning entrepreneurship. **The European Young Entrepreneur's Prize**²³⁰ was launched in 1999 in the 15 Member States as an important awareness-raising action and the final ceremony of the European awards for entrepreneurship were held in Paris in June 2000.

Tailor-made support services for small enterprises

Forthcoming policy action will put emphasis on the provision of tailor-made support services for small and micro businesses.

11.2. Women entrepreneurs and co-entrepreneurs

Among 18 million SMEs in the Member States, 20-30 %, are run by women. A third of all new business are created by women. Considering that over 70 % of new jobs are created by SMEs, women contribute to job creation in Europe in a proportion of 21 %. Yet women continue to face barriers to entrepreneurial activity in comparison with men:

- inappropriate entrepreneurial skills during the start-up of their business,
- reconciliation between work and family life
- access to credit. Banks and other funders do not give great recognition to women entrepreneurs.

If Europe is to benefit fully from the female potential for job creation and economic growth, decision-makers at local, national and European level must agree measures to ensure the best possible framework to support women's entrepreneurship.

²³⁰ <http://www.jee.org>.

The 1999 employment guidelines called explicitly, for the first time, on the Member States to mainstream equality in the first three pillars of the strategy, including on the entrepreneurship one. Most Member States have launched specific measures to **encourage women to become entrepreneurs**, such as the promotion of start-up advice for women in Austria and Sweden, and the concept "Women on the Net" in Germany.

The Commission has promoted the creation of a self-sustained network (WES) of officials from public administrations responsible for women entrepreneurship to become an official speaking partner of the EU institutions.

The Commission through its various programmes and policies is committed to **fostering women entrepreneurship as part of the so-called "mainstreaming" of equal opportunities** between men and women. Some examples of EU initiatives are given below in boxes.

The Employment-Now Community Initiative²³¹

The Employment-Now Community Initiative (1994-1999), with a budget of almost € 1 bn, is by far the largest programme in Europe for conceiving, testing and implementing new ideas for women's training and employment. 1 750 projects across Europe have explored new ways to improve the employment situation of women. **More than half the projects address some aspects of business creation:**

- Pre-start up: measures to prepare women for business creation, resulting in a concrete business plan.

The project Centros Vivem developed by the Women Institute offers a specialised service in each of the eight provinces of Andalucia. In total, 1344 women followed the module on self-employment which led to the setting up of 246 businesses, 302 women completed the course on entrepreneurship creating 60 enterprises and 825 women participated in seminars on accounting, marketing or decision-making as an individual support

- During start-up: support from consolidation to the actual launch of the business plan:

The Greek DataWeb project includes an incubator which targets women in the business start-up phase. The incubator provides access to information, including computerised databases. Facilitating contact between women entrepreneurs and the relevant business development agencies is also a vital role for the incubator.

- After business start-up: strategies for consolidation and growth:

The Swedish project WOW aims to foster female entrepreneurship, particularly the export potential of women entrepreneurs. It targets professional women who have already set up and run business and offers a series of "info-meeting" in the three towns participating in the project.

²³¹ http://europa.eu.int/comm/employment_social/equal/index.cfm

In 1997, the Commission and the Member States established a **thematic network on business creation and entrepreneurship by women**. 21 successful NOW projects representing all Member States were selected as case studies. In April 1999, they were brought together to compare their results and impact in their regions and countries on the policy development of women entrepreneurship. These 21 projects have helped to establish more than **800 new businesses**.

The Leader Community initiative (see point on regional policies) has facilitated the development of micro-enterprises by women in areas such as rural tourism, the production of typical regional products as well in the craft sector.

The Fourth Community Action Programme on Equal Opportunities²³²

The Community Action Programme on Equal opportunities for women and men (1996-2000, € 30 million) supports projects focusing on innovative entrepreneurial activity and on access to credit for women entrepreneurs. Projects are published on the Web.

The project run by the Credito Italiano Bank with partners in the UK, Belgium and Portugal, is developing specific facilities for women entrepreneurs, as a follow-up to a survey on women's needs for financial tools such as leasing, project financing and electronic banking

Activities under the Third Multi-annual Programme for SMEs (1997-2000)

The 1997 call for proposals²³³ included, amongst its targets, companies set up by women. Out of 400 projects submitted, 20 were selected and 5 of them concerned women entrepreneurs.

These 5 projects aim specifically at promoting women entrepreneurship in the following areas²³⁴:

- to encourage women entrepreneurs to make greater use of electronic networks;

***Women Enterprises Electronic Networks (€ 339 319):** The objective is to increase the number of women enterprises who use information and communication technologies to access information and participate in electronic networks. This should help them increase the effectiveness of their business and their participation in the internal market.*

- to establish a European network of business advisers to provide women entrepreneurs with training and information on all aspects of business management, and particularly on EU measures affecting small businesses;
- to create a network of support centres for women and young entrepreneurs;
- to strengthen the role of women and young people within the craft and small business sector by promoting entrepreneurship in selected educational institutions

²³² http://europa.eu.int/comm/employment_social/equ_opp/index_en.htm.

²³³ OJ C 117, 15.4.1997, p. 17.

²³⁴ Projects are presented at <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/women.htm>.

- to develop a network of resource centres where experienced business-people can act as “mentors” for women entrepreneurs and where the specific problems relating to the sector can be addressed.

In addition, as part of the 1998 call for proposals for training and related services to SMEs, a pilot-action was launched to “promote the development and/or dissemination of recognised training courses for assisting spouses. Four projects were selected.

12. ACCESS TO RESEARCH AND TECHNOLOGICAL DEVELOPMENT

The European Union (EU) Research and Technological Development (RTD) Policy is implemented through multi-year Framework Programmes which constitute a coherent instrument covering all EU-funded RTD activities. The 4th Community RTD Framework Programme (FP4) ran from 1994 to 1998, the current 5th one (FP5) covers the period 1998 to 2002. The three main objectives of the EU RTD Framework Programmes are: to enhance the competitiveness of European industry, to improve quality of life in Europe and to support other EU policies.

The Framework Programmes bring together partners such as enterprises, universities and research centres from different countries, creating links between different national business and research communities. Their main support instrument are shared-cost projects where the EU supports financially consortia gathering partners from different Member and Associated states²³⁵.

12.1. European RTD programmes: tools for innovation and internationalisation

The EU RTD Framework Programme is for many SMEs an excellent instrument to address the challenges to which they are confronted. These include increased competition resulting from the completion of the European internal market and the growing demands of larger companies for which they often work as sub-contractors. To meet these challenges and to remain competitive, SMEs need constantly to innovate. Among other things, this means developing new technologies in-house or gaining access to them. Besides this, many SMEs both need and want to internationalise in search of new markets and business opportunities. EU RTD projects are excellent instruments to realise both objectives.

However, when addressing the research needs and capabilities of SMEs a distinction has to be made between three different types of SMEs²³⁶. Using the SME data-base and the Community Innovation Survey managed by Eurostat it was possible to assess their distribution across the 2.5 million SMEs from industry or research intensive service sectors (information and communication, research, engineering and testing) which together account for more than 90 % of the research activities in the 15 EU Member States:

²³⁵ Following the signature of Association agreements, organisations from 16 non-EU Member States can now fully participate. For more information on all countries associated to the EU RTD Policy please consult: <http://www.Cordis.lu/fp5/src/3rdcountries.htm>.

²³⁶ Evaluation study of cooperative/collective research for SMEs at European level with specific reference to the CRAFT scheme of the Brite-EuRam II programme, EC, 1994

Technology developers (3-5 %)

Only 3 to 5 % of these 2.5 million SMEs, i.e. 60.000 to 100.000 SMEs, are companies with strong research capabilities developing new technologies and marketing them or selling products including these technologies. They tend to be small, young and in high-tech sectors. Many are university spin-offs, and are often in the RTD services sector. They look for long-term results, and so invest a significant amount in research. They frequently launch technologically improved products or services, and like to take part in multinational pre-competitive research projects. A large number of these companies participate in EU funded research projects. However, they may need support for competing on an equal footing with larger enterprises when preparing proposals.

Leading technology users (10 %-15 %)

Some 200 000 to 300 000 European SMEs belong to this category. They tend to be over 10 years old and invest much less in research than technology developers do. They come from both manufacturing and service sectors.

These SMEs can identify RTD needs, but often have very limited or no RTD capabilities of their own and therefore tend to subcontract the required research to third parties. However, they play a crucial role for diffusing and adapting technological innovation for medium to low-tech companies. When looking at a successful implementation of a technology which gives to an SME a competitive advantage, other SMEs from the same sector may be induced to obtain access to this technology, thus contributing to the diffusion of the technological improvement. Although many of these SMEs can find adequate solutions at national/regional level, an increasing number require solutions or technologies that no national partner can provide fully and therefore often lead EU CRAFT projects.

Technology users - followers (80 %-85 %)

The large majority of EU SMEs are only interested by the final products of the RTD. They generally improve their technological base through the purchase of equipment or materials and the training of their personnel. They tend to be in more traditional sectors, be older, and invest less in RTD. They have little or no need for carrying out RTD activities and do not invest hard earned cash in risky and long term return RTD projects. They tend to look for short-term results, and can only be found in EU RTD projects in small numbers and act as end-user partners rather than leaders.

12.2. Specific measures for SMEs in FP 4

The EU RTD Framework Programmes offer opportunities to both Technology Developers and Leading Technology Users by incorporating **research actions by SMEs** and **specific instruments for SMEs**.

Research by SMEs

Since the start of the EU RTD policy, in 1982, SMEs with research capacities, typically technology developers, have participated in *Collaborative research projects*, the traditional project format in EU RTD programmes, in which different types of organisations - small and

large enterprises, universities and research centres - team up to undertake ground-breaking research activities.

Research for SMEs

In order to address the specific needs of Leading Technology Users a scheme called CRAFT (Cooperative Research Action for Technology) was developed. It allows groups of SMEs with common research needs, but insufficient or no RTD capabilities of their own, to outsource the required research to a third party.

SME Specific Measures

The CRAFT scheme is part of the wider SME Specific Measures which comprise two main instruments for SMEs:

1. **Exploratory Awards** allow SMEs to overcome problems when preparing proposals. Two SMEs from different Member States identifying a common interesting RTD project can, on the base of a short outline proposal, receive funding (75 % of total costs), for preparing a full proposal. This first phase is optional (i.e. proposers can directly submit complete proposals) and should last less than 12 months. It can cover the definition of the project, the search for partners, a verification of the novelty of the idea or the assessment of the economic impact in case of success. It has allowed SMEs, both with or without RTD capabilities, to better compete with larger companies and research organisations when answering to calls for proposals.
2. **Cooperative Research (CRAFT) projects** are targeted at Leading Technology User SMEs and enable them to engage third parties (Universities, Research Centres or Industrial partners, called RTD Performers) for carrying out research on their behalf. The RTD performers will be sub-contractors, paid for 100 % of the research undertaken, while the results will be fully owned by the SMEs. The Commission shares with SMEs research costs by funding 50 % of the total costs.

Besides the above SME specific instruments, other initiatives were undertaken to further facilitate the participation of SMEs in FP4:

A network of CRAFT National Focal Points for Information and Assistance

To participate in EU RTD programmes, it is necessary that at least two foreign partners team up to submit a proposal. To help SMEs in this critical step and obtaining information, a **CRAFT Network of local Focal Points was established**. All Member and Associated States were asked to propose organisations with adequate resources and skills to form a network ensuring an adequate thematic and geographical coverage of each State. These organisations inform and assist SMEs in partners search or in preparing proposals. SMEs interested in submitting a project could also look for partners using the "Expressions of Interest" available on the Web based Cordis "RTD Partners" database.

Together, the CRAFT National Focal Points informed some 500 000 SMEs on the SME Specific Measures, answered some 60 000 requests and assisted some 20 000 of them to participate. It is estimated that 25 % of the SMEs who finally submitted a proposal under FP4 benefited from the assistance of an National Contact Point.

In addition, other European intermediaries such as Euro Info Centres (EICs), in their capacity as “first stop shop”, and Innovation Relay Centres have provided information to SMEs. They were trained to provide first information and raise awareness on the SME measures and encouraged to collaborate with members of the CRAFT network for mutual signposting of interested SMEs.

Multinational Information and Assistance Action

Experience has shown that systematic **Multinational Information and Assistance Actions** targeted at SMEs in one or several research areas/industrial sectors facilitate the establishment of transnational partnerships and are an effective way to promote the participation of SMEs. Such actions include four basic steps (inspired by the methodology developed under the Euromanagement scheme²³⁷): dissemination of information on the SME Specific Measures, technology audits of SMEs, brokerage of the results of the “Expressions of Interest” to form transnational consortia and assistance for writing project proposals.

During FP4, **three major Multinational Information and Assistance Actions** (totalling € 5 million EU funding) were supported by the Commission. They involved respectively private consultants specialised in auditing SME technology needs (Euromanagement II), the members of the CRAFT network of Focal Points and European Industrial Federations (Cecimo, Orgalime, Fefac...). Additional actions were launched by the different programmes implementing the SME Specific Measures involving mainly the National Focal Points, but also Innovation Relay Centres, Euro Info Centres and other intermediaries.

Together, **these actions totalled some € 10 million of EU funding** which were almost always matched by funds from the participants, for a total of some **€ 18 million**. Over FP4, such actions **informed some 150 000 SMEs, audited 7 000 of them**, mainly newcomers to the EU RTD programmes, **and contributed to some 30-40 % of all proposals submitted under the SME Specific Measures during FP4**. Overall, more than 25 workshops and brokerage events were organised and resulted instrumental for allowing SMEs to form partnerships.

Finally, to help SMEs prepare for the launching of FP5, research programmes in the area of Life Sciences and Industrial Technologies launched some 45 additional actions in 1998.

An SME Coordination Unit

A **small SME Coordination Unit** was set up to coordinate a harmonised implementation of the SME Specific Measures across all 10 research programmes and to liaise with other EU SME related instruments. This Unit developed into a **first-stop shop where all proposals were received and processed. A single information package on the 10 programmes** was produced and standard submission forms were provided for all programmes, thus **simplifying the submission procedure**. The SME Specific Measures were implemented via open calls for proposals, with regular evaluations every trimester. Streamlining of internal management procedures by the SME Coordination Unit, ensured that all proposers under the SME Specific Measures were informed of the outcome in the 3 months following these evaluations.

²³⁷ This pilot scheme was designed by the Enterprise Policy Department to help SME participation in RTD programmes.

All these further initiatives are in line with the Commission Communication on the Integrated Programme for SMEs and the report of the BEST Task Force, in which it is said that schemes in favour of SMEs require user-friendly participation modalities as well as information and awareness actions to facilitate and foster the participation of SMEs.

12.3. SME participation in EU RTD programmes

Given the increasing focus on SME participation of the EU RTD Framework Programmes, the SME and Innovation Unit of the Research Directorate General regularly updates a report on this subject²³⁸. Following the remarks of the Court of Auditors²³⁹ all the data-bases on EU RTD contractors were screened to verify information on company size and nature. These data-bases were used to prepare the report. Also, before passing a contract under the SME Specific Measures, the data provided by all the SMEs involved were checked by an independent contractor to ensure that they corresponded to the SME definition used for FP4²⁴⁰ and were therefore entitled to benefit from these measures.

Another remark by the Court of Auditors referred to the need for the Commission to improve the monitoring of CRAFT projects. A call for tender²⁴¹ was issued and organisations selected to assist Commission officials in the monitoring of CRAFT projects.

12.3.1 A growing participation of SMEs in EU RTD Programmes

Since 1991, the participation of SMEs in the EU RTD Framework Programmes has grown substantially. The table below compares for each research area the number of SMEs participating in the last two Framework Programmes. More information is available in the above mentioned report²⁴².

²³⁸ Framework Programme IV, SME participation, 1994-1998, Cf. www.Cordis.lu/sme/src/library.htm.

²³⁹ Court of Auditors' annual report (1996), OJ C 348, 18.11.1997.

²⁴⁰ For FP3 and FP4, an SME is a company who employs no more than 500 employees, has an annual turnover of no more than €38 million and is not owned for more than 1/3 by an organisation which is not an SME, unless it is a financial investor such as a bank or a venture capitalist.

²⁴¹ Call DG RTD/SME/97/02, OJ S 221, 13.11.1997.

²⁴² Framework Programme IV, SME participation, 1994-1998, Cf. www.Cordis.lu/sme/src/library.htm.

SME Participation by project type in FP3 and FP4
(Number of SMEs having signed a contract)

Programme Area	Exploratory Awards	Cooperative Research projects (CRAFT) *	Collaborative Research projects	TOTAL
Industrial Technologies	1 694	3 301	2 385	7 380
Life Sciences	478	449	650	1 577
Environment	106	181	295	582
Energy	192	290	1 003	1 485
Transport	69	N/A	649	718
Telematics	N/A	N/A	1 217	1 217
ACTS (Telecom.)	39	N/A	406	445
Esprit ((IT)	57	8	1 285	1 350
TOTAL FP4 (1994-1998)	2 635	4 229	7 890	14 754
TOTAL FP3 (1990-1994)	1 572	1 203	2 649	5 424

* Including CRAFT projects signed until August 1999

N/A = Not applicable

SME* participation in EU RTD programmes

Community operations	Amount allocated to SMEs (€ '000)	Number of SMEs	Percentage of SME participation	SME share in overall budget
FP2 (1987-1991)	622	2 347	18.1 %	18.7 %
of which SME Specific Measures	1	28	100 %	100 %
FP3 (1990-1994)	732	5 424	27.6 %	18.5 %
of which SME Specific Measures	74.5	2 775	100 %	100 %
FP4 (1994-1998)	1 427	14 754	28.5 %	20.4 %
of which SME Specific Measures	323	6 864	100 %	100 %

* Under these Framework Programmes an SME is a company who employs no more than 500 employees, has an annual turnover of no more than 38 million Euro and is not owned for more than 1/3 by an organisation which is not an SME, unless it is a financial investor such as a bank or a venture capitalist

SME PARTICIPATION FROM FP3 to FP 4: MAIN CONCLUSIONS

- More than 14.500 SMEs have signed a shared-cost research contract under FP4. This is almost triple the amount under FP3. **Total funding to SMEs amounts to over € 1**

400 million (€ 732 million in FP3). This makes FP4 the largest EU scheme for direct funding to SMEs.

- SMEs share of participations and funding have increased in FP4 (1994-1998) with respect to FP3 (1990-1994) and FP2 (1987-1991). They represent 28.5 % of all participations and received 20.5 % of all EU funding. SMEs account for 62 % of all participations from industry.
- Collaborative RTD contracts involve 7 900 SMEs and amount for € 1.1 bn of EU funding. They are the major project type in FP4, but the share of the SME Specific Measures has increased with respect to FP 3 from 10 % to 23 % of funding to SMEs.
- The shares of SME participations and funding in FP4 projects have increased for most programmes since FP3. SME participations still concentrate on industrial programmes like Industrial and Material Technologies and Information Technologies, but the SME Specific Measures have contributed to spreading more evenly the participation of SMEs, with programmes like those in the Life Science Area increasing from 1 to 8 % of all SME participations and Environment from 2 to 4 %.
- SMEs represent 69 % of all industrial project co-ordinators.

12.3.2 SME Specific Measures: newcomers and wider participation

The SME Specific Measures (Exploratory Awards and CRAFT projects) were responsible for almost half of the participations of SMEs in FP4. The table below shows that most projects were submitted and selected in the Industrial Technologies area, but the SME Specific Measures have picked-up in other programmes under which half of Exploratory Awards proposals and 1/3 of CRAFT projects were submitted.

Project submission and selection under the SME Specific Measures in FP3 and FP4

Type of project Programme Area	Exploratory Awards		Cooperative Research*	
	Submitted projects	Contracts	Submitted projects	Contracts
Industrial technologies	1 630	760	1 263	522
Life Sciences	753	230	289	86
Environment	167	57	112	36
Energy	195	84	79	53
Transport	59	32	Not applicable	
Telematics	Not applicable		Not applicable	
ACTS (Telecommunication)	<i>Not available</i>	39	Not applicable	
Esprit (Information Tech)	228	50	6	1
TOTAL FP4 (1994-1998)	3 032	1 252	1 749	698
TOTAL FP3 (1990-1994)	885	391	331	172

* Including CRAFT projects signed until August 1999, but excluding the evaluation results of Areas 4 and 5 under the FAIR Programme

When analysing the numbers and profiles of the SMEs participating in the SME Specific Measures under FP4, the following issues can be highlighted:

- ***Newcomers are welcome:*** more than 75 % of the 16 000 SMEs who submitted a proposal never participated before to an EU RTD project. Despite this 40 % have been selected and 7 000 participated in a project (2 650 in Exploratory Awards, 4 250 in CRAFT). When submitting an interesting proposal (on the basis of the Evaluation Report) non-selected SMEs are encouraged to resubmit improved proposals.
- ***Participation is expensive, but investment is gradual:*** on average, participation to a 800.000 EUR CRAFT project in FP4 (6 partners) only requires some 73 000 EUR of own investment per SME (3 000 for preparing the Award proposal, 5 000 to finance the Exploratory phase and 65 000 for the CRAFT project itself).
- ***Smaller firms benefit:*** 65 % of SME contractors have less than 50 employees.
- ***EU RTD is not for high-tech industry only:*** 35 % of CRAFT participants come from more traditional sectors (agro-industry, construction, mining, textile or wood). 20 % of them are located in "Cohesion countries" (Greece, Spain, Ireland, Portugal).
- ***The main benefit is new transnational partnerships:*** in FP4, the SME Specific Measures have allowed more than 6 000 SMEs to partake for the first time in an EU RTD project.

12.3.3 Other measures in FP4 relevant to SMEs

Demonstration projects in the Area of Life Sciences

The three specific programmes in the Life Science area (Agriculture, Forestry and Fisheries - FAIR, Biotechnology - Biotech, and Biomedicine and Health - Biomed) of FP4 all supported Demonstration Projects aimed at the exploitation and dissemination of new technologies. Demonstration projects aim to prove the viability of a new technology, to overcome barriers to its commercialisation and to promote awareness of its economic, social or medical benefits. Based on the principle that "seeing is believing", Demonstration Projects mark a significant break with the culture of traditional RTD projects since they aim at using available knowledge to show how a new technology or device can be applied concretely.

While these demonstration projects are not directly targeted at SMEs, SME proposers represent on average 22 % of all selected proposers and there is at least one SME participating in 3 out of 4 projects. The number of proposals in the Biotech programme increased by a factor of almost 20 from the first call (4 proposals) to the last call (75 proposals), showing the strong interest of industry and SMEs in this type of projects.

**Demonstration Projects in the Life Sciences programmes (FP4)
SME involvement**

Programme	N° of Projects	SME participation (%)	Projects with at least one SME (%)
BIOMED	16	15 %	69 %
FAIR	14	31 %	86 %
Biotech	38	21 %	71 %
Total	68	22 %	74 %

The “Biotechnology and Finance Forum”

High-tech SMEs and start-ups have a strong role to play for growth and employment in Europe. The Commission and the European Association of Security Dealers (EASD) have established in 1997 a “Biotechnology and Finance Forum”²⁴³, with the aim to **promote the links between scientific and industrial community and financial circles** thereby encouraging the development of European biotechnology industry and in particular high-tech SMEs with a high growth potential. The 2nd Conference of the Biotechnology & Finance Forum was organised in Lyon on 26 – 29 March 1999. It attracted some 1 200 participants.

Encouraging participation and interest from industry and end-users

Two specific mechanisms have increased the involvement of SMEs in Life Sciences projects and in the exploitation of their results:

- **Industrial Platforms**²⁴⁴ are interest organisations independent from the EU, but established around areas funded mainly by the FP4 Biotechnology programme. They serve as platforms for dissemination of results of EU funded projects involve some 200 companies, amongst which many SMEs.
- **Dissemination Platforms** specialised dissemination projects (Flair flow) and electronic networks (NF 2000 network) were established during FP4 to actively disseminate information on the results obtained, respectively by projects in the Food and Non-food areas.

²⁴³ More information on the Forum is available at <http://europa.eu.int/comm/research/biotech/finance.html>.

²⁴⁴ More information on industrial platforms can be found at <http://europa.eu.int/comm/research/biotech/ip1.html>.

12.4. The impact of EU RTD Policy on SMEs

In the 1997-1999 period several studies²⁴⁵ were undertaken to assess the participation of SMEs in EU RTD programmes both quantitative and qualitative.

The findings and recommendations of these studies were discussed in workshops involving representatives of SMEs (e.g. UEAPME, the Union of European Associations of SMEs, but also individual SMEs active in research), industrial federations (e.g. Cecimo representing the Machine Tool sector) and research organisations (e.g. EARTO, the European Associations of Research and Technology Organisations). These workshops also involved representatives of all the concerned Commission Directorate Generals, such as Research and Enterprise.

These studies and related workshops contributed to defining the SME **Specific Measures** under the 5th EU RTD Framework Programme (1998-2002).

Who are the SMEs that participated in FP4?

The 4th EU RTD Framework Programme focused on the two categories identified earlier in the report. One-third of SMEs which participated in FP4 can be considered as "technology developers", and 62 % are "leading technology users". Only 4 % are "technology followers".

Data suggest that FP4 allowed mostly small companies and newcomers to create new partnerships.

- **FP4 involved small companies:** the majority of industrial participants in FP4 (62 %) are SMEs and 42 % of them have less than 50 employees.

Industrial participation in FP4 by project type and size class

Project Type	Exploratory Awards		CRAFT projects*		Collaborative research		Total	
	Participations	%	Participations	%	Participations	%	Participations	%
< 10	766	29 %	524	12 %	1 956	12 %	3 246	14 %
10-49	1 143	43 %	2 101	50 %	3 395	20 %	6 639	28 %
50-249	654	25 %	1 338	32 %	1 697	10 %	3 689	16 %
250-500	72	3 %	266	6 %	842	5 %	1 180	5 %
>500	0	0 %	0	0 %	9 008	53 %	9 008	38 %
Total	2 635	100 %	4 229	100 %	16 898	100 %	23 762	100 %

* Including CRAFT projects signed until August 1999. SME Proposers only are taken into account.

²⁴⁵ Industrial technologies: impact predicted, impact delivered, European Commission, 1998
 - SME Participation in the Fourth Framework Programme for Research and Technological Development, VERTICA Oy for the European Commission, 1998 (cf. <http://www.Cordis.lu/sme/src/surv.htm>)
 - Efficiency and outcomes of the Exploratory Awards scheme in the Fourth Framework Programme for Research and Technological Development – Segal Quince Wicksteed for the Commission, 1999.

- **FP4 attracted new SMEs to take part in RTD.** Nearly two-thirds (64 %) of all SMEs taking part in FP4 were newcomers. For CRAFT projects this proportion rose to nearly four-fifths (78 %), and in collaborative projects almost half the participants were newcomers.
- **FP4 created new partnerships.** Nearly half of all SMEs taking part in FP4 had never previously co-operated with any of the other members of their consortium.
- **FP4 offered SMEs a way into joint RTD.** For over three-fifths (63 %) of SMEs taking part in the 4th Framework Programme, it was their first experience of RTD co-operation. They had never taken part before in any regional, national or multinational programmes such as Eureka or COST.

SMEs are ready to participate again

Five years after the termination of projects launched in the Industrial technologies area, it appears that:

- **SMEs are the category who has more frequent benefits:** 43 % of participating SMEs had increased their turnover, 53 % had accessed new markets and 42 % created new jobs. While SMEs represented 33 % of the sample evaluated, they accounted for 47 % of those with increased turnover, 66 % of those who accessed new markets and 76 % of those who created new jobs.
- **Other impacts on SMEs:** the report also mentions other, less measurable, benefits for SMEs:
 - (1) in all CRAFT projects and in 65 % of collaborative projects, SMEs played a major role
 - (2) 60 % of SME partners mentioned other benefits such as new commercial links, improved know-how, increased reputation or better internal organisation.
 - (3) Non-partner SMEs also benefited of technology transfers from 30 % of finished projects
- **FP4 helped SMEs to innovate and develop transnational partnerships.** Besides developing transnational partnerships, the main benefits that SMEs see in taking part in EU RTD projects are developing a new product or process, accessing technology and exploiting existing know-how. EU funding alone is not considered to be a main reason for participating.
- **FP4 helped product innovation.** Over half of SMEs taking part are in manufacturing, with high- and low-tech equally represented. Lower-tech SMEs tend to participate in CRAFT, while service and consulting companies tend to undertake collaborative projects.
- **FP4 participants were satisfied.** SMEs are overwhelmingly satisfied with the benefits of taking part in the Framework Programme. Almost all (96 %) would do it again.

The SME Specific Measures helped the participation of SMEs

Studies concluded that **Exploratory Awards played a unique role in helping SMEs to participate in FP4:**

- Among the SMEs which went on to take part in full research projects, 54 % viewed their exploratory award as essential, and a further 33 % as making a significant contribution, to the selection of their second stage proposal.
- Overall, it was also clear that an SMEs' chance of selection in applying for a full research project was improved by an exploratory award – from 43 % to 48 % in the case of CRAFT projects and from 23 to 25 % for Collaborative ones. Moreover, Exploratory Awards were used mostly by very small companies and newcomers to transnational research which would have not submitted a proposal without them.

Other main findings are the following:

- **CRAFT's procedures are user-friendly.** Barriers to participation in EU RTD projects can be internal to SMEs (lack of management time or of internal resources) or external to them (delays in evaluating proposals, complex procedures, low selection rates). The procedures introduced in the CRAFT action have halved the importance of the external barriers from 75 % in collaborative research to 35 % in CRAFT.
- **SMEs find out about European RTD from their business partners or service providers.** Business partners are the main source of general information for newcomer SMEs. However in the case of CRAFT, specialised service providers such as CRAFT National Focal Points, Innovation Relay Centres and Euro Info Centres are much used.
- The European Commission and its networks of specialised service providers play an important role in informing and assisting SMEs. Partners are also the main source of assistance. Besides them public sector sources (including the EC and its networks) are the most used source for collaborative research. CRAFT projects rely both on RTD performers and EC networks.

SMEs mostly require 3 basic types of help to prepare a project: expert and partner search, clarification of the application material, checking the quality and eligibility of the proposal.

12.5. The 5th RTD Framework Programme and its SME Specific Measures

In the 5th EU Framework Programme for RTD activities (FP5)²⁴⁶ (1998-2002, budget: € 14 960 million), SMEs are a clear priority. At the request of the European Parliament **each thematic programme will have to dedicate at least 10 % of its budget to SMEs.** In addition, the existing SME Specific Measures have been further strengthened and made more flexible.

The Community SME definition has been introduced as well in the Council Decision of 22 December 1998 concerning the rules for the participation of undertakings, research centres

²⁴⁶ OJ L 26, 1.2.1999, p. 1.

and universities and for the dissemination of research results for the implementation of FP5²⁴⁷.

12.5.1 Actions implemented by each thematic programme

Under FP5, the SME Specific Measures are still implemented through **an open call for proposals**, which means proposals can be submitted at any time of the year, but are now offered by all thematic research programmes:

- **Exploratory awards:** financial grants (75 % of the costs up to € 22 500) allowing two SMEs from two different Member or Associated States to prepare a project proposal under any of the four main thematic programmes.
- **Co-operative research (CRAFT):** a scheme enabling at least three independent SMEs from at least two different Member or Associated States, facing common problems but without sufficient RTD capabilities, to entrust the bulk of the required research to a third party (the RTD performer). The Community supports 50 % of the costs up to € 1 million. At the end of the project, the results of the research will be owned by SMEs.

Besides these measures, SMEs with their own research capacity are further encouraged to take part in any of the other project type, together with other companies, universities and research institutions.

12.5.2 Supporting the participation of SMEs

The Horizontal programme on "Innovation and Participation of SMEs" provides support and co-ordination of these instruments. **In particular the SME and Innovation Unit of the Research Directorate General ensures an harmonised and coherent implementation of the above project types**, e.g. by preparing specific and common information documents, by organising common evaluation sessions and by streamlining internal management procedures such as project selection, information of proposers on the outcome of the evaluation and preparation of contracts. The objective is to ensure that all proposers are informed of the outcome in the 3 months following the submission of the proposal and that contracts can be rapidly signed to kick-off the projects.

In addition to its co-ordinating role, the **horizontal programme on "Innovation and Participation of SMEs"**²⁴⁸ plays a leverage role by undertaking additional support measures that will further facilitate and encourage the participation of SMEs:

- **Creation of a single entry point:** a point common to all Community RTD programmes, to which SMEs can address all their questions, ideas and proposals concerning EU RTD actions for SMEs²⁴⁹.

²⁴⁷ OJ L 26, 1.2.1999, p. 46.

²⁴⁸ <http://www.cordis.lu/innovation-smes/home.html>.

²⁴⁹ SME-Helpdesk: E-mail Research-SME@cec.eu.int, Fax. +32-2 295.71.10, Tel. +32-2 295.71.75.

- **Management of a network of specialised SME National Contact Points**, covering all Member or Associated States, to provide SMEs with information and assistance (for instance partner search) for participating in Community RTD programmes.
- **Implementation of Economic and technological intelligence actions.** These are accompanying measures that further extend the information and awareness actions. They allow existing networks of service providers and intermediaries (e.g. SME National Contact Points, European Industrial Federations, Regional Development Agencies) to identify relevant information (for instance technological trends) for SMEs, which may help these to prepare a proposal for a Community RTD programme.

12.5.3 SME participation in FP5: first results

Although the results of the first calls for proposals under the thematic programmes are not yet final, the first data are encouraging, with a relevant proportion of selected proposers being SMEs.

As regards the SME Specific Measures (Exploratory Awards and CRAFT), an open call was launched on 1st of April 1999²⁵⁰, and two evaluation rounds were held in Spring and Fall 1999. Thanks to the awareness raised by the Second SME Technology Days held in Vienna in December 1998 and to the information campaigns undertaken by the network of SME National Contact Points, some 1 000 projects, involving some 2 700 SMEs were submitted in the first six months, this is 20 % more than for the first year of FP4.

Exploratory Awards

- 850 Exploratory Awards were submitted, involving 1 700 SMEs. 6 weeks after submission, some 40 % of the co-ordinators had been informed that their proposal was envisaged for support by the Commission. This new procedure implemented under FP5 will allow to process in parallel the negotiation of the contracts and the formal selection procedure, thus reducing the time between project submission and the start of the projects.
- Only 10 % of the projects were ineligible, half than the 17 % rate observed for FP4.
- Proposals are more spread across programmes than in FP4, with 40 % of proposals for Competitive and Sustainable Growth and 30 % for Quality of Life and Management of Living Resources.
- The spread of SME proposers across Member States is also greater than in FP4, thanks again to the effort of all SME National Contact Points. Some 100 of these SME proposers are from States Associated to FP5, witnessing their increasing interest in EU RTD programmes.
- Small and very small companies are participating: 80 % of SME proposers have less than 50 employees, and 40 % even less than 10.

²⁵⁰ OJ C 92, 1.4.1999, p. 14.

- Female entrepreneurs represent 5 % of proposers. Although this figure is low, it is in line with the percentage of European women managing technology oriented business.

CRAFT projects

- 150 CRAFT projects, involving some 1 000 SMEs were submitted. Again, some 40 % of proposals have been retained for funding and negotiations have started for finalising the contract and launching the projects in early 2000.
- Only 13 % of the projects proved ineligible, which is very low if you take into account that none of these projects could yet benefit of an Exploratory Awards for its preparation.
- The spread of proposals is lower than for Exploratory Awards, with 2/3 going to the programme on Competitive and Sustainable Growth. However, 11 CRAFT proposals were submitted to the Information Society programme: this is more than for the whole of FP4.
- Here also, the spread of SME proposers across Member States is greater than in FP4 and some 50 of these proposers are from States Associated to FP5.
- Small and very small companies represent the majority in CRAFT projects also: 70 % of SME proposers have less than 50 employees and 30 % less than 10.

Economic and Technological Intelligence Actions

11 of the 23 proposals submitted by the first cut-off deadline (July 1999) ²⁵¹ have been retained and negotiations have started to support actions in fields such as Leather, Biomass, Electronic Commerce, Aerospace and Nanotechnologies. Other actions specifically aim at stimulating the participation of SMEs from less developed European regions or training and accrediting members of support networks in Associated States.

12.5.4 Cordis

Cordis, the Community Research and Development Information Service, is a mainly Web-based service²⁵² providing free access to:

- information on EU research activities and policy, in order to stimulate participation in the research and exploitation of the resulting technologies,
- information and services which assist in forging the link between research and innovation, in line with chapter 3 of the Innovation Action Plan²⁵³.

²⁵¹ OJ C 92, 23.4.1999, p. 35.

²⁵² <http://www.cordis.lu>.

²⁵³ OJ L 361, 31.12.1994, p. 101.

Among services available on the Cordis Web-site are:

- full information on the Fifth Research Framework Programme (FP5), including calls for proposals together with all the official documentation needed to submit proposals, and Web services for each of the FP5 programmes;
- a news service on EU research and innovation, updated daily.
- a set of databases on EU research, covering the current and previous Framework Programmes, with information on programmes, projects, results, contact points and acronyms. The “results” database is the basis of a “technology offers” service.
- a “partner search” service, for potential participants in FP5 and for exploitation of the resulting technologies.
- pages on services to assist research exploitation, such as the IPR and LIFT (innovation financing) help desks.

Use of the *Cordis* Web-site increased dramatically during 1999, reflecting its role as the core information service for FP5 and improved user friendliness. The number of documents downloaded per month increased from 40 000 to more than 200 000, while user numbers doubled from 65 000 to 120 000 per month.

Associated with *Cordis* is the *Innovation & Technology Transfer* newsletter, published every two months, reporting on implementation of the Innovation and SMEs Programme and on developments in European innovation policy.

13. VOCATIONAL TRAINING

Vocational training and investment in human resources, as components of business competitiveness, are indispensable if businesses (both management and employees) are to adapt to the new challenges represented by globalisation, internationalisation, the information society and the digital economy. Numerous Community programmes and initiatives contribute to the development of training systems, for businesses in particular, such as Leonardo da Vinci, programmes co-financed by the European Social Fund, the ADAPT and Emploi Community initiatives (to be replaced for the future by EQUAL) and other actions conducted under enterprise policy.

13.1. European Social Fund

For the European Social Fund (ESF), the beginning of the new seven years period 2000-2006 means an important point in its development. The ESF is now defined as being the main financial tool through which the European Union translates the European Employment Strategy adopted at the Luxembourg Employment Summit of 1997 into action. This means that the ESF is fully integrated - in both policy and management terms – into what is done at Member State level to put the European Employment Strategy’s priorities (raising the “employability” and the “adaptability” of the workforce, developing entrepreneurship, promoting equal opportunities) into practice.

The ESF covers the whole territory of the European Union through its mainstream programmes - Objective 1 (structural development and adjustment of regions whose development is lagging behind) to Objective 2 (economic and social reconversion) or Objective 3 (development of human resources) - and through the new Community Initiative EQUAL. The programmes are agreed between Member States or Regions and the Commission, thus taking account of the heterogeneity of situations and structures. The EQUAL Community Initiative will help to set up transnational partnerships seeking new means of combating all forms of exclusion, discrimination and inequality connected with the labour market.

The mission of the ESF is to help prevent and fight unemployment, to make Europe's workforce and companies better equipped to face new challenges, and to prevent people losing touch with the labour market. The ESF-programmes will focus on five policy areas: the development of active labour market policies, promoting equal opportunities for all in accessing the labour market, life-long learning, developing adaptability and entrepreneurship, including in all these fields, the possibility for specific measures for the under-represented sex. Three key objectives pursued within these five fields are: supporting local initiatives on employment, to harness the job potential of the information society and ensuring equal opportunities for women and men, which is an objective of all activities. Eligible activities include, among others, different forms of education and training measures, employment aids, training of managers and developing new sources of employment, for example those in the social economy.

Evaluations on the 1994-1999 programmes

The ESF is focusing on investing in people. As a majority of the labour force is working in SMEs, this group of businesses has profited significantly from ESF activities. However, given the focus of the ESF on the workforce, and not businesses, as well as the variety and numbers of projects (each taking account of the different national contexts), detailed and precise data on the participation of SMEs in ESF supported programmes is not available. According to the ESF mid-term evaluations (covering projects of 1996-1997), **the overall share of SME in Objective 4 projects is estimated to range from 40-90 % for the 1994-1999 programmes.**

Reports on the mid-term evaluations are available on the Commission's Web site on the ESF as well as additional useful information at the following address: <http://europa.eu.int/comm/dg05/esf/en/index.htm>. The mid-term evaluation shows that due to the lack of clear indicators to monitor the participation of SMEs or people employed in SMEs, it is fairly difficult to give precise data. Still, it concludes that overall most programmes are either concentrated on companies (SMEs) and their workforce (Sweden, Italian regions, German "Länder", Finland and French regions) or concentrated on categories of workers thought to be more directly threatened by unemployment especially those in sectors in crisis. A final evaluation of the activities under the 1994-1999 programming period is undertaken currently.

In 1998 and 1999, some Member States have initiated new objective 4 programmes of which some are of particular interest to SMEs.

For example, the United Kingdom has launched an Objective 4 Programme covering 1998/1999. Interventions are nearly exclusively for SMEs and large companies can avail of

support only under restrictive conditions. The ESF allocation to this programme amounts to nearly € 250 million over the two years.

Three priorities emerge for support - to employed people faced with industrial change:

- to develop anticipation tools that inform the development of training programmes;
- to target training at those individuals within companies who do not have relevant up to date skills and who risk unemployment;
- to fund the development of innovative training systems, which make use of new technologies and take into account new working methods and production techniques; to encourage improved networking between SMEs and, between SMEs and large firms and the dissemination of the results of research carried out in the first priority.

In Italy, one of the main innovation brought about by objective 4 is its contribution to building a "training needs" national system which did not exist previously. This is coherent with the idea that anticipation is fundamental in formulating training policies. The ESF co-financed studies and research (particularly on industry and the craft sector) which helped create gradually a national system for "training needs" with the support of the social partners.

Improving future evaluations on the involvement of SMEs in ESF programmes

The knowledge about how often SMEs are involved in ESF activities will improve under the new programming period from 2000-2006. The priority placed on developing entrepreneurship in the European Employment Strategy has led Commission and Member States to agree on that **it is necessary to enhance the monitoring of SME aspects in the implementation of the ESF.** Accordingly, **SME specific indicators have been established.** A Commission document setting up "Guidelines for the Monitoring and Evaluation of ESF assistance in the period 2000-2006", urges the Member States to collect more detailed data on the participation of SME and to put more emphasis on SME aspects in monitoring and evaluating the ESF activities.

13.1.1 ADAPT and Employment Initiatives

The **ADAPT Community Initiative** (1995-1999 – budget: € 1 573 million)²⁵⁴ aims to transform the way in which companies, especially small firms, the organisations which support them, and workers themselves, respond to industrial change. In terms of the methods used, the 1997 projects have placed a greater emphasis on the use of new information and communication technologies and the building of the information society.

ADAPT supported innovative projects that could demonstrate a "bottom-up" approach, a transnational partnership and a potential multiplier effect. Projects involved actions in the following areas: training, counselling and guidance, anticipation, networking and new

²⁵⁴ More information is available on the web site:
http://europa.eu.int/comm/employment_social/equal/ae.cfm.

employment opportunities, adaptation of support structures, and information and dissemination.

The direct participation of SMEs in ADAPT projects is overall of 15 %. In addition, 45 % of all projects involve support to SMEs and enterprise creation. In terms of target groups, 35 % of projects focus on workers in SMEs and small organisations and 37 % on managers and entrepreneurs.

Although not directly targeted at SMEs, it is worth mentioning the Employment Initiative.

The **Employment Community Initiative** (1995-1999, budget: € 1 855 bn) targets groups of people who face special difficulties in the labour market. It has four inter-related strands: NOW to improve the situation of women in the labour market; Horizon for people with disabilities; Integra for socially excluded people; and Youthstart for young people. Employment aims to identify new solutions to the problem of unemployment in the EU by funding pilot projects: to contribute to the development of human resources; to improve the working of the labour market; and to promote social solidarity and equal opportunities. Innovative projects were supported in the following areas: systems development, training, job creation, information and dissemination.

The participation rate of SMEs in the various strands of the Employment Initiative is: for NOW 8.4 % with a further 35 % of all projects involve support to SMEs and enterprise creation; for Horizon the figures are respectively 5 % and 20 %; for Integra 5.5 % and 26.3 %. Finally, for Youthstart, 7.8 % of the projects involve SMEs directly whereas a further 22.7 % of all projects involve support to SMEs and enterprise creation.

Overall the direct SME participation rate in the Employment Initiative is 7 % with a further 26 % of all projects involving support to SMEs and enterprise creation.

13.2. Leonardo da Vinci Programme

Results 1995 –1998

The Leonardo da Vinci programme²⁵⁵ (€ 620 million, 1995-99) is the Community's instrument for implementing a policy aimed at facilitating adapting to changes in industry, improving initial and continuing training, promoting access to vocational training, and stimulating training mobility and cooperation through supportive actions.

The previous report set out in detail the programme's various aspects and priorities, together with the results of the calls for proposals of 1995, 1996 and 1997. It also included a quantitative and qualitative analysis of SME participation.

Throughout its existence, from 1995 to 1999, the programme has been characterised by the sustained attention paid to SME access to vocational training. That attention was expressed in **better representation of SMEs in all components of the programme.**

²⁵⁵ Council Decision 94/819/EC of 6.12.1994, OJ L 340, 29.12.1994, p. 8.

The concern was to systematically strengthen SME participation, if not as promoters, then at least as players in a genuinely active partnership.

The calls for proposals of 1997²⁵⁶, 1998²⁵⁷ and 1999²⁵⁸ maintained the five Community priorities of the 1996²⁵⁹ **call for proposals** which stemmed from the Commission White Paper "Teaching and learning: Towards the Learning Society" one of which targeted investment in human resources.

Policy of disseminating and capitalising on results

Participation by enterprises and the professional organisations representing them at various levels, particularly European, is a constant concern of the European Commission. It has been recalled at each **call for proposals**, notably in the quality criteria published for selection of proposals. SMEs and their representative bodies are one of the major components of partnerships, be in mobility of those undergoing training, the development of innovative approaches in pilot projects, or surveys and analyses of networks for valorising the results of European vocational training programmes, by adapting innovative products, tools and methodologies and disseminating them Europe-wide.

In 1997 the representation of SMEs as partners in the programme was 27 %. For 1998 it fell to 22 %. Even so, the effective presence of SMEs in the programme's implementation can be seen.

These figures reflect only the individual participation of SMEs. The participation of SME and entrepreneurial associations, representative organisations, etc. must also be stressed, since they also disseminate Leonardo experience to their membership.

Many of the proposals targeted SMEs. For example, 115 of the 1996 pilot projects had as their theme training in SMEs, whilst 185 targeted small business managers/owners. In the 1997 proposals the figure was 214. However, there is little to confirm that any prior analysis of needs was made. Few projects took account of earlier projects or analyses already effected.

Prospects: Leonardo da Vinci second phase

The first phase de Leonardo da Vinci ended with the 1999 **call for proposals**. In the light of the interim evaluation undertaken by the Commission²⁶⁰ the Council adopted a second phase on 26 April 1999 for the period 2000 - 2006²⁶¹ with a budget of € 1 150 million.

Following the Commission's Communication "Towards a knowledge-based Europe" aiming at promoting European cooperation in the field of education, youth and vocational training, the goal is to construct a European educational area for the development of lifelong skills.

²⁵⁶ OJ C 381, 17.12.1996, p. 44.

²⁵⁷ OJ C 372, 9.12.1997, p. 23.

²⁵⁸ OJ C 381, 8.12.1998, p. 10.

²⁵⁹ OJ C 60, 29.2.1996, p. 16.

²⁶⁰ COM(1997) 399 final.

²⁶¹ Council Decision 1999/382/EC of 26.4.1999 establishing the second phase of the Community vocational training action programme 'Leonardo da Vinci', OJ L146, 11.6.1999, p. 33-47.

The new programme is intended to support and complement action by Member States, with the aim of enhancing the quality, the innovation and the European dimension of vocational training systems and practice, by means of transnational cooperation.

The programme is open to all bodies and institutions, public and private involved in vocational training, including enterprises, and particularly SMEs and the craft trades sector.

The new programme has three objectives:

- to improve the skills and competencies of people, especially young people, in initial vocational training at all levels; this may be achieved inter alia through work-linked vocational training and apprenticeship;
- to improve the quality of, and access to, continuing vocational training and the lifelong acquisition of skills;
- to promote and reinforce the contribution of vocational training to the process of innovation, with a view to improving competitiveness and entrepreneurship.

SMEs' training needs will be the subject of five types of transnational Community measures:

- mobility: the new programme should allow give some 250 000 individuals the change to follow training or a placement abroad;
- pilot projects, aiming at developing innovation and quality;
- promotion of language competences;
- transnational networks, facilitating exchanges of experience and best practice;
- development of reference material.

13.3. Business Education Network for Europe (BENE)

The Commission is supporting the creation of a Business Educational Network for Europe (BENE) to establish an interactive network of educational organisations directly involved either in the teaching of entrepreneurship or in the training of entrepreneurs²⁶². The network will allow training organisations to exchange experience and best practice and will also benefit the entrepreneurs, who will have access to information on the training courses on offer. The project started in January 2000. Its duration will be 24 months, but the objective is that it becomes financially self-sufficient and self-managing.

²⁶² Open call for tender No 102676 published in OJ S 141 of 23.7.1999.

14. OTHER SUPPORT PROGRAMMES

Energy programmes

Two programmes have been developed which are not specifically targeted towards SMEs but which benefit SMEs greatly: Altener II and SAVE II, promoting respectively renewable energies and energy efficiency. Two proposals for Decisions²⁶³ have been presented to the Council and the European Parliament to incorporate these programmes in the wider Multiannual Energy Framework Programme (1998 – 2002)²⁶⁴.

Altener II: Promotion of Renewable Energy Sources (RES)

Altener II²⁶⁵ (€ 22 million for 1998-1999) focuses on the promotion of RES. It is a non-technological programme which supports pilot actions proposed by companies as well as other legal persons of Member States of the EU and of the EEA (Iceland, Liechtenstein, Norway). It also aims at increasing the uptake of RES in the EU and increasing trade in renewable products, equipment and services within and beyond it, which should reduce CO₂ as well as other greenhouse gases emissions.

As the renewable energy industry consists predominantly of SMEs, most of the companies which benefit from the programme, be it as main contractor or as sub-contractor, are SMEs.

Furthermore, the White Paper for a Community Strategy and Action Plan "Energy for the Future: Renewable Sources of Energy"²⁶⁶ explicitly states that "investigating opportunities for the creation of new SMEs" and "introducing RES issues in the actions addressed to SMEs under the Social Fund" are actions which "deserve particular attention".

SAVE II: rational use of energy (RUE)

SAVE II²⁶⁷ (€ 45 million for 1997-2000), another non-technological EU programme, aims at promoting the rational use of energy by creating an environment in which investments in energy efficiency will be accelerated and energy efficiency will be recognised as a market opportunity. Like Altener II, SAVE II is not either specifically targeted towards SMEs, but **numerous SMEs benefit from it**. SAVE II supports the following measures: studies, sectoral targeted pilot actions, information dissemination, evaluation and monitoring of energy efficiency progress in the EU and energy management at regional and urban level.

²⁶³ Proposal for a Decision of the European Parliament and of the Council adopting a multiannual programme for the promotion of renewable energy sources in the Community(ALTENER) (1998-2002) COM(1999) 560 final, 4.11.1999; Amended proposal for a Decision of the European Parliament and of the Council adopting a multiannual programme for the promotion of energy efficiency (SAVE) (1998-2002) COM(1999) 211 final, 21.5.1999.

²⁶⁴ Council Decision 1999/21/EC, Euratom, of 14.12.1998, OJ L 7, 13.1.1999.

²⁶⁵ OJ L 159, 3.6.1998, p. 53-57.

²⁶⁶ COM(1996) 576 of 22.11.1996.

²⁶⁷ Council Decision 96/737/EC of 16.12.1996, OJ L 335, 24.12.1996, p. 50.

SMEs are specifically mentioned in the "Information brochure for the submission of proposals" for 1998 in relation to education and training activities: "promotion through the use of education/training schemes of energy efficiency in SMEs".

Financial instrument for the environment: LIFE

Since 1992, it has been possible for SMEs to be financed from LIFE, the Financial Instrument for the Environment. From 1992 to 1995 (first phase of LIFE) 464 demonstration projects in the Member States were co-financed by the Union for a total of € 190 million. From 1996 to 1999, 483 projects were co-financed totalling € 200 million.

It is estimated that more than **400 of those projects involved SMEs, with finance under LIFE of around 40 %**. The main sectors concerned were clean technologies (surface treatments, ceramics, tanning, paper, agri-foods, textiles); waste treatment, through recycling in particular; and land use in urban, rural and coastal environments.

The employment impact is difficult to estimate since demonstration pilot projects generally rely on temporary or existing jobs. However, each project would involve 4—6 jobs, giving a total of between 1 600 and 2 400 jobs in SMEs financed under LIFE.

CHAPTER III: ENLARGEMENT, PRE-ACCESSION AND COOPERATION WITH NON-MEMBER COUNTRIES

15. ENLARGEMENT AND PRE-ACCESSION ACTIVITIES

The European Union assists the candidate countries in their political and economic preparations for future accession to the EU. With regard to SMEs, the EU has opened up the Third Multiannual Programme for SMEs, to the candidate countries. In addition, the EU promotes the establishment of joint ventures and the access to finance for the investment activities of the Central and Eastern Europe Countries (CEEC) SMEs (PHARE JOP programme and the new PHARE SME Finance Facility in co-operation with the European Bank for Reconstruction and Development and the Council of Europe Development Bank). The EU also launched a programme to strengthen business representative organisations in the CEECs and their capacity to assist enterprises to adapt to the requirements of accession, in particular the legal framework of the Community (the PHARE Business Support Programme). As for Cyprus, Malta and Turkey the EU has promoted the creation of joint ventures through the ECIP programme. MEDA programme has also provided support for the establishment of the Euro Info Correspondent Centres (EICC) in these countries and for the participation to the Europartenariat, Med Partenariat and Med-Interprise events²⁶⁸.

15.1. Participation in the Third Multiannual Programme for SMEs

The opening up of Community programmes plays a key role in the pre-accession period. It provides the accession candidates with the opportunity to become familiar with community policies and instruments, and provides the basis for an even closer co-operation and exchange of experience between the EU and the associated countries in a wide range of areas.

The Third Multi-annual Programme for SMEs has been opened to nine candidate countries: Bulgaria²⁶⁹, the Czech Republic²⁷⁰, Estonia²⁷¹, Hungary²⁷², Poland²⁷³ and the Slovak Republic²⁷⁴ since 1 December 1998, Romania²⁷⁵ since 1 January 1999, Slovenia²⁷⁶ since 1st October 1999 and Lithuania²⁷⁷ since 1st March 2000. The programme was opened to Latvia²⁷⁸ and Cyprus²⁷⁹ in 2000.

²⁶⁸ See point 16.4. in this report.

²⁶⁹ OJ L 35, 9.12.1999, p. 23 – Association Council Decision N° 4/98 (1999/111/EC).

²⁷⁰ OJ L 6, 12.1.1999, p. 11 – Association Council Decision N° 3/98 (1999/15/EC).

²⁷¹ OJ L 307, 17.11.1998, p. 27 – Association Council Decision N° 5/98 (98/645/EC).

²⁷² OJ L343, 18.12.1998, p.36 – Association Council Decision N° 2/98 (98/722/EC).

²⁷³ OJ L315, 25.11.1998, p. 35 – Association Council Decision N° 2/98 (98/670/EC).

²⁷⁴ OJ L35, 9.2.1999, p. 39 – Association Council Decision N° 3/98 (1999/115/EC).

²⁷⁵ OJ L35, 9.2.1999, p. 4 – Association Council Decision N° 2/98 (1999/107/EC).

²⁷⁶ OJ L281, 4.11.1999, p. 79 – Association Council Decision N° 4/99 (1999/709/EC).

²⁷⁷ OJ L80, 31.3.2000, p. 34 - Association Council Decision N° 1/2000 (2000/259/EC).

²⁷⁸ OJ L278, 31.10.2000, p. 21 - Association Council Decision N° 4/2000 (2000/663/EC).

²⁷⁹ OJ L197, 3.8.2000, p. 48 – Council Decision of 20.7.2000 (2000/488/EC).

The participation of the candidate countries in the Third Multiannual Programme for SMEs implies the participation in operational actions in a manner largely equivalent to that of Member States as well as an intensified policy dialogue in the area of enterprise policy and SME development.

The terms and conditions for the submission, assessment and selection of applications related to eligible institutions and organisations are the same as those that apply to Member States. The candidate countries pay an annual contribution to participate in areas of the programme that they have selected themselves. This contribution is financed partly from their national budget and partly from their national Phare allocation.

Operational activities affected by the opening of the programme are as follows:

- Support for **Euro Info Centres (EICs)**: the existing Euro Info Correspondence Centres (one in each capital city) were upgraded to full EICs and new centres were selected to extend the service to the regions. There are now 47 EICs operating in eight of the candidate countries (Bulgaria: 8, Czech Republic: 7, Estonia: 2, Hungary: 7, Poland: 12, Romania: 6, Slovakia: 2, Slovenia: 3).
- Participation in Europartenariat events: Two medium-sized “PHARE”-partenariats focussed on business co-operation in Central and Eastern Europe were organised in parallel with the two Europartenariat events in Vienna (May 1999) and Brandenburg (October 1999). Five Interprise events were organised in 2000 in the candidate countries, one each in Slovakia, Bulgaria, Romania, Czech Republic and Estonia. Two events will be organised in 2001 in Hungary and in Poland.

The establishment of the Euro Info Correspondent Centres (EICC) was also supported within the MEDA programme in Cyprus, Malta and Turkey. The SMEs from these countries could also participate to the Europartenariat, Med-Partenariat and Med-Interprise events

15.2. Joint Venture Programme: JOP

Set up in 1991, JOP is a specific programme within the PHARE programme, which aims to assist the creation of joint ventures in the Central and Eastern European Countries (CEEC) between EU SMEs and partners in those countries. Since 1995, JOP has been extended to include the New Independent States (NIS) and Mongolia (within the TACIS programme). A total budget of 164.5 million € has been allocated so far to this programme.

JOP relies on a network of financial intermediaries which channel requests from SMEs, in order to get support from JOP to finance the costs of feasibility studies, investments, the training of staff involved in a joint venture and to deliver the information necessary for setting it up (EuroJOP Data service). The measures implemented have mostly enabled EU SMEs to carry out the preparatory phases of their joint venture projects, thus reducing the administrative, financial and legal constraints.

By encouraging the creation of joint ventures in the CEEC, this programme has been promoting the business cooperation between the EU and the CEEC companies as well as the foreign investment by SMEs from the European Union. **In June 2000, 2 773 projects were submitted, of which 1 765 were approved, representing a total commitment of 156,1 million €. By June 2000, 350 joint ventures have been or are being set up.**

Following the new orientation of PHARE within the context of the accession process, the Commission decided to close the access to JOP for new project proposals for "Facility 1" (promotion of contacts on business co-operation) "Facility 2" (feasibility study) and "Facility 4" (transfer of know-how) on 6 March 2000. "Facility 3" (grants for the start-up of the Joint Venture) projects resulting from a Facility 2 proposal were still accepted up to 30 September 2000.

15.3. PHARE: Technical Assistance Programme at national level

PHARE programme's objectives have changed during the last two years. New orientations for the Programme were approved in order to redirect support towards the preparation of the candidate countries for accession in the key areas identified in the Accession Partnerships. As a result, all new PHARE activities now concentrate on the partner countries' need for support for institution-building and investment.

In this context national and multicountry programmes have been approved to address the problems related to the challenges private sector and SMEs in particular have to face in the candidate countries in order to stand the future competition pressures of the Internal Market.

PHARE has helped to set up **new institutions to support SME development** and has extended **significant financial assistance directly to SMEs**. PHARE national programmes have supported SME development, privatisation, enterprise restructuring and modernisation of banking and financial services through the provision of know-how. National PHARE programmes for the development of SMEs have also had a significant impact on institution-building and on developing and promoting local business consulting centres while at the same time enhancing local links and local development.

SMEs in the CEECs have also received indirect benefit from other programmes supported by the Commission under PHARE with some impact for businesses as well, such as on environment, education, training, research, infrastructures, regional development, employment and Approximation of legislation, but with some impact for businesses as well.

15.4. The SME Finance Facility

As for the multicountry and horizontal programmes, Agenda 2000 called on the Commission to set up a multicountry Facility to induce financial intermediaries in the ten CEEC applicant countries²⁸⁰ to expand and to maintain their debt and equity financing of SMEs in the long term. Against this background, in April 1999, the Commission, in co-operation with the European Bank for Reconstruction and Development (EBRD), launched the pilot "phase 1" of the **SME Finance Facility** with a total budget of **200 million €** (50 million € from PHARE and 150 million € from EBRD own resources).

The Facility provides term loans and equity finance to financial intermediaries to facilitate the expansion of financing for SMEs. It also aims to establish new business financing practices in financial intermediaries so that these acquire more experience in dealing with SMEs and create a revenue stream.

The facility offers a range of products through selected CEEC financial intermediaries. It contains two "windows":

²⁸⁰ Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

- Equity-investment funds and technical/management support;
- loan finance-loan funds, guarantees, performance fee and technical/management support.

Financing is channelled through those intermediaries in the ten applicant countries that have demonstrated a satisfactory level of financial viability, a capable management team and commitment to SMEs in their lending/investment policy.

Following the launch of the operations with EBRD under Phase 1, the Commission carried out a marketing initiative towards other International Financial Institutions (IFIs) to elicit additional interest and possible commitments to Phase 2 of the Facility. The Commission extended the invitation to participate in the Facility Phase 2 to the Nordic Environmental Finance Corporation (NEFCO), the Nordic Investment Bank (NIB), the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD) and to the International Finance Corporation (IFC). These IFIs have been invited to the Facility as they had already been contacted in the preparation of Phase 1, as well as in quality of signatory bodies of the Memorandum of Understanding on Co-operation for Pre-Accession Preparation of Central and East European Countries²⁸¹. In addition, the EIB was also invited to participate in the Facility.

As a result another agreement has been reached with the Council of Europe Development Bank in co-operation with the Kreditanstalt für Wiederaufbau (CEB/KfW) for their participation to the Facility under the Loan and Guarantee Window. CEB/KfW participate to the Facility for 113 million € and the contribution of PHARE is 21 million €.

The total budget committed for the SME Finance facility so far is therefore:

- 293 million € dedicated to the Loan and Guarantee Window and
- 50 million € dedicated to the Equity Window.

Finally the Commission and the EBRD have recently agreed to enter into Phase 2 under the Loan and Guarantee Window of the Facility with an additional budget to be allocated of 150 million € from the EBRD and 30 million € from Phare. Projects presented by each co-financing partner under the new Phase 2 are approved by the Commission and the respective partner. The Commission coordinates the scheme through a Steering Committee, which consists of three representatives from the Commission and one representative from each partner organisation. The cofinancing partners manage their respective projects within the Facility and are also responsible for identifying new projects, as well as reporting and supervising their implementation to the Commission. Local banks will provide further sub-loans to SMEs and the investment fund will invest in individual SMEs.

So far, under Phase 1 of the Loan and Guarantee Window, 10 projects have been or are being signed covering 7 or the 10 CEEC candidate countries and corresponding to an ERBD credit line of 87.9 Million € and a PHARE allocation of 17.7 Million € for technical cooperation and performance fees.

²⁸¹ The Memorandum of Understanding was signed with these IFIs on 30th March 2000.

15.5. Business Support Programme

In 1998 the European Commission adopted a new multicountry programme in support of private sector development in the candidate countries in Central and Eastern Europe. The Business Support Programme provides support for the strengthening the capacity of business representative organisations to effectively support and represent the interests of enterprises.

It also aims to strengthen their capacity to assist enterprises in preparing for enlargement and the requirements of the legal framework of the Community (*acquis communautaire*). The programme should be seen as a complement to the support provided to private sector development under the national Phare programmes. Two calls for proposals were organised in 1999²⁸² and the selected organisations have started their operations during the first semester of 2000.

16. INTERNATIONALISATION OF BUSINESSES: COOPERATION WITH NON-MEMBER COUNTRIES

There is a positive correlation between free world trade and business expansion, economic growth and employment. Much of the prosperity of the European Union depends on foreign trade and investment. In this process of a globalised economy and despite the competitive pressures, SMEs enjoy an unprecedented growth and competitiveness potential which must be enhanced.

To achieve competitiveness in the global economy, EU companies need both to fully exploit the advantages of the Single Market and to ensure their presence in third country markets. Benefits to foreign competitors from the liberalisation of the internal market should be matched by efforts to ensure EU companies, including SMEs, business and investment opportunities in third country markets. On top of ensuring free access to third country markets through its trade policy, the Commission is implementing specific schemes to support SME activities beyond Community borders.

16.1. Trade policy

The so-called Trade Barriers Regulation²⁸³ (TBR), fully operational since its enforcement on 1 January 1996, represents an important step forward and a useful instrument for those SMEs wishing to expand in new emerging dynamic markets. The TBR's most important procedural innovation is without a doubt, the creation of a so-called "third track". Next to complaints from Member States and European industry sectors, the TBR also envisages complaints of individual companies alleging adverse trade effects and based on multilateral or plurilateral trade agreements.

The Market Access Database, available to all economic operators via the Internet²⁸⁴, has been fully operational since the end of 1996 with distinct positive benefits, in particular for SMEs. It should be recalled that its functions comprise the three following areas:

- to list all the trade barriers affecting Community exports by sector and by country and to ensure systematic follow-up and Commission action for every single barrier identified;

²⁸² OJ C 183, 29.6.1999, pp. 10 and 13.

²⁸³ EC Regulation 3286/94 of 22.12.1994, OJ L 349 of 31.12.1994, p. 71.

²⁸⁴ <http://mkacddb.eu.int>

- to provide basic information of interest to Community industry and Community exporters, such as the rates of customs duties and internal taxes in key export markets, import licensing requirements, special customs clearance formalities;
- to provide an interactive means of communication between business and the European Authorities allowing an exchange of information on-line.

On 21 June 1999, the General Affairs Council gave its full support for the barriers removal programme, following the Commission's Communication on "Serving Europe's exporters in the 21st century: the next phase of the market access strategy"²⁸⁵.

This barriers removal programme which focuses the Commission's resources on the elimination of priority barriers in third countries is particularly relevant to SMEs.

Mutual recognition has continued over the past three years to be on the top of our international trade agenda, as one of the instruments available to reduce regulatory obstacles faced by traders and exporters. To date, Mutual Recognition Agreements (MRAs) of conformity assessment of regulated products have been signed with Canada, United States, Australia, New Zealand and Switzerland, and a Mutual Recognition Agreement on Good Laboratory Practices, on the safety testing data of all chemicals, with Israel. The positive business and trade benefits of the MRAs are particularly of value to SMEs which usually have to cope with the tremendous regulatory, test and certification burdens of multiple domestic jurisdictions.

In parallel to bilateral initiatives in the past three years, the European Community has been vigorously pursuing a firm market opening strategy at the multilateral level which will be of great potential benefit to the EU enterprises including SMEs.

The strategy consists of:

- consolidating the Uruguay Round acquis and making sure that all the signatories of the Final Act scrupulously implement all of their undertakings;
- having active recourse to WTO dispute settlement to ensure that our partners live up to their obligations under the WTO agreements;
- identifying ways of pushing market opening still further and exposing new areas such as competition and investment to multilateral disciplines and promoting further comprehensive liberalisation.

The impact on SMEs business development is expected to be positive. In any case, in view of the vast expansion of the subject matter now covered by the WTO as compared with the GATT, this implementation and enforcement effort will be of a much greater magnitude and complexity than was necessary under the GATT regime, extending, inter alia, into intellectual property and services.

Having been over the last four years one of the main supporters of the implementation and notification fulfilment obligations of the Uruguay Round Agreements, the EU has played a key role in the successful negotiations on basic telecommunications, information technology products and financial services.

²⁸⁵ SEC(1999) 601/4, 22.4.1999.

The Community has maintained a constant policy of supporting and enhancing the process of multilateral negotiations and disciplines. Effective multilateral disciplines are the best guarantee that our exporters and investors have safeguards against illegal protectionist measures. The successive rounds of negotiations have led, during the existence of GATT, to an unprecedented reduction in tariff and non-tariff barriers over the last fifty years. The end of the Uruguay Round and the creation of the WTO marked a decisive stage in this process. Since the Uruguay Round the Community has also been actively engaged in promoting the accession of countries to the WTO as well as fostering the integration of the developing countries in the trading system. As the economy evolves quickly and international trade focuses more and more on areas which are only partially dealt with by existing disciplines, the multilateral system needs to keep pace with these changes if it is to continue providing better market access for our businesses abroad.

The EU is particularly interested in further strengthening the international trade order and its guardian, the World Trade Organisation. The recent Communication on the *EU Approach to the Millennium Round*²⁸⁶ should leave no doubt whatsoever of the EU's stance. Furthermore, the results of the Uruguay Round are already having a positive impact on overall growth and competition. These results have encouraged entrepreneurial dynamism and the productivity of the EU economy including the commercial sector.

16.2. Cooperation with the United States and Canada

• Cooperation with the United States

The Trans-Atlantic Business Dialogue (TABD), opened in 1995, is a unique business-driven process by which European and American CEOs (Chief Executive Officers) can make joint recommendations to the highest levels of governments in the EU and the US and thus facilitate transatlantic trade and investment.

The **Transatlantic Small Business Initiative** (TASBI), launched in 1996 is designed to cater for the specific needs of small businesses. It is an integral and horizontal part of TABD and aims to facilitate mutually beneficial business relations between European and American SMEs. Presently it consists of two major components:

- Partnering events that focus on stimulating sector-specific SMEs from both sides of the Atlantic to form business alliances and partnerships;
- The development of an interlinked EU and US information system providing enterprises with information on topics relating to doing business in the EU and the US.

Furthermore, the particular concerns of SMEs are taken into consideration in treating important issues such as standards and certification and implementing the EU/US joint study in the TABD's five working groups.

In November 1997, during the TABD conference in Rome, further progress was made on TASBI development. Additional key issues for SMEs were identified such as electronic commerce. The TASBI committee (composed of the private sector with the participation of representatives from the European Commission and the US Government) will be expanded and meet twice a year. New proposals were launched to be further examined (in the field of

²⁸⁶ COM(1999) 331.

analysis, training, diffusion of success stories and general information). New actions on partnering events and the development of information and cooperation systems were decided.

Partnering events

Two EU-US Partenariat events were supported by the Commission in 1998/1999 where around 1 000 meetings between enterprises took place in each event:

- Chicago (26-27 October 1998). 126 SMEs from the EU coming from the machinery, electronics, biotechnology and food processing sectors met with 50 of their US counterparts during a two-day event;
- Dallas (15-16 April 1999). 110 European SMEs coming from the electronic commerce and multimedia sectors met with 65 of their US counterparts. In addition, ten workshops related to IT were organised by the Commission.

In September 1999, the Commission published a **call for proposal** on Transatlantic partnering projects where 19 proposals were submitted and 4 projects selected for events to take place in 2000/2001. Furthermore, the Commission facilitated the participation of US companies at the Potsdam Europartenariat in October 1999.

Information and cooperation system

The EU and the US are developing an SME user-friendly information and cooperation database. The DoC has already developed a TABD/SME home page providing information about services²⁸⁷, and upcoming SME events. A prefeasibility study has been delivered to the Commission by the US counterpart which examines possible US/EU cooperation on partnering activities and cooperation networks.

In October 1998 the Euro Info Centres conducted a survey of the intentions of organisations such as Chambers of Commerce concerning their present or future agreements with partners in North America.

• **Cooperation with Canada**

Against the background of the EU-Canada Trade Initiative (ECTI), launched in December 1998, the important role of the private sector in promoting cooperation between SMEs in the EU and Canada has been stressed. The Commission has invited representative federations of SMEs in the EU to cooperate with Canada and to structure future work on the occasions of a first working meeting with SME federations in January 1999. A Steering Group on EU-Canada SME cooperation was set up.

Throughout 1999 lines of communication and channels of information have been opened and the Canadian authorities have tried to identify Canadian SME intermediaries in view of a meeting with the Steering Group. The process is business-driven and intended to focus on specific sectors.

Also under ECTI, the plans to develop an enhanced dialogue between Government and Business, have lead to the creation of the Canada Europe Round Table for Business or CERT.

²⁸⁷ <http://www.tasbi.com>

It has been set up by the business community, involving some twenty companies both from Canada and the EU.

The aim of the participating representatives of the business community is for CERT to become the prime voice of European and Canadian business to advise the Canadian government and the EU and its Member States on bilateral and multilateral trade and investment issues.

This initiative was launched in Brussels on 16 June 1999 on the eve of the EU-Canada Summit in Bonn in the presence of Canadian Trade Minister and the Vice President of the European Commission.

16.3. Cooperation with Japan

Industrial cooperation is one of the four pillars of the competitiveness policy²⁸⁸. The purpose is to reinforce EU industry's presence on fast growing markets and to improve the competitiveness of companies through the exchange of experience and know-how, which should "produce" European industry leaders, scientists and government officials with a substantial understanding of Japan. The EU-Japan Centre for Industrial Cooperation was established in 1987 as a joint venture between the Commission and MITI. It provides an effective business information service as well as training programmes. In June 1996, a Brussels office was opened.

The training programmes on offer are:

- **H RTP – Japan Industry Insight:** aimed at managers who have a major role in defining and implementing their companies' policies vis a vis Japan, H RTP provides an integrated and in-depth view of Japanese business and industry. The full programme lasts 11 weeks, but there is a shorter 4-week version. SMEs with fewer than 250 employees and not owned by a larger group may be eligible for a scholarship from DG Enterprises to help cover living expenses in Japan.
- **Topical Missions programmes: two-week long programmes**
 - *Market & Product Strategy* – provides multiple interrelated answers to the question "how do Japanese firms develop an innovative idea into a marketable product";
 - *Meet Asia in Japan* – helps EU companies wishing to develop industrial cooperation in Asia to understand the characteristics of the Asian business environment and to benefit from Japan's "experience as the region's leader";
 - *Challenge Towards World Class Manufacturing* – gives an insight into Japanese business principles such as KAIZEN (incremental improvement), TPM (total product maintenance) and TQM (total quality management);
 - *Distribution & Business Practices in Japan* – analyses Japan's changing distribution practices which offer European industries new opportunities of penetrating the Japanese market.

²⁸⁸ Defined in the Commission's Communication "An industrial competitiveness policy for the European Union", COM(1994) 319 of 14.9.1994.

- **Vulcanus: Training programme for EU Students** to familiarise the future management personnel in EU industry with Japanese business culture, economic structure and institutions. It also helps establish the personal networks which are often vital to establishing successful industrial cooperation as well as providing a pool of specially trained graduates capable of helping their future European employers with their business relations with Japan. There is an equivalent programme which places Japanese Students with EU host companies.

The Centre's business information service includes a newsletter, a directory (Johogen) of sources of information on Japanese trade and technology, seminars on Japanese and European markets, a reference library and an on-line enquiry service²⁸⁹.

Support to help SMEs in the EU to develop their ability to export to Japan is provided by the EXPROM programme. The EXPROM programme consists of two main pillars:

- **The EU "Gateway to Japan" Export Promotion programme.** This export promotion campaign focuses specifically on the needs of SMEs with proven export potential. The programme facilitates entry into the Japanese market through trade missions to and participation in trade fairs in Japan in ten EU export sectors that are considered to have high potential in Japan.
- **The Executive Training Programme (ETP Japan).** This longstanding management training programme consists of 12 months advanced Japanese language trading, university seminars and 6 months of "in-house training" in one or more Japanese companies. The programme is designed to help participants to understand and better navigate Japan's unique and complex business culture and language. Participants are typically men and women in their late twenties or early thirties, educated to university level and with a minimum of two years professional experience.

16.4. Cooperation with the Mediterranean, Latin America and Asia

- **ECIP financial programme: to promote joint ventures in developing countries in Asia, Latin America, the Mediterranean region and South Africa**

The Commission has drawn up a specific instrument, European Community Investment Partners (ECIP)²⁹⁰ (€ 250 million for 1995-1999), to facilitate direct investment in the countries of the Mediterranean, Asia and Latin America and in South Africa.

ECIP finances the creation of joint ventures and licensing agreements between European Union and local operators. It is aimed first and foremost at SMEs, but large companies may also be eligible. Large multinational undertakings are excluded from the programme, however.

648 financing applications, totalling more than € 65 million, were approved in 1997 and 1998.

Under the four facilities offered by the programme, co-financing may be granted to support the identification of investment partners and projects (facility 1: grants), feasibility studies and/or pilot projects (facility 2: interest-free advances), the creation of joint ventures (facility 3: participation in equity) or training, technical assistance or management expertise of an

²⁸⁹ <http://www.eujapan.com>

²⁹⁰ Council Regulation (EC) No 213/96, OJ L 28, 6.2.1996, p. 2.

existing joint venture (facility 4: grants for SMEs or interest-free advances for large companies).

The ECIP programme has demonstrated its importance to SMEs. **During the period 1988-1998, facility 1 helped more than 42 000 SMEs seeking investment partners and projects**, and more than € 3.5 billion of investment in developing countries was forecast as a result of initiatives co-financed under one or more facilities of the ECIP programme.

The vast majority (92 %) of investments made are in SMEs:

Number of employees	< 10	10 – 50	51 - 250	> 250
% joint ventures set up	6.8	40.1	45.1	8

The ECIP programme expired on 31 December 1999.

• **MEDA: cooperation with the Mediterranean region**

Since 1992 the Commission has made a considerable contribution to promoting transnational cooperation between SMEs in the European Union and the Mediterranean under the former Med-Invest programme. These initiatives were consolidated throughout 1996 under Meda financing.

Euro Info Correspondence Centres (EICCs) have been set up in ten of the twelve Mediterranean countries to supply SMEs with the information they need on EU activities and programmes.

Involvement of Mediterranean SMEs in partnership instruments:

- **Mediterranean SMEs have been encouraged to take part in Europartenariat and Interprise schemes.** Since 1992, over 3 000 SMEs in the Mediterranean basin have taken part in more than 14 Europartenariat events. In 1998 the Apeldoorn (Netherlands) Europartenariat was host to 212 businesses from Mediterranean countries, while the Valencia (Spain) event attracted a record number of Mediterranean guests: 331 businesses. In 1999, 231 Mediterranean SMEs took part in the Vienna Europartenariat and a similar number attended the Brandenburg Europartenariat in October 1999.
- **The partnership methodology (Med-Partenariat and Med-Interprise) has been extended to the Mediterranean.** Five Med-Partenariat events have already taken place (Turkey in April 1994; Morocco in May 1995; Israel in October 1995; Jordan in July 1997; Tunisia in September 1997), attracting very high attendance rates. The Med-Interprise initiatives are also attracting increasing attention (twelve Med-Interprise events have already been held in Tunisia, Turkey, Morocco, Lebanon, Cyprus, Syria, Egypt, Malta and the Palestinian Authority, and others are being prepared for 1999 and 2000). In 1998 a Med-Interprise event in the textile sector was held in Syria (Damascus and Aleppo), at which heads of Syrian companies were able to meet their European counterparts.

In all, the Europartenariat, Med-Partenariat and Med-Interprise initiatives have enabled over 5 000 businesses from Mediterranean partner countries to forge targeted links with specific SMEs in the European Union.

AI-Invest: Cooperation with Latin-American countries

After the successful completion of the first phase of Al-Invest (41 million € for 1996-2000), the Commission has decided to launch the Al-Invest II (43 million € for 2001-2004). Al-Invest²⁹¹ aims at promoting both the internationalisation and partnership between SMEs from the two regions notably by fostering the yearly organisation of 50 sectoral meetings, which are business-to-business encounters previously prepared by European and Latin-American operators acting together and agreeing on a common agenda. About 6 500 SMEs benefited from this programme.

Al-Invest II is a decentralised (it means that initiatives taking place under its umbrella are primarily endorsed by private operators such as Chambers of Commerce, Industrial Associations and Consultancies, which also submit sectoral meetings proposals to the Commission approval) and “output minded” programme (the Commission financial participation is, in fact, strictly proportioned to the concrete results achieved by the operators involved).

An Al-Partenariat event took place in Mexico-City on 24/26 February 1999, targeting the sectors chemicals, food, health care, leather products, metal processing, telecommunications and textiles. At the event 242 European SMEs met with around 600 of their counterparts from Mexico, Guatemala, El Salvador, Costa Rica, Panama, Honduras and Nicaragua.

Besides these sectoral meetings, a network of South-American organisations ("Eurocentros de cooperación empresarial") was created and linked with the European cooperation and information networks (notably BC-NET and BRE) that are fully operational in most of the Latin American countries. This net has been completed by adding a South-South electronic-information service, which is called TIPS.

Asia-Invest: Cooperation with Asian countries²⁹²

Asia-Invest (35 M€ for 1997-2002) aims at facilitating business cooperation between economic operators from Europe and Asia. It contains several instruments **to stimulate growth in trade and investment flows and to create a greater awareness amongst European businesses, especially SMEs, of business opportunities in Asia**. In 1996, Asia-Invest was extended to China with an additional budget of 10 M€. Asia-Invest is administered by a Secretariat established in Brussels.

Asia-Interprise and Asia-Partenariat

Seven Asia-Interprise events held in Malaysia, China and Thailand (1999) and France (1998) mobilised 582 companies from Asia and 351 companies from the EU.

Under the Asia-Partenariat programme two events were organised:

- The ASEAN-EU Partenariat in Singapore in November 1997 where 296 companies from ASEAN countries met together and with 264 companies coming from the EU in over 1 600 meetings organised; so far 30 co-operation agreements have been reported.
- The EU-India Partenariat in New Delhi in March 1999 where 407 companies from India met together and with 306 companies coming from the EU in over 3 700 meetings organised. 79 agreements have been concluded or have a high probability to be concluded.

²⁹¹ <http://www.al-invest.org>

²⁹² <http://www.asia-invest.com>

Asia-Invest promotes the participation of Asian companies in Europartenariat events. As a result, 694 Asian companies already attended 7 Europartenariats.

16.5. Cooperation with the New Independent States

TACIS: Technical Assistance Programme for the New Independent States (NIS).

The development of the private sector is one of the priorities under the TACIS programme for the New Independent States (NIS) and Mongolia. Support to SMEs is spread among the different programmes described below.

TACIS Business Communication Centres (BCCs)

Business Communication Centres (BCCs) have been set up to provide information for small and medium-sized enterprises (SMEs) throughout the NIS. The Centres, usually located within Chambers of Commerce, are a unique source of local business information both for firms within their regions and for firms from other New Independent States and the European Union.

The scheme aims to help the SME sector and local industry develop by sharing expertise and experiences offered by SMEs in the European Union. The Centres promote information exchanges between SMEs in the NIS and the European Union on export opportunities, joint venture possibilities involving both foreign and domestic partners, and foreign investment opportunities. The BCCs will establish links with European Union business networks, promote similar agencies in other cities and regions in the New Independent States, and provide management training for SMEs.

TACIS SME Development Agencies (SMEDAs)

The SME Development Agencies (SMEDAs) provide advice, counselling and training for new and existing entrepreneurs in the New Independent States. They are an important means through which TACIS is supporting the development of private enterprises in the NIS. They complement the work of the BCCs. The Development Agencies assist company managers in drawing up business plans and provide them with the support they need to present information about their company to potential foreign investors. The BCCs then offer the services of their network to help SMEs find suitable partners and provide information on the business environment – SMEDAs and BCCs are often located in the same place. Their differentiation is becoming narrower and narrower.

Many SMEDAs have benefited or are benefiting from TACIS programmes of support for enterprises. TACIS has focused its attention on the process of establishing the SMEDAs.

Through TACIS SME support, 23 SMEDAs were established in Russia, thanks to local, public and private initiatives. This network has been expanded to 46 SMEDAs. TACIS continues its support to the network by providing training and information support. Training includes how to start a business, make a business plan and advise entrepreneurs.

The know-how made available to the SMEDAs under TACIS covers advice from EU experts, the training of staff and study visits to EU Member States for local staff. More recently, the TACIS Programme has worked with the SMEDAs to enable them to develop a wide range of services for their clients, including more specialised activities. Among these are training for women entrepreneurs and specialised counselling for entrepreneurs in key industrial sectors.

Through the know-how that it has made available, TACIS is seeking to create agencies which will continue to contribute to the development of SMEs in the New Independent States long beyond the duration of their individual programmes. The future activities of TACIS will concentrate on promoting SMEDAs and BCCs networks at national and international level.

European Senior Service Network (ESSN) programme

The European Senior Service Network (ESSN) was established to enable owners and managers of SMEs in the NIS and Mongolia to access the know-how and experience of retired European Union managers and professionals. Senior business professionals from one of the 23 European Senior Expert Organisations visit enterprises looking to benefit from EU know-how and carry out assignments of up to six weeks' duration. The main aim of the programme is to support the process of transition to a market economy by focusing on the privatisation and restructuring of enterprises.

The European Union experts provide advice to SMEs which are planning to privatise, or which have already been privatised and need guidance during the restructuring period. Organisations that support or encourage SMEs, such as financial or training institutions, are not eligible for support.

The partner organisation is expected to provide accommodation, local transport, interpretation, translation services, and secretarial support.

Follow-up assignments are encouraged. Afterwards there is the possibility of a work/training programme in Europe. A number of seminars are organised in the NIS to train NIS managers proactively participating in finding solutions to enterprise problems.

16.6. Development cooperation (ACP countries)

On 23 June 2000 the **new Cotonou Agreement** was signed as a follow-up to the fourth Lomé-bis Convention (Lomé IV-bis), the agreement constituting the legal basis for development cooperation and covering all political, economic and trade relations between the EU and the 77 associate countries in Africa, the Caribbean and the Pacific (the ACP countries). In describing the possibilities for relaunching the EU-ACP partnership, the Commission stresses **the importance of supporting the private sector**, which should be a driving force in the development process. A heightened dialogue between the public and private sectors, partnership, the creation of a business-friendly environment and access to production factors, above all foreign investment, are the key elements of the new Agreement.

Since November 1998 a new strategy has been devised to support private-sector development, particularly that of the SMEs which form the backbone of the private sector in these countries. Since macro-economic stabilisation has in most cases been achieved, now is the time for second-generation reforms incorporating all three levels: macro, meso and micro. Measures at these three levels, aimed primarily at helping SMEs in ACP countries, have been or are being prepared.

For example, the CDE or Centre for the Development of Enterprise (formerly the CID) supports the creation, extension, diversification and restructuring of ACP manufacturing or service companies and the expansion of expertise and competence on the part of consultants, organises ACP/EU business contact meetings and encourages technical, commercial and financial partnerships between ACP and EU entrepreneurs. The CED receives some 1 000

requests for assistance per year and uses an annual budget of € 5 million to finance some 350 new direct schemes on behalf of ACP and European SMEs.

Other specific initiatives aimed at SMEs may take place under the national and regional indicative programmes. In view of their complementary roles, the Commission, the EIB and the CDE (Centre for the Development of Enterprise) are cooperating closely in operational terms. The CDE, for example, is selecting “bankable” projects which will have easier access to EIB resources, and certain global EIB loans to local SMEs are accompanied by technical assistance from the Commission and the CDE. **European SMEs are playing a general role in implementing Community development aid via works, supply and service contracts.**

To boost the participation of European SMEs in these contracts, the Commission has improved the programme information available on the Internet²⁹³, which is consulted more than 800 times a day. To make the Community rules and the SME support measures better known, the Commission is examining the possibility of extending the Euro Info Centre network to ACP countries.

16.7. Cooperation with South Africa

Under the European Programme for Reconstruction and Development in South Africa, the Commission is supporting the SME sector by targeting victims of apartheid. The aim is to set up specialist institutions providing the financial services needed to develop these SMEs: "Small and Micro Enterprise Development Programme" (€ 11 million, with Khula Finance), "Trade and Investment Programme for SMEs" (€ 8.9 million, with the Ntsika Enterprise Promotion Agency). Another aim is to assist business start-ups in local key sectors: "Community Projects Fund Support Programme in the Free State" (€ 17 million, agricultural businesses) and "Support to the Wild Coast Spatial Development Initiative" (€ 12.8 million, agro-tourism businesses). SME support is to be continued in the future, aiming to perfect instruments such as risk capital, in cooperation with the EIB and local specialist financial institutions. A global trade, development and cooperation agreement aimed at tightening up relationships between the EU and South Africa was signed on 11 October 1999 and came into force in January 2000.

²⁹³ http://europa.eu.int/comm/development/index_en.htm.

CONCLUSIONS

This report describes the aims of the Integrated Programme for SMEs²⁹⁴, the framework for coordinating the various EU initiatives in support of SMEs taken under enterprise policy or other Community policies or under the Concerted Actions. It demonstrates that the SME dimension is now an integral part of Community policies and has an impact on them. It also shows that SMEs are a priority in many programmes and that some of them provide for special SME measures.

Confirmation of political priority in support of SMEs and entrepreneurship

The developments since the end of 1997 show that SMEs are at the centre of European policy-making. First, under the "Luxembourg employment process", governing the **European coordination of national employment policies**, promoting entrepreneurship amongst women and men is one of the priorities shared with the Member States the follow-up of which is coordinated by the Commission. Under the "Cardiff process", Member States are creating a regulatory environment which is more beneficial to SMEs. These processes are part of the Broad Guidelines of the Economic Policies²⁹⁵. Then there is the **BEST Action Plan**, comprising of initiatives to be taken by the Commission and the Member States and implemented with the Member States in order to improve the business environment. In the context of the **Structural Funds**, which support national initiatives in the assisted regions of the European Union, the Commission asks the Member States to give priority to SMEs in their programmes, with emphasis on equal opportunities for women and men. In another, highly topical vein, **the eEurope initiative**²⁹⁶, presented by the Commission to the Special European Council of Lisbon (23-24 March 2000), encourages governments to create a digitally literate Europe supported by an entrepreneurial culture, which is ready to finance and develop new ideas. It calls on the Member States to set up user-friendly Internet sites for businesses in order to improve information and dialogue and boost finance for high-tech SMEs. In its conclusions the **Lisbon European Council** gives strategic priority to creating and developing businesses and asks the Commission to submit a communication on an entrepreneurial, innovative and open Europe together with the 2001-2005 Multiannual Programme for Enterprise and Entrepreneurship. It also calls on the Council and the Commission to draw up **a European Charter for Small Companies**, to launch a benchmarking exercise on issues such as the length of time and the costs involved in setting up a company and the amount of risk capital invested, and to review EIB and EIF financial instruments so as to redirect funding towards support for business start-ups, high-tech firms and micro-enterprises. Lastly, the process of exchanging experience and good practice on SME policies and support measures launched under the **Concerted Action** heading has been backed by the Council, which encourages the Commission to continue these efforts.

Since the Lisbon European Council, the European Charter for Small Companies has been adopted by the Council (on 13 June 2000) and welcomed by the **Feira European Council** (19-20 June 2000), which also approved the eEurope 2002 action plan. The Commission also adopted, in April 2000, its communication on the challenges for enterprise policy in the knowledge-driven economy and its proposal for a Council Decision on a multiannual

²⁹⁴ COM(1994)207, 3.6.1994, updated by COM(1996) 329, 10.7.1996.

²⁹⁵ COM(2000) 214, 11 April 2000.

²⁹⁶ COM(1999) 687.

programme for enterprise and entrepreneurship (2001-2005) which was adopted by the Council in December 2000.

The common factor in all of these initiatives is the drive towards more effective or, better still, the most effective policies, that can be aimed at businesses and very small businesses in particular. **Policies are converging in the direction of a better environment and better support for businesses**, thanks to coordination mechanisms such as the employment guidelines incorporated in national employment action plans, the guidelines for the Structural Funds reflected in Member States' programmes, benchmarking and exchanges and transfers of best practice through Concerted Action.

A new DG Enterprise was born on 1 January 2000, incorporating the former Directorates-General responsible for Industry and for SMEs and the Innovation Directorate.

More SMEs taking part in Community programmes

SME participation in Community programmes is improving in general. The Commission has stepped up its efforts over the past few years to assess the effects of these schemes on SMEs with, for example, the thematic assessment of the impact of the Structural Funds on SMEs and the evaluation of the RTD programmes.

Apart from the Third Multiannual Programme for SMEs (1997-2000), which is specific to small firms, the main SME support programmes or instruments are the Structural Funds, then the EIB and the EIF, the research programmes and, to varying extents, the other Community programmes.

The thematic assessment of the impact of the **Structural Funds** on SMEs shows that 18.2 % of the Funds, or € 21.3 billion, was spent on almost 800 000 SMEs between 1994 and 1999. SMEs, as a regional competitiveness factor, are also a priority for the next period, 2000-2006. The programmes must therefore be targeted even more closely.

SME access to finance remains a fundamental issue. In addition to initiatives such as the **JEV** (Joint European Venture), **CREA** (start-up risk capital) and a new **network of "business angels" or informal investors**, **EIB** and **EIF** activities have been more closely targeted at SMEs, particularly under the Growth and Employment initiative. 49 000 SMEs, 85 % of them small firms, have received EIB loans over the past five years. A billion euro from EIB surpluses have gone into an SME fund for risk-capital investment to finance high-tech SMEs or small firms with growth potential, or towards risk-sharing operations with banks, and over half has been used. Some of these operations, such as the European Technology Facility (ETF, € 125 million), ETF start-up (€ 168 million) and the SME guarantee facility (€ 168 million), were implemented with the help of the EIF. The volume of EIF guarantees for SMEs is € 879 million, or 33 % of all guarantee operations. At the invitation of the Lisbon European Council of March 2000, the European Union financial instruments such as those of the EIB and EIF are to be reviewed in order to redirect funding towards support for business start-ups, high-tech firms and micro-enterprises and other risk-capital initiatives.

SME participation in **research and technological development programmes** during the Fourth Framework Programme was more than double that of the previous programme. 14 754 SMEs took part in 1994-1998, compared with 5 424 in 1990-1994. These 14 754 SMEs accounted for 28.5 % of projects and received more than 20 % of the total budget. The establishment of a one-stop shop for SMEs, simplified submission procedures and specific

measures for SMEs (exploratory awards and CRAFT projects) have made it easier for them to become involved. The current Fifth Framework Programme should improve things still further with, for example, the horizontal programme "Innovation and Participation of SMEs".

For vocational training, the **European Social Fund** is the leading financial instrument supporting Member States' policies. Although there are as yet no very accurate data on the participation of SMEs, estimates suggest that 40-90 % of participants in Objective 4 projects for 1994-1999 were SMEs. In the ADAPT initiative, 15 % of project participants are estimated to be SMEs, rising to 45 % for projects supporting SMEs or start-ups. The pillar dedicated to developing entrepreneurship in the employment guidelines to be implemented by the Member States under the European Employment Strategy should ensure that more attention is paid to SMEs in the next programme period, 2000-2006. On average, more than 20 % of firms taking part in Leonardo projects are SMEs, even though these are not the chief target of the programme.

One of the keynotes of international cooperation in recent years has been the **future enlargement of the European Union**, reflected here in the progressive opening of the Third Multiannual Programme for SMEs to countries which have applied for accession.

Despite the progress made, much remains to be improved, particularly in assessing the impact of programmes on SMEs

Improvements are still needed, above all in monitoring the impact of Community programmes on SMEs. SMEs taking part in programmes should be placed in advance in an SME category (broken down by size class, i.e. <250, <50 and <10 employees), so that data on numbers of SME beneficiaries can be collected and comparisons made. Research programmes have set up a statistical system collecting precise data on SME participation, but for European Union programmes cofinanced by the Structural Funds, for example, the Commission has to rely on the various assessment systems operated by the Member States. To make data collection and assessment easier, the Commission has prepared methodological documents, containing impact and result indicators, for the Member States.

Access to Community programmes is still a major problem for SMEs, often because of a lack of information but also because they find the procedures complicated. The Commission has made efforts to simplify submission procedures, e.g. for research programmes, for which SMEs can present their projects at any time and receive a reply within three months. Access to information on programmes has improved greatly through the use of the Internet. Sites such as "dialogue with businesses" make it easier for businesses and individuals to return information and express their requirements.

Towards better cooperation by all partners in creating a more entrepreneurial Europe with dynamic, innovative and job-creating businesses

Action by the Community helps to create an environment in which business will flourish, but what the Member States do is equally important: according to Article 157 of the EC Treaty, "the Community and the Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist." The Commission cooperates very closely with the Member States in stimulating the exchange and transfer of best practices and comparing performances. The Concerted Action methodology and benchmarking are intended to help make public SME-boosting policies more effective. This is why we must continue striving for better cooperation between all concerned, including the professional associations, in a joint effort to make Europe stronger and more competitive.