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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

**FOSTERING ENTREPRENEURSHIP IN EUROPE:
PRIORITIES FOR THE FUTURE**

I. ENTREPRENEURSHIP – A CHALLENGE IN JOB CREATION AND COMPETITIVENESS

1.1. The increased importance of entrepreneurship

Entrepreneurship is a dynamic process by which individuals constantly identify economic opportunities and act upon them by developing, producing and selling goods and services. This process requires qualities such as self-reliance, a capacity for risk-taking and a sense of personal commitment.

In 1995, the Commission presented a report to the Madrid European Council¹ with a package of policy measures in favour of SMEs. Since then encouraging entrepreneurship and supporting young entrepreneurs has moved steadily up the European agenda, with the Third Multiannual programme for SMEs², the First Action Plan for Innovation³, the Employment Guidelines for 1998 endorsed by the Employment Summit in Luxembourg and most recently at the G8 Employability Conference in London, February 1998.

The need for comprehensive action fostering entrepreneurship is increasingly being recognised by political and economic actors as one of the keys to unlocking greater employment growth and competitiveness in Europe.

This Communication sets out a number of priority issues for action at national and European level in order to foster entrepreneurship in Europe.

These priority issues are wide ranging and some form part of other Community initiatives and programmes. In particular, action on specific elements of entrepreneurship is already required from Member States in their National Action Plans for Employment⁴. Actions arising from the transposition of the Employment Guidelines will be dealt with in the context and following the procedures of the National Action Plans.

A strong entrepreneurial culture is also essential for the future competitiveness of the European economy and for generating growth and this Communication considers a wider range of policies to achieve these objectives.

The Commission proposes to follow up the priority measures identified in this Communication. Actions undertaken in the framework of the National Action Plans on Employment have their own evaluation and monitoring procedures. For measures where such procedures do not exist at present the Commission proposes as an initial step to make an annual report to the Council and Parliament on the implementation at Community and national level of these measures. This will be based on a check list made available in advance to enable Member States in particular to know what targets will be specifically evaluated in the annual report.

¹ CSE (95) 2087, European Commission, December 1995.

² OJ No L6 of 10.1.1997, p. 25.

³ COM (96) 589, final of 20.11.1996.

⁴ Council Resolution of 15.12.1997 "The 1998 Employment Guidelines".

1.2. The macro-economic framework and the challenges of the Global Economy

Sound macro-economic performance is a key element in fostering entrepreneurship. Entrepreneurial activity is significantly easier to carry out in a stable economic environment with low inflation. A properly functioning Single Market and the introduction of the Euro are essential contributions to this.

The Single Market has already had a positive impact on growth. The free movement of goods, services and people has opened up a market of 370 million consumers for business, and the mutual recognition of qualifications has made it easier to create a business in another Member State.

European Business operates within the global economy. Changes in the economic performance of major trading countries have both direct and indirect effects on the European enterprise environment. European enterprises must be enabled to meet these challenges.

The introduction of the Euro will be a real opportunity for European enterprises. It will lead to reduced costs and provide a stable framework for doing business abroad. Together with electronic commerce the Euro will enable young business to take full advantage of the Single Market and to tap the greater opportunities immediately after start-up.

However, there remains considerable work to be done to complete the Single Market as set out in the Single Market Action Plan⁵. In particular Member States should speed up the process of transposing Single Market measures into their legislation. Better enforcement of measures already transposed into national laws also needs to be ensured.

The global economy is exemplified in the rapid expansion of **electronic commerce**. Already widely used in facilitating business to business commerce it will be increasingly used in providing both products and services to the final consumer. Electronic commerce offers a great opportunity to connect the 18 million enterprises with the global market place at low cost. European **competitiveness** depends on enterprises being able to adjust and adapt rapidly. This requires concerted action at European level.

A number of initiatives⁶ are being taken by the Commission both to create the appropriate legal framework and to improve the conditions of access to the global electronic marketplace for SMEs. These actions must be followed up at Member State level, particularly by ensuring that existing businesses and people seeking employment are electronically literate and capable of operating in the world wide electronic market.

The global market place also provides for more traditional opportunities for investment and trade. The Commission has a number of existing instruments to assist SMEs in expanding into global markets and they may need to be expanded⁷. The new challenge will be to assist candidates for accession to the Union to adapt their enterprise sector to the demands of the **enlarged Single Market**. The experience and know-how of our existing enterprises will be important in this respect.

A precondition for a healthy small business sector in this developing market is a strong **competition policy** in order to prevent abuse of market power by dominant enterprises and to encourage efficiency. The continuing liberalisation of hitherto monopolistic

⁵ COM (97) 184 final of 6.5.1997.

⁶ A European Initiative in Electronic Commerce, COM (97) 157 of 15.4.1997.

⁷ ECIP, MED-INVEST, AL-INVEST.

activities creates new opportunities for entrepreneurs and thus improves the conditions for increased entrepreneurial activity. Hence it is necessary to strive for healthy competition in all sectors including the provision of public services.

Europe's economic well being is linked to a rapid shift towards a knowledge-based economy. In this context, Member States need to carry out a critical assessment of providing State Aids to specific sectors. Aid should be directed to improving the framework conditions within which enterprises start up and grow. This includes investment in R & D, education and skills training with incentives for the immediate beneficiaries to capitalise on the knowledge required.

II. STRATEGY OF PROMOTING ENTREPRENEURSHIP

Fostering a culture of enterprise requires a two-fold strategy. On the one hand it involves measures to encourage individuals to become an entrepreneur and to equip them with the necessary skills to make their business successful, including reforms in training and education systems, cultural changes and measures to remove obstacles to business start-ups. On the other hand, encouraging entrepreneurship also implies creating a business environment which is conducive to start-ups, growth and successful transfers of businesses. This includes radical administrative simplification and improving the regulatory and financial environment, as well as access to Community programmes such as for RTD and the Structural Funds.

1. Priority actions for encouraging enterprise culture

In order to create a strong and vibrant business community we have to start by developing a spirit of enterprise and risk-taking. We must overcome a number of prejudices in society and our education systems and the institutional environment. It is not conducive to harnessing entrepreneurial zeal and demonstrates a lack of understanding of entrepreneurial culture. Furthermore, entrepreneurship is a vital part of the socio-economic fabric of each member state but it is not treated yet by our society as a profession in its own right. There is an increasing need for effective education and training. Those preparing to start-up a business need special training for the management of a business and access to continuous training for the improvement of the skills required in an ever faster changing business environment. This covers both the industrial sector and services. For the services in particular, the new services sector is the most promising in job creation.

Would-be entrepreneurs may also be discouraged from starting a business or becoming self-employed as this entails a loss in their social security provisions. It also involves a certain risk of bankruptcy against which may not be protected.

In Europe a serious social stigma is attached to bankruptcy. In the USA bankruptcy laws allow entrepreneurs who fail to start again relatively quickly and failure is considered to be part of a learning process. In Europe those who go bankrupt tend to be considered as "losers". They face great difficulty in obtaining finance for a new venture.

The priority actions for both the Commission and the Member States are as follows :

The Commission will initiate and promote a series of actions aimed at fostering an entrepreneurial spirit which will include: The Commission is preparing a Communication

on Training for SMEs to be adopted before the summer 1998 providing an overview of existing activities, identify new areas and present a strategy for future actions; the setting up in 1998 of a Business Education Network of Europe (BENE), which aims to link up business schools providing specialised training in enterprise management issues; involvement of entrepreneurs within the framework of the LEONARDO DA VINCI Programme will be extended, focusing on the promotion of flexible forms of training and develop synergy between universities and enterprises; the establishment of European networks between organisations representing young entrepreneurs, women and co-entrepreneurs and entrepreneurs from minorities; initiatives will also be taken to increase visibility and accessibility of business services particularly for groups who are underrepresented in the enterprise population, e.g. young people, women.

Member States should consider the following measures:

- include knowledge about entrepreneurship in the curricula of national education and training systems;
- encourage research institutes and universities to exploit RTD results and innovation through the creation of new business ventures;
- stimulate researchers to start up and develop innovative businesses based on their technological skills and experience;
- target specific groups such as women, the long-term unemployed and disadvantaged groups to make them aware of the potential of entrepreneurship;
- make the institutional framework and external partners of small businesses more entrepreneurial and aware of the special needs of business start-ups through initial and continuing training;
- encourage self employment as an option in career development and for the training of the unemployed;
- improve access to education and training for entrepreneurs and delivery of training at the local level and develop flexible training packages;
- promote coaching and mentoring for infant firms by retired entrepreneurs or experienced professionals and networks of young entrepreneurs;
- encourage large enterprises outsourcing certain internal functions in order to support the creation of small business to take up such opportunities;
- involve the media in order to give entrepreneurship a more prominent and positive role in society;
- evaluate the trade-off between the rights and obligations of creditors and debtors and the adverse effect of bankruptcy legislation, for example discharge clauses that offer entrepreneurs a clean slate after a certain number of years.

2. Priority actions for improving the business environment

2.1 Simplification of the administrative environment

Slow, complex procedures when registering a business hamper and delay business start-ups. The total annual cost of administrative formalities which businesses in Europe have to comply is estimated to be 200 billion ECU⁸, which represents up to 3% of total GDP. Information provided by Member States shows that technical regulations notified to the Commission by the Member States increased from 385 in 1993 to 670 in 1997.

⁸ The European Observatory for SMEs, Third Annual Report, 1995, p. 275.

The greatest single action or group of measures we can initiate which will assist enterprises, is to simplify the administrative environment.

The Commission has taken a number of initiatives in this field. Most recently a **Business Environment Simplification Task Force – BEST** has been created and will make recommendations to improving the environment for businesses by identifying administrative and regulatory barriers against the background of promoting an enterprise culture. It will make proposals at the end of April 1998. The Commission will present recommendations to the Cardiff European Council based on the Task Force's report.

At Member States level, some Member States have taken initiatives to reduce administrative burdens. Best practice has been identified in the Commission Recommendation on simplifying and improving the business environment for business start-ups⁹. The Recommendation proposes measures to alleviate administrative, fiscal, social, environmental and statistical burdens on start-ups. Member States are invited to increase their efforts and implement the recommendations put forward and report to the Commission on the progress made on a yearly basis.

2.2. Combating Late Payments

One of the causes for business failures is late payment, which results in a high number of lost jobs. In fact, one out of four insolvencies¹⁰ are due to late payment. It particularly affects young businesses as their cash flow is limited and as they tend to have a small customer base.

The Commission has adopted a proposal for a European Parliament and Council Directive¹¹ with a view to reducing late payments by businesses and public authorities in Europe. The European Parliament and the Council are urged to adopt the proposal speedily and Member States are invited to transpose the directive into national laws within the time frame foreseen.

2.3. Facilitating business transfers

Another important reason for business failures is the transfer of businesses. It is estimated that about 30 % of businesses to be transferred will disappear because of poor preparation, high inheritance or gift taxes and because of a lack of interest on the part of young people to take over or buy businesses¹².

The Commission will consider support for pilot projects aimed at raising awareness among entrepreneurs about the need to prepare for the transfer of business, and to provide training and practical tools such as guidelines and seminars. A benchmarking exercise on progress by Member States in improving the transfer of enterprises will be considered.

Member States are called upon to implement the measures outlined in the recent Commission Communication on improving the transfer of business¹³. Particular attention

⁹ OJ No L 145 of 5.6.1997, p.29. Measures proposed include Single Contact Points for registration, single registration forms, and improving inter-administrative co-ordination (pp.40-42).

¹⁰ Source: Fédération de l'Information d'Entreprises et de la Gestion de Créances, Lyon, September 1997.

¹¹ COM (98) 126 final.

¹² The European Observatory for SMEs, Fourth Annual Report, 1996, p. 183.

¹³ C (98) 726 of 24.03.1998.

needs to be given to improving the legal and tax environment. They should also focus their attention on practical measures to ensure that businesses start to prepare for transfer at an early stage and that they receive the professional advice they need during all phases of transfer.

2.4. Improving access to finance

Difficulties over access to finance are one of the main barriers to the development of entrepreneurship. The most serious problems relate to over-dependence on overdrafts rather than fixed-term loans, the inability to obtain loans at reasonable interest rates, over-reliance on debt over equity, and difficulties in obtaining equity at all. As a result of the equity gap fewer technology-based enterprises are created in Europe and their prospects for growth are inhibited. Also, venture capital is underdeveloped in many European countries compared with the USA, in particular in the field of seed and early-stage finance¹⁴.

Following the Luxembourg Employment Summit the Commission was invited to make proposals for new financial instruments to support SMEs with a total budget of 420 MECU. The Commission proposed the Growth and Employment initiative¹⁵ which consists of three complementary facilities: the "European Technology Facility Start-up"; the Joint European Venture action (JEV II); an SME Guarantee Facility. The Council should adopt this important initiative at the earliest opportunity so SMEs can benefit from these facilities.

Given that most SMEs depend primarily on banks for external finance a good relationship between the two is crucial. For this reason, the Commission will launch the 3rd Round Table of Bankers and SMEs, which will focus on key problems related to both loan and equity financing of start-ups.

The Action Plan¹⁶ recently proposed by the Commission on pan-European risk capital markets should be implemented within the suggested time frame.

The Commission will also set up an "Innovation Financing Help Desk", which will target in particular participants in Community funded RTD and assist them in finding the persons and organisations which can help them in the exploitation of RTD results, notably through the creation of new business ventures.

For Member States, Loan Guarantee Schemes are proven to have a beneficial effect on SMEs and job-creation. They are generally considered to be more efficient than interest rate subsidies. Those Member States which do not currently have such schemes should examine their possible introduction, modelling them on best practice available in the EU, covering all sectors of the economy and in particular industry and services. The development of Mutual Guarantee Schemes should be encouraged. Moreover, the potentially huge impact of investment in new companies by private individuals should be unleashed through the development of networks of "business angels".

¹⁴ A more detailed analysis of these issues is contained in the Commission Communication on Risk Capital, SEC (1998) 552.

¹⁵ COM (98) 26 of 21.01.98.

¹⁶ See footnote 14.

Member States and the Commission should encourage the development of an equity culture, highlighting to owners the advantages of accepting outside shareholders in their business since there is evidence to show that companies with such finance grow faster and create more jobs than the average SME. Member States may want to consider new forms of participation in the entrepreneurship process through equity pay and employee shareholding so as to strengthen the benefits to all the labour force.

Member States should establish the necessary legal and fiscal provisions which encourage venture capitalists and private investors to provide risk capital.

Finally, the potential beneficial effects of investments in venture capital by pension funds and other institutional investors should be realised through the removal of all unnecessary restrictions on pension fund investment, especially capital matching requirements, which effectively force institutional investors to invest in their country of origin.

2.5 Making taxation systems more business friendly

Taxation plays a key role in the financial environment of businesses. However, there are currently many taxation obstacles which stand in the way of entrepreneurship at all stages of a business, including high payroll taxes, the disproportionately high administrative costs for SMEs of collecting and dealing with taxes and social security contributions and tax disincentives for businesses which take out equity capital rather than loan capital¹⁷.

The current VAT system is complex and difficult to administer. The Commission will pursue radical simplification for SMEs, and in particular young businesses, which suffer most from the complexities of VAT administration, as proposed in the Commission's work programme to introduce a common system of VAT¹⁸ based on the principle of origin.

A number of other tax incentives, specifically designed to encourage entrepreneurship, should be envisaged by Member States, in particular stimulating business start-ups by granting tax reliefs for new businesses¹⁹; encouraging investment in new businesses, e.g. through tax incentives for Business Angels; ²⁰ passing on a business to employees, e.g. by making sure that a transfer to employees, (or management buy-out - MBO) is fiscally attractive or at least tax neutral; Member States should also consider the relative taxation of debt and equity financing with a view to strengthening SMEs' equity capital base.

2.6 Redirecting and reducing State Aids

It is essential to have strict control over State Aid in order to maintain fair competition between businesses in the Single Market. State Aid amounts to some 100 billion ECU a year in the EU.

The Commission intends to review the criteria for approving aid. The objective is to foster schemes which genuinely promote economic efficiency and employment.²¹ The Commission will also devise a system of benchmarking with the Member States to evaluate the effectiveness of national schemes in terms of employment.

¹⁷ CSE (95) 2087, p.13.

¹⁸ COM (96) 328 final of 22.07.1996.

¹⁹ See OJ No L 145 of 5.6.1997, p.29.

²⁰ See OJ No L 177 of 1.7.1994, p.1.

²¹ Community Policies in favour of Employment, SEC (97) 2078 of 12.11.1997.

Member States are urged to coordinate their systems of State Aid so as to reduce the overall amounts involved. This would help to improve market conditions for entry for new enterprises.

2.7 Enhancing innovation and access to new technologies

Europe needs to increase the number and quality of companies at the cutting edge of global competition in fast growing economic sectors such as biotechnology, information technology, electronic commerce, micromechanics and environmental and energy technologies. However, all too often those who generate the innovation are confused by the complexity of the regulatory framework. Other common barriers experienced by young and small businesses are lack of information about new ideas developed in universities and research institutes, about the possibilities of technology transfer and the availability of access to support programmes. Moreover, eco-industries are an area of high market potential, but there is a widespread lack of awareness of the opportunities offered by eco-industries.

The Commission has launched a number of initiatives to foster innovation. It has to be ensured that they are implemented in accordance with the time frame foreseen and take into account the special needs of new firms.

A proposal for a Directive harmonising aspects of rules on copyright and related rights in the Information Society has recently been adopted²². The Commission will also present an Action Plan outlining necessary legislative proposals for modernising the European Patent System to be adopted in the first half of 1998.

In November 1996 the Commission adopted the First Action Plan for Innovation in order to ensure the more effective co-ordination of the different instruments available at Community and, partly, national level. Its main action lines are fostering a genuine innovation culture through encouraging new forms of production and commercialisation, improving innovation support services, fostering information networks and simplifying procedures relating to firm creation.

Another important instrument is clustering. As part of the Third Multiannual Programme in favour of SMEs, the Commission is promoting the development of clusters, focusing on SMEs, including an initiative called "Clusters - Networking as a tool for SMEs to enhance their access to RTD";

The Commission is also implementing the actions outlined in the papers "European Initiative on Electronic Commerce"²³ and "Globalisation and the Information Society - The need for strengthened international co-ordination"²⁴.

In order to facilitate the protection of intellectual and industrial property for young businesses **Member States** should endeavour to reduce the costs of filing a patent, and help potential entrepreneurs to define a strategy for the protection and valuation of intellectual and industrial property as well as for the acquisition of licences for

²² COM (97) 628 final of 10.12.1997.

²³ COM (97) 157 final of 16.4.1997.

²⁴ COM (98) 50 final of 4.2.1998.

technology transfer. Furthermore, Member States should encourage universities and research institutions to remove barriers which prevent the commercialisation of research results and to encourage the development of business networks and technology clusters to share know-how.

Close collaboration of national, regional and local authorities with business users' professional organisations and technology providers is a sine qua non to ensure dissemination of information and awareness of the strategic importance of electronic commerce for start-ups and on the investment in IT. The public involvement in the development of decentralised awareness structures and networks needs to be encouraged in order to increase credibility and acceptance while reducing the asymmetries of information and the investment costs for new entrants.

Member States should also examine how the Structural Funds can be better used to encourage the investment in innovation and technology transfer, and in human resources and quality management.

2.8. Improving access to other Community Programmes

The dynamism of entrepreneurship often varies widely across sub-national regions due to differences in demography, wealth education or the existing infrastructure. With its structural policy the Community is supporting Member States in their efforts to promote development of enterprises in disadvantaged regions. The 5th Framework Programme for RTD is designed to assist business in obtaining access to research results and technology transfer. However, small businesses face great difficulty in accessing these Community funded programmes.²⁵

For the EU's structural policies for the period beginning in the year 2000, the **Commission** proposes that the "development of competitiveness and economic innovation, especially in small and medium-sized enterprises" should be one of the main tasks of the Structural Funds. In addition, the Commission is undertaking detailed thematic evaluations including an analysis on the impact and effectiveness of Structural Funds' assistance targeted at SMEs. The results of these evaluations are intended to inform the preparation of guidelines for the next generation of programmes which will be sent to the Member States by the Commission as soon as the new regulations have been formally adopted by the Council.

Under the 5th Framework Programme RTD, the Commission will develop one-stop-shops for submitting proposals for SMEs, rationalisation and co-ordination of support networks for information and assistance, and ensuring that innovation is transferred into commercial success which maintains competitiveness.

The Commission proposes a further decentralisation of EU structural policies, where **the Member States** would have the major responsibility with regard to detailed programming. For this to be successful, the Commission proposes that there should be a more active partnership, with a clearer division of responsibilities in which the social partners would have an established role. This would allow for the voice of business to be heard, including where appropriate, representatives of the small business sector.

²⁵ See Com 97 (610) final of 25.11.1997

2.9. Stimulating Entrepreneurship in the Social Economy

Social Economy currently accounts for 5 % of total employment in Europe, and **up to one out of five newly created jobs** stems from the area of **Social Economy** (Co-operatives, Mutuals, Associations, Foundations - CMAFs)²⁶ which reflects this sector's enormous growth potential.

The Commission will take initiatives to improve training for those working in CMAFs and to develop a European Third Sector Training Network providing special European diploma courses. The Commission will also initiate and support actions for the identification of best practices in the fields of entrepreneurship for CMAFs, and support the creation of development agencies, helping new business start-ups, in particular cooperatives. An action plan will be developed following the Communication of 4 June 1997 on "Promoting the role of voluntary organisations and foundations in Europe"²⁷.

Member States are invited to: support "development agencies" for CMAF enterprises referred to above. Attention should also be given to improving the legal, fiscal and administrative environment of CMAFs (e.g. for Employee Buy Outs and Management Buy Outs) and to develop special management training programmes and networking for young social economy entrepreneurs. Finally, access to start-up capital for future social economy enterprises should be facilitated through the best use of available funds from ethical banks, co-operative banks, mutual credits or mutual guarantee funds.

III. CONCLUSIONS

Europe's place as an economic power depends on its future entrepreneurs and the competitiveness of its enterprises. They will be the motors of the market economy. SMEs will continue to be the major source of employment, the foundation of local economies, innovators in developing new products and the principal actors in the developing service sector. Yet they find themselves both nationally and in the Single Market faced with new regulatory obligations and burdensome administrative practices. They find it difficult to access the appropriate kind of finance or new technology, which puts them at a disadvantage with their global competitors.

The policies set out in this Communication must be put into action jointly at EU and national level.

The temptation to view certain issues as purely national is no longer appropriate in an economy on the verge of achieving an integrated market with a single currency whose main challenges come from powerful external competitors.

This Communication is intended to provide a framework to enable us to meet the challenges ahead. The priority actions will help to progress faster and in a co-ordinated manner. The Commission therefore proposes to work with the Member States in assessing the progress made in fostering entrepreneurship. This would be achieved by annual reports from the Commission to the Council and the European Parliament on measures taken at all levels. Such a report could make use of a check list showing progress made by individual Member States.

²⁶ COM (97) 241 final of 04.06.1997.

²⁷ Idem.

The Commission invites the Council to:

- 1. Take note of this Communication;**
- 2. Endorse the measures set out in this report as priority actions for fostering entrepreneurship; and**
- 3. Endorse the Commission's proposal for assessing progress made in fostering entrepreneurship.**

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