

## “Small Business Act” for Europe

The European Small Business Act was adopted by the Commission on 25 June 2008. It's a *Communication*, i.e. not a binding legislation!

- **98% of companies in the EU are SMEs** (companies with a maximum of 250 employees and a maximal turnover of € 50 million or a maximal annual balance sheet of €43 million)
- **SMEs provide most jobs in the EU** - They have created 80% of the new jobs in the EU over the last few years  
=> They have a **central role in the EU economy**

Yet, the **23 million European SMEs** often face enormous bureaucratic hurdles and obstacles. After consulting with businesses and their representatives, the European Commission has unveiled the **Small Business Act for Europe (SBA)**, which is a crucial milestone in the implementation of the Lisbon Strategy for Growth and Jobs – It should help SMEs to fully unlock their potential of long term sustainable growth and of job creation.

The symbolic name of an “Act” given to this initiative underlines the political will to recognise the central role of SMEs in the EU economy and to put in place for the first time a comprehensive policy framework for the EU and its Member States through:

- ◆ A set of **10 principles to guide the conception and implementation of policies** both at European and national level (a)
- ◆ A set of **new legislative proposals** which are guided by the “Think small First” principle – implemented at European level (b)

All these measures go hand in hand with the recently announced plans of the European Investment Bank Group to simplify, modernise and diversify the range of its **instruments to support SMEs**.

*“It aims to help small businesses to thrive and to give the best ones a launch pad to grow into world beaters”*  
– Jose Manuel Barroso, President of the European Commission

### I) The Ten guiding principles of the Small Business Act for Europe

These new ten principles should guide the conception and implementation of policies at EU and Member State level.

- ◆ **Creating a more entrepreneur-friendly environment**

One of the aims of the SBA is to **stimulate interest in entrepreneurship** and **cultivate a more entrepreneurial mindset**, especially among young people.

Only 45% of Europeans would prefer to be self-employed, compared to 61% in the US. This new policy aims at making Europeans more aware that self-employment is a potentially attractive career option and providing them with the necessary skills to turn their ambitions into successful ventures.

- Young people who want to set up a business, will be able to gain experience in an SME abroad via the new programme “**Erasmus for young entrepreneurs**” (see [Eurobiz, July 2008](#)). It should help exchange of experience and networking among SMEs in Europe.
- New **mobility programmes** are also underway for **apprentices**

Encourage more people to start up business, especially women and people from ethnic minorities and migrant groups – currently under represented in business.



#### ◆ **Second chance for honest entrepreneurs who have faced bankruptcy**

Some 700 000 SMEs are affected by bankruptcy in Europe, every year. However, European society often underestimates the business potential of re-starters (47% of European would be reluctant to order from a previously failed business).

It's thus important to **ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.**

#### ◆ **Design rules according to the "Think Small First" principle**

The **most burdensome constraint reported by SMEs is compliance with administrative regulations.** As SMEs often bear a disproportional regulatory and administrative burden in comparison to larger companies, the existing environment should be simplified and SMEs' characteristics should be taken into account when designing new legislation.

- A target: To **reduce administrative burdens** arising from EU legislation **by 25% by 2012** (+ invite Member states to adopt targets of comparable ambition)
- Wherever practical the EU and Member states should use **common commencement dates for regulations and decisions affecting business** and publish an annual statement of such legislation entering into force.
- The Commission will and Member states are invited to use **specific measures for SMEs**, such as derogations, transition periods and exemptions.

#### ◆ **Make public administrations responsive to SMEs' needs**

It's important to make life as simple as possible for SMEs, notably by promoting **e-government** and **one-stop-shop solutions.**

Modern and responsive public administrations can make a major contribution to the success and growth of SMEs by saving them time and money (notably via E-government and one-stop-shop) and hence freeing resources for innovation and job creation. Governments are thus required to stop different arms of public administrations making repeated requests for the same information from enterprises.

#### ◆ **Adapt public policy tools to SME needs and facilitates SMEs' participation in public procurement procedures**

Governments and public bodies in Europe purchase goods and services amounting to more than € 1800 billion each year.

SMEs face difficulties when participating in **public procurement markets** often simply because they are not aware of opportunities and/or are discouraged by procedures and because public authorities may find it more comfortable to award certain contracts to large enterprises.

Access to information on **procurement opportunities** should be improved and **State aid policies** should be re-focused so as to better address SMEs' needs.

#### ◆ **Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payment in commercial transactions**

For 21 % of European SMEs, accessing finance is a major problem (this percentage is even higher for micro-enterprises). Risk aversion often makes investors and banks shy away from financing firms in their start-up and early expansion stages.

However, SMEs deserve to be better assisted to fully unlock their potential of long term sustainable growth. SMEs' **access to finance should thus be facilitated**, in particular to **risk capital, micro-credit** and **mezzanine finance** (loans which provide the investor with a higher return if the company is successful in return for lower security).



This policy goes hand in hand with the recently announced plans of the **European Investment Bank group** to simplify, modernise and diversify the range of its instruments in areas such as **mezzanine finance, guarantees and micro-credit**). The range of existing EIB products will be broadened and adapted to local characteristics and needs of companies.

◆ **Encourage SMEs to benefit more from the opportunities offered by the Single market**

The Single Market should guarantee access for enterprises to a wide common market of over 500 million consumers operating according to a common set of rules.

Yet, SMEs do not fully benefit from these opportunities, largely because of the lack of information on business opportunities and applicable rules in other Member States, as well as insufficient language skills. The costs and risks involved in having to deal with several different national legal systems often prevent companies from expanding their activities abroad.

- The governance of and **information on Single Market policy** should be improved.
- SMEs' interests should be better represented in the development of standards and **SMEs' access to patents and trade marks** should be facilitated.

◆ **Promote the upgrading of skills in SMEs and all forms of innovation**

More than 60% of companies responding to the European Commission consultation consider that schools do not provide the competences needed by entrepreneurs and their staff. Additionally, companies face a lack of skilled labour in the field of **technology**. Linked to it is the unexploited potential for research and innovation.

Therefore it is important to better integrate SMEs into the research community and foster the links between universities and SMEs.

- The EU and Member states should **encourage investment in research by SMEs**. E.g. by simplifying State Aid rules for Member States to support research, development and innovation.
- They should **support their participation in R&D support programmes and transnational research**. E.g. through increased coordination of national programmes
- They should encourage **clustering**, including initiatives to encourage transnational cluster cooperation and facilitate clusters' access to new markets
- **Promote active intellectual property management by SMEs.**

◆ **Enable SMEs to turn environmental challenges into opportunities**

The Commission and Member States should provide more information, expertise and financial incentives for full exploitation of the opportunities for new "green" markets and increased energy efficiency, partly through the implementation of environmental management systems in SMEs.

The Commission and Member states will make it easier for them to turn environmental challenges into business opportunities.

◆ **Encourage and support SMEs to benefit from the growth of markets outside the EU**

Only 8% of European SMEs report turnover from exports, yet, fast-growing markets present untapped potential for many of them.

**China and India** are rapidly growing in importance as trading partners, but for SMEs they are difficult places to find partners or to launch products on the market. **New European Business and Technology centres** will be set up by the end of 2008 in the Delhi area, and the second in Beijing shortly after.

Each centre will be run by a partnership of business and research support organisations from several EU Member States with experience of dealing with Indian or Chinese partner. **SMEs will be able to approach these centres for help in accessing markets and in understanding regulatory requirements.**



## II) New legislative proposals

These principles will be supplemented by the following 4 legislation proposals, implemented at European level.

### ◆ General Block Exemption Regulation on State Aids (GBER)

This regulation will **increase investment aid intensities for SMEs** and make it easier for them to benefit from aid for **training, employment, R&D, environmental protection and other types of aids**. It will make it easier for governments to support SMEs rather than larger firms.

An increase of the aid volume from 7.5% for medium-sized businesses and from 15% to 20% for small enterprises is foreseen.

### ◆ Regulation providing for a Statute for a European Private Company (SPE)

It will allow a SPE, also referred to by its Latin name “**Societas Privata Europaea**”, to be created and operate according to the same uniform principles in all Member States.

This regulation has been strongly demanded by industry, so as to address the current onerous obligations on SMEs operating across EU borders. In practical terms, entrepreneurs will have the option of forming a **European Private Company**, which means that SMEs will be able to set up their company in the same form, no matter if they do business in their own Member State or in another.

It will save entrepreneurs time and money on legal advice, management and administration. Additionally, the **minimum capital required to set up an SPE will be just €1**, making it cheaper for entrepreneurs to start up new firms. It will also be **simple to transfer an SPE’s headquarter from one country to another**.

Finally, the time needed to **start a new company** should be no more than **one week** and the maximum time to obtain **business licenses** and permits should not surpass one month.

### ◆ Directive on reduced VAT rates

A new directive on VAT will be proposed shortly and offer Member States the option to **apply reduced VAT rates mainly for locally supplied services, including labour intensive services** (as low as 5% for services such as haircuts, house cleaning and renovation), which are principally provided by SMEs.

### ◆ Amendment to the Directive 2000/35/EC on late payments

This Directive should be amended in order to ensure that **SMEs are paid within the 30 day time limit** stipulated for any commercial transaction. This is fundamental as small companies run a much higher risk of insolvency than larger businesses. For many small firms, delays by their clients in paying for work that has already been done, or for goods already supplied, cause massive cash-flow problems.

The « Small Business Act » for Europe has been named after the US “Small business act” passed in 1953 - In this scheme a set share of public market is reserved for SMEs. Although France, which currently holds the rotating EU presidency, had originally envisaged to copy it, the opposition from more liberal-minded nations within the bloc and a multilateral agreement, signed between the EU and 27 other countries, has obliged it to give up this idea.

### For further information:

- European Commission, Enterprise and Industry Directorate [http://ec.europa.eu/enterprise/entrepreneurship/sba\\_en.htm](http://ec.europa.eu/enterprise/entrepreneurship/sba_en.htm)
- COM 2008 (394), “Think Small First, A Small business act for Europe”



Business Support at Your Doorstep