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

**IMPLEMENTING THE COMMUNITY LISBON PROGRAMME
MODERN SME POLICY FOR GROWTH AND EMPLOYMENT**

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1. INTRODUCTION

Small and medium-sized enterprises (SMEs), defined as having fewer than 250 employees¹, make up a large part of Europe's economy: there are some 23 million of them in the European Union, providing around 75 million jobs and accounting for 99% of all enterprises. SMEs are a key part of European industry, not least as they contribute up to 80% of employment in some industrial sectors, such as textiles, construction or furniture. SME are a major source of entrepreneurial skills, innovation and contribute to economic and social cohesion.

The new Partnership for Growth and Employment underlines in particular the need to improve the environment for business, take SMEs' concerns on board and provide them with appropriate support. Indeed, SMEs are indispensable for the delivery of stronger, lasting growth and more and better jobs. Furthermore, to revitalise the economy, Europe needs more people willing to become entrepreneurs, hence the importance of promoting entrepreneurial culture.

Therefore, SME friendly policies both at Community level and in Member States become even more important to unlocking the EU's potential. For these reasons, the Commission is taking action to keep SMEs high on the political agenda and proposes a new start for SME policy, to be implemented in close partnership with Member States. This Communication provides a coherent framework for the various enterprise policy instruments and aims at making the "Think Small First" principle effective across all EU policies. It highlights the major challenges SMEs face daily, proposes new actions to strengthen their capacity to sustain in the market, to grow and to create jobs and new ways to enhance dialogue and consultation with SME stakeholders. By doing so, it clearly supports the implementation of the Lisbon Integrated Guidelines² and the Community Lisbon Programme³.

2. GIVING FRESH IMPETUS TO SME POLICY

This Communication sets out a number of objectives and actions specifying how to make the measures of the Community Lisbon programme beneficial to SMEs. In particular, it provides guidance on how to implement the Lisbon integrated

¹ See Commission Recommendation 2003/361/EC

² Council Recommendation 2005/601/EC on the broad guidelines for the economic policies of the Member States.

³ Communication from the Commission: Common Actions for Growth and Employment: The Community Lisbon Programme, COM (2005) 330

guidelines in a way that serves SMEs. This is notably the case for guidelines 14 and 15, which relate to better regulation, a more entrepreneurial culture and a more competitive and supportive environment for SMEs. This should be particularly helpful for the implementation of the national reform programmes that Member States have committed themselves to undertake. Indeed, the success of the new SME policy depends primarily on action by Member States as they retain the main competence in enterprise policy, while the Community policy framework should provide support and complement their efforts.

This Communication creates a **policy framework for SME actions** and integrates the objectives of the existing enterprise policy instruments, in particular the European Charter for Small Enterprises and the Entrepreneurship Action Plan to build up synergies and to enhance transparency of the European SME policy approach. In particular, the integration of the Charter reporting within the Lisbon governance cycle will increase visibility and consistency between the various actions in favour of SMEs. It will also contribute to improving the synergies between the microeconomic reforms to be undertaken, i.e. making Europe more innovative and a more attractive place to invest and work. SME policy is transversal by nature and calls for reinforcing the SME dimension across a wide range of Community policies. As an example, the SME dimension will be reflected in the follow-up of the Communication “Towards a more integrated approach for industrial policy”.⁴

The new approach is based on a comprehensive view of SMEs’ role in society that highlights their importance as an important factor of economic and social cohesion at local and regional level. Moreover, most SMEs are committed to corporate social responsibility, which allows them to improve their performance and competitiveness while having a positive impact on the local community and the environment. Big companies also have a responsibility towards SMEs as sub-contractors, e.g. in the car industry. The Commission will connect to businesses, both to promote EU programmes and to channel SMEs’ reactions towards policy-makers. Community business support networks, such as Euro Info Centres, play an essential role in the successful implementation of SME policy.

SMEs are very different in nature: some seek rapid growth and bigger markets; others are only active in local or regional markets. As this diversity has to be reflected in policy-making, the new approach embraces initiatives and actions to unlock the full potential of all types of enterprises ranging from start-ups and high-growth ‘gazelles’ to traditional enterprises, including craft sector, micro-enterprises, social economy enterprises and family SMEs.

Structural changes in the economy over the last two decades have created new opportunities for SMEs which are often flexible, adaptable and dynamic enterprises. Compared to large enterprises, they may have advantages in niche markets, geographically restricted markets, or in producing lower volume or specialised products. However, SMEs suffer disproportionately from legislative and administrative burdens compared with big businesses. Increased competitive pressure

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Communication from the Commission: Implementing the Community Lisbon programme: A policy framework to strengthen EU manufacturing – towards a more integrated approach for industrial policy, COM (2005) 474

combined with market imperfections such as limited access to finance, research, innovation, networks and supply chains may also hinder their growth. SMEs are often vulnerable to rapid economic changes and to competitive pressure. Moreover, entrepreneurs are generally insufficiently aware of activities undertaken to consult and support them, in particular at European level.

Support to SMEs will be provided by the Community programmes for enterprise, i.e. the Multiannual Programme for Enterprise and Entrepreneurship and the forthcoming Competitiveness and Innovation framework Programme (CIP). However, as SME policy is often translated by initiatives conceived and delivered at local and regional levels, other important sources of funding must be used, such as funds for cohesion policy.

Structural funds are playing a key role in promoting entrepreneurship and skills and improving SMEs growth potential, e.g. by supporting the technological development of SMEs, providing business support services, and strengthening SME cooperation. Structural funds have provided around € 21 billion to SMEs in the period 2000-2006 and the orientations suggested in the Strategic Guidelines for cohesion reinforce this commitment.⁵ The Strategic Guidelines for rural development highlight the role that support for the creation of micro-enterprises can play in the diversification of the rural economy.⁶

3. SPECIFIC ACTION TO BE TAKEN

3.1. Promoting entrepreneurship and skills.

The EU is not fully **exploiting its entrepreneurial potential** and is not producing enough start-ups. There are still too many factors, like the imbalance between risk and reward, weak social security coverage, and ignorance of what entrepreneurs really do, that tip the scales in favour of being employed rather than becoming self-employed. The Commission will step up its efforts to increase the appreciation of entrepreneurs in society, promote greater awareness of a career as an entrepreneur, foster entrepreneurial mindsets including the promotion of responsible entrepreneurship practices. The increasingly important role of entrepreneurship education will be underlined by a forthcoming Commission Communication on this key area. At the same time, structural funds will contribute directly to promoting entrepreneurship by investing in actions such as increasing the range and quality of business advisory services and shared business services. Last but not least, most Member States could usefully take measures to reduce the time and costs involved in setting up a new company.

The Commission will strengthen its support for activities **to reduce the burden of risk** intrinsically linked to entrepreneurship. It will take initiatives to tackle the negative effects of business failure and examine the possibility of improving social security schemes and bankruptcy procedures. For example, the Commission has launched a pilot project to improve the transfer of knowledge and core competencies that are essential for the successful **transfer of businesses**. The Commission is also

⁵ COM (2005) 299

⁶ COM (2005) 304

planning a specific Communication on business transfers, to highlight their crucial role in maintaining millions of jobs in the EU.

To narrow the **skills gap**, all partners, and particularly enterprises, should be involved in the development and definition of training courses and methodologies. The Commission considers that Member States should review their educational and training policies to make them more responsive to current and anticipated changes in the labour market. The comprehensive lifelong learning national strategies, to be established by Member States by 2006 in the framework of the Education and Training 2010 Programme, and the Community Action Programme in the field of Lifelong Learning will facilitate the adaptation of people working in SMEs to labour market needs and the promotion of entrepreneurial skills, including “risk taking” at all levels of education and training. Furthermore, the Commission is financing actions to reduce skills gaps by improving business related training and lifelong learning under the European Social Funds.

The Commission is working closely with national authorities to address those areas where the needs of **women entrepreneurs** are still not being sufficiently met, notably in access to finance and entrepreneurial networks. With regard to **entrepreneurs**, such as young people, older workers or those from ethnic minority communities, the Commission will continue to encourage networking among policy-makers to identify and promote good practices to assist them.

3.2. Improving SMEs’ access to markets.

SMEs do not fully benefit from the opportunities provided by the **Internal Market**, largely because of the lack of information on business opportunities, despite long-standing efforts of the Commission and Member States to facilitate and improve cross-border activities within the EU. In particular, SMEs are not always aware of the opportunities offered by **public procurement** markets, have limited resources to be able to participate in the **standardisation** process, or to take advantage of **Intellectual Property Rights** (IPR), and have difficulty in complying with complicated and different **tax systems**. SMEs need to be encouraged to go international, as this often leads to a better competitive position and enhances companies’ growth and productivity.

The Commission insists on stepping up efforts to complete **the Internal Market** and calls on Member States to contribute to this common objective. The Commission will launch a new initiative examining how public policies can help SMEs to benefit more from the European market. In parallel, the Commission will carry on working on a legal form of EU enterprise which would offer SMEs an incentive to build cross-border partnerships.

Public procurement contracts amount to more than € 1.5 trillion, or 16% of the EU’s GDP.⁷ The implementation of the new Public Procurement Directives, which is due by 31 January 2006, will further modernise and simplify award procedures, in particular by fostering e-procurement and by allowing for “green” public

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Report on the functioning of Community product and capital markets, COM (2002) 743

procurement. This is likely to benefit SMEs, including eco-innovative SMEs, which should gain from the new environmental purchasing policies.

The Commission is taking action to promote SME participation in **standardisation** and to raise SMEs' awareness of standards. There is scope for more comprehensive, long-term action to ensure that SMEs' interests are fully taken into account in the standardisation process and that they regularly obtain updated information on new standards in a concise and understandable format. This is also an issue on which Member States should be active, bearing in mind that the development of standards results from discussions at European level that are based upon national positions.

To decrease the **high tax compliance** costs often involved in setting up a branch or a subsidiary in another Member State, the Commission intends to propose a Communication on a pilot project on Home State Taxation to allow SMEs to compute the taxable profits of their foreign branches or subsidiaries on the basis of the rules in their home State.

The Commission intends to propose new initiatives for the **Euro Info Centre (EIC)** network to encourage SME participation in business cooperation and matchmaking events, especially in border regions. Moreover, trading barriers to overseas markets, such as import and customs requirements, can impose a disproportionate burden on SMEs. As part of the proactive dialogue with all its major trading partners both at bilateral and multilateral level, the Commission will further seek to reduce the obstacles facing European exporters and to promote greater **access to international markets**. This should primarily be pursued through an ambitious strategy in the Doha Development Round. Other steps could be to provide market information and encourage SMEs to conclude joint venture agreements with enterprises in developing countries.

The **EU Market Access Strategy** will be stepped up as to registering and assessing the impact of complaints expressed by EU companies and ensuring an adequate follow-up. The Commission also aims to develop SME policy and improve the business environment in non-EU countries, in particular the candidate countries and the partners of the European Neighbourhood Policy, through policy cooperation and aid programmes.

3.3. Cutting red tape.

At Community level, the Commission is determined to integrate the '**Think Small First**' principle in all Community policies and to push for regulatory and administrative simplification. In identifying the appropriate simplification measures, attention should be paid to ensuring that regulation is proportional to the principle objectives pursued taking into account the social, environmental and economic aspects.

Better regulation is of particular importance to SMEs, as they have limited resources and insufficient expertise to comply with often complex rules and regulations. Evidence suggests that SMEs may also suffer disproportionately from administrative burdens. To improve framework conditions for growth and

employment, the Commission will simplify Community rules and legislation, as set out in the recent Communication on simplification of the regulatory environment.⁸ As simplification is a shared responsibility, Member States need to address it in their national legislation, as well as transpose EU rules in the simplest way possible.

The Commission will examine the SME dimension when assessing, at an early stage, the impact of EU legislation and ensure that SMEs' needs are properly and systematically taken into account. When preparing **forthcoming legislation**, the Commission will ensure that it does not inhibit SMEs' growth and innovation potential and will systematically examine all options, including exemptions, where appropriate. Both at national and EU level, appropriate measures to lighten the legislative burden on SMEs should always be considered and it may be useful to introduce specific provisions for SMEs. These could include longer transition periods, reduced fees, simplified reporting requirements, even exemptions, or assistance, like helpdesks. For example, the revised EU pharmaceutical legislation provides for significant fee reductions, deferrals and special administrative assistance for SMEs developing medicines. The Commission will also ensure that SME stakeholders are properly consulted.

The Commission is also paying increasing attention to barriers related to the **administrative burden** which hinder SMEs in creating jobs and invites Member States as a matter of urgency to examine the results of a recent report on one-person enterprises, and implement its recommendations on facilitating recruitment by small companies⁹.

Sometimes the use of **alternative policy instruments**, like standards and voluntary agreements, needs to be considered with a view to complementing and supporting the implementation of existing legislation. When these are being envisaged, the drafting process should allow SME representatives to participate fully.

The work to simplify the rules related to **SMEs' participation in Community programmes** will be carried on vigorously by reducing the complexity of procedures, improving information to SMEs on existing programmes and ensuring that evaluation procedures take into account the particularities of SMEs. In addition, the Commission is considering other measures, such as introducing pre-assessment procedures, encouraging the participation of SME consortia, simplifying financial requirements for SMEs and setting targets for SME participation. The Commission will also ensure adequate follow-up of the measures taken by regularly assessing SME participation in EU programmes.

Both the Commission and Member States should take action in specific policy areas to alleviate burden on SMEs and to take better into account their particular needs. The Commission intends to revise and simplify the various **State aid rules** and to encourage risk-taking through a more flexible approach for aid directed at SMEs. In particular, the State aid rules on innovation will be revised to foster innovation in SMEs, which is an important element.

⁸ COM (2005) 535

⁹ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/first_emp/index.htm

The Commission has published a proposal for a Council Directive¹⁰ to introduce a uniform threshold of €100 000 calculated in annual turn-over for VAT exemption and a **VAT One-Stop Shop system** to simplify VAT obligations and to encourage SMEs to increase intra-EU trade. The Commission is pressing for speedy adoption of this Directive. Furthermore, Member States are invited to review **direct taxation** to reduce unnecessary burden on SMEs. Finally, the Commission will identify good practice in Member States on the tax treatment of retained earnings which strengthen the equity position of SMEs.

3.4. Improving SMEs' growth potential.

The EU is acting to address persistent and well-identified market gaps that limit SMEs' **access to finance, research, innovation and Information and Communication Technologies (ICT)** and hinder their potential to grow. While its activities have had leverage effect, they need to be strengthened and further developed to respond to changing needs of all types of enterprises.

Finance is a crucial input for the creation, expansion and development of SMEs. The Commission has proposed to increase the existing **financial support** to SMEs significantly under the Competitiveness and Innovation framework Programme (CIP). A new risk capital instrument aimed specifically at innovative and high-growth SMEs is designed to foster expansion. An instrument for securitisation of bank loan portfolios will free up further loan capacity to develop the availability of proximity financing for more traditional businesses. The Commission will present a **Communication on the European way to finance growth** to create stronger synergies with Member States and the financial community, to remove remaining obstacles to the Internal Market for financial services as well as to identify efficient and effective public-private partnerships capable of overcoming market gaps.

Permanent **innovation** is essential for sustainable development of enterprises.¹¹ However, in spite of their important contribution to innovation, SMEs frequently encounter difficulties in using innovation and research results and making good use of IPR. The EU has set itself the objective of strengthening the innovation and research capacity of SMEs and increasing the volume of **technology transfer** to them, while recognising that all types of SMEs can benefit from technological progress. The Commission will therefore seek to increase participation by SMEs in the **Europe INNOVA initiative** and to deliver specific support to SMEs in the field of IPR, through the Community business support networks. As for the **Environmental Compliance Assistance Programme**, it will support innovation in SMEs while improving their environmental performance.

Investment in the growth potential of SMEs is also one of key elements of the new **cohesion policy**. The Strategic Guidelines outline a number of activities focusing on SME growth, including improving access to finance for SMEs and potential entrepreneurs, facilitating technological transfer or investment in poles of excellence linking SMEs to research and technological institutions.

¹⁰ COM (2004) 728 final of 29.10.2004

¹¹ See Communication from the Commission: Implementing the Community Lisbon Programme: More Research and Innovation – Investing for Growth and Employment: A Common Approach, COM (2005) 488 final of 12.10.2005

The Commission considers it fundamental that every effort is made to simplify rules and procedures to **promote participation by SMEs in the 7th Framework Programme** and will continue to monitor progress closely in this area. The Commission will undertake further measures to encourage and facilitate SME participation, both in collaborative projects under the various thematic areas and in specific actions targeted at SMEs and SME organisations.

Promoting the take-up of **Information and Communication Technologies (ICT), e-learning and e-business** is a key element in improving SMEs' competitiveness. The Commission will continue to support networking between policy-makers in this field through the **eBusiness Support Network** for SMEs. It will further encourage the exchange and dissemination of best practices, support the training of SME advisers and foster cooperation between ICT suppliers and SMEs. In addition, the CIP will support the deployment of ICT solutions for the benefit of SMEs.

Finally, the Commission intends to improve knowledge about and **the analysis of European SMEs' performance** to be able to take action to reinforce their competitiveness. It will improve the ability of existing tools such as the **Observatory of European SMEs** to analyse economic data and SMEs' perceptions with a view to obtaining a more comprehensive understanding of their performance and characteristics without adding any direct administrative burden on SMEs.

3.5. Strengthening dialogue and consultation with SME stakeholders.

SMEs are poorly informed about the EU and its activities and sometimes critical of their effect on business. Often, they do not fully grasp the opportunities brought by the EU. The European institutions also need to step up their capacity to listen to SMEs' concerns and promote, together with Member States, a positive image of entrepreneurship. **Reducing the information gap** between the European institutions and businesses, particularly SMEs, is essential to reconnect citizens with the European project.¹²

The Commission will promote more regular and better structured dialogue with and consultation of stakeholders. It will aim to reflect the diversity of the audience more fully, from European business organisations to national and local support organisations, small business advisers and, to certain extent, to SMEs themselves. The Commission, and in particular its **SME Envoy**, is committed to extensive consultation of relevant stakeholders to ensure that their concerns are taken into account in the policy-making process.

While recognising the central role of business organisations in channelling feed-back from SMEs to European institutions, the Commission plans **to create a quick and easy-to-use consultation mechanism** ("SME panel") via the Euro Info Centre network to get views from SMEs in specific areas of policy making. In addition, the Commission is currently reviewing the Interactive Policy Making initiative and will propose ways of improving its feedback mechanism to facilitate the identification of SMEs' problems with EU legislation. Last but not least, the Commission recently

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See the Commission Action Plan to Improve Communicating Europe, July 2005 (SEC(2005) 985)

published a report on consultation of stakeholders at national and regional levels that makes concrete proposals for improving consultation mechanisms.

Promoting entrepreneurship and the image of SMEs will be a key priority. The Commission will focus on communicating with various stakeholder groups, including at regional level. At the same time, a number of targeted actions will seek to improve the general public's perception of entrepreneurs in Europe by showcasing successful entrepreneurial practices. A new competition, "European Enterprise Awards", is being launched in late 2005. This scheme will identify measures that have proved successful in promoting entrepreneurship and SMEs at regional and local levels and facilitate the exchange of best practices in this area.

Finally, the Commission will **foster cooperation with Member States and other stakeholders**. It will reinforce networking with national administrations on SME issues, while regular meetings with business organisations to discuss policy issues will be continued on a more frequent basis. To ensure wide involvement of all stakeholder groups, the Commission will organise an annual high-level conference to review progress achieved in the implementation of this Communication and to discuss future action. In addition, the Commission will promote SMEs' participation in high-level groups, round tables and other fora where appropriate and will organise a conference for craft enterprises in 2006.

4. CONCLUSION

The present Communication marks a new start for a more pragmatic, comprehensive and inclusive EU policy in favour of SMEs. It highlights the key role SMEs play in the Partnership for Growth and Jobs. The Communication paves the way towards a strategic approach to make SMEs more competitive, based on streamlining Community policy instruments, on improved synergies between policy areas and on a genuine partnership between the EU and Member States' actions.

An important objective is to trigger changes in the way SMEs and entrepreneurs are considered in policy-making and by public opinion, both at EU and national level. Indeed, to be successful, SME policy needs to integrate the actual expectations of millions of European enterprises into a wide spectrum of policies. The Communication draws attention to the huge untapped potential of SMEs to create growth and employment and proposes ways to simplify rules and regulations, promote entrepreneurial culture, and assist SMEs in accessing innovation, finance, training and, last but not least, the European as well as international markets. Finally, improved communication and consultation with stakeholders go hand in hand with this new SME policy.

Reaching the objectives set out in this Communication entails the full mobilisation and commitment of all relevant actors, both public and private at regional, national and European level. The Commission will closely follow SMEs' performance in the economy, will make it a priority to reinforce the coordination of policies towards SMEs both at the EU level and among Member States and will use Community instruments and programmes to carry out actions supporting the competitiveness of SMEs.