

**GREEN PAPER
ON
ENTREPRENEURSHIP IN EUROPE**

UNICE Comments

- 1 UNICE welcomes the Commission's Green Paper on Entrepreneurship in Europe which should lead to a more favourable environment for entrepreneurs.
- 2 UNICE identifies the following areas on which policy-makers should focus in order to foster entrepreneurship in Europe. These are:
 - Focus on taxation and finance;
 - Focus on better regulation and simplification;
 - Focus on promoting entrepreneurship, changing attitudes and the role of education.
- 3 In addition, policy-makers should ensure an efficiently functioning single market with a stable macro-economic environment and a sound infrastructure for entrepreneurship since these are all critical pre-conditions for risk-taking by entrepreneurs. Community law should be transposed into national law within the agreed time limits and implemented in a consistent and uniform way; utility industries should be liberalised and competition increased; a well-developed infra-structure should be established that supports the movement of goods, people and information; the overall scale of public expenditure and debt should be reduced; and integration of financial services and capital markets should be completed.
- 4 Policy-makers at European, national and region level should take entrepreneurship issues into account in all policy initiatives, in all departments, to ensure a coordinated policy approach and acknowledge the impact on entrepreneurship of their actions.
- 5 Policy-makers should agree and commit to concrete action plans with clear objectives and timetables for implementation. These action plans should be directed to government action at both national and European level and specify what action should be taken at what level. Each Member State should set up a special task force consisting of national policy-makers and representatives of the national business community to identify concrete measures to achieve explicit targets and implement focused actions.
- 6 The follow-up of the action plans should be ensured and comparisons between countries and regions in and outside the EU should be undertaken and benchmarks applied to learn from best practices and encourage policy-makers to improve policies.

- 7 Within the area of taxation and finance, UNICE identifies the following central issues which should be addressed. These are:
 - Reduction of the overall tax burden;
 - Facilitation of the transfer of businesses;
 - Elimination of tax obstacles to cross-border activities;
 - Increased access to finance;
 - Improved conditions for R&D investment;
 - Reduction of social security inequities.

 - 8 Within the area of better regulation and simplification, UNICE identifies the following central issues which should be addressed. These are:
 - Reduction of administrative burdens;
 - Impact assessment and better consultation;
 - Reduction of entry barriers;
 - Reform of insolvency and bankruptcy rules.

 - 9 Within the area of promoting entrepreneurship, changing attitudes and education, UNICE identifies the following central issues which should be addressed. These are:
 - Teaching entrepreneurial skills at schools and universities;
 - Improve attitudes amongst politicians and civil servants at all levels;
 - Secure a qualified workforce;
 - Change attitudes regarding failure;
 - Promote networking and commercialisation of spin offs;
 - Enhance co-operation between entrepreneurs, schools and universities.
-

**GREEN PAPER
ON
ENTREPRENEURSHIP IN EUROPE**

UNICE COMMENTS

Explanatory Memorandum

1. INTRODUCTION

On 21 January the Commission agreed a comprehensive Green Paper to enhance efforts to foster entrepreneurship in Europe and to stimulate debate on the future entrepreneurship agenda. UNICE welcomes the Commission's initiative. Europe needs to foster entrepreneurship more effectively; increased entrepreneurial activity has a direct impact on the overall economic performance of the EU and a favourable entrepreneurship environment also benefits business in general. Entrepreneurship is therefore a crucial element for achieving the Lisbon objectives. Entrepreneurs are key to growth and job creation; they create new sources of wealth and replace old inefficient firms with new innovative ones and it is the role of policy-makers to ensure an environment in which entrepreneurs are able and motivated to create prosperity.

Policy-makers at European and national level have an important role to play in delivering fundamental requirements of entrepreneurship, by ensuring an efficiently functioning single market and macro-economic stability, by devising flexible regulations that are suited to the dynamic business environment, and by providing a sound infrastructure that supports the movement of goods, people and information.

However, often *national* policy-makers have a much more important role to play, not only in delivering these fundamentals and implementing EU policies, but especially in improving their performance in policy areas that are elementary for boosting entrepreneurship but that are primarily or exclusively of national competence, such as matters relating to national administrative structures, education and taxation. It is for this reason that UNICE hopes that the Green Paper will help to improve entrepreneurship policy at *all* levels, European and national. Apart from that European and national policy-makers should take entrepreneurship issues into account in all policy initiatives, in all departments, ministries or Directorates General to ensure a *coordinated policy approach*.

The consultation process should be swiftly followed by *robust action plans* with clear objectives, timescales and efficient follow-up mechanisms and these action plans should be explicitly directed to government action at both national and European level. UNICE calls on policy-makers at European, national, but also regional level, to commit themselves to delivering concrete results and achieving explicit targets within specified time limits, to learn from good practices to improve policies and to take entrepreneurship issues into account in all policy initiatives, in all departments. Market potential should be released and obstacles dismantled. The importance of creating room for entrepreneurs and rewarding risk-takers needs to be addressed and particular attention should be paid

to promoting the spirit of enterprise throughout European societies to make everybody more aware of the key role of entrepreneurship.

Whilst acknowledging the opportuneness of the ten questions listed in the Green Paper, UNICE wishes to focus on three main themes. Firstly, taxation and finance for entrepreneurs; secondly, better regulation and simplification; and thirdly, promotion of entrepreneurship, changing attitudes and the role of education. Prior to this, the importance of an efficiently functioning single market, a stable macro-economic environment and a sound infrastructure for entrepreneurship is underlined, as well as the need for a coordinated policy approach and concrete action plan to improve entrepreneurship policy at all levels.

2. ENTREPRENEURSHIP AND THE SINGLE MARKET

The need for an efficiently functioning single market, increased competition, a stable macro-economic environment and a sound infrastructure.

The benefits of improved framework conditions for entrepreneurship can only be reaped in an efficiently functioning single market and a stable macro-economic environment. A large internal market without distortions, low inflation, low and stable real interest rates, and exchange rates that reflect the underlying fundamentals of the economy, are all critical pre-conditions for risk-taking by entrepreneurs. An efficiently functioning single market allows entrepreneurs to produce, sell, distribute, and transport their products and services in a large area at low cost. The single market can only achieve its full potential if all Community law is transposed into national law within the agreed time limits and implemented in a consistent and uniform way; if markets are fully integrated and flexible; and if competition is increased.

Slow progress by governments in liberalising utility industries and increasing competition is an important reason for the high cost of a range of critical inputs and competition in these markets should therefore rapidly increase. Integration of financial markets, with providers competing across borders, will reduce borrowing costs and increase access to financing. A well-functioning labour market is another critical condition for successful entrepreneurship; the costs of employing people and adjusting to market changes should be reduced and labour productivity should be improved by reforming regulations which hinder organisational reform and growth. Policy-makers should also provide a sound infrastructure that supports the movement of goods, people and information. A well-developed infrastructure is vital to reducing costs and to ensuring efficient relations between producers and customers and fast access to an efficient IT infrastructure is equally important for entrepreneurs to operate effectively and to be competitive.

Europe also needs to increase the efficiency of the public sector and to reduce the overall scale of public expenditure and debt. A high level of government expenditure, in combination with a high level of taxation, damages consumer and business confidence, penalises entrepreneurship and reduces employment.

Lastly, competition should not be distorted by illegal tax evasion, extortion and corruption. Policy-makers should be committed to fight black markets, crime and corruption to ensure a genuine level playing-field in this respect.

3. ENTREPRENEURSHIP POLICY

The need for a coordinated policy approach and concrete action

Entrepreneurship is often treated as an isolated issue and dealt with separately from other policy areas. It is important that entrepreneurship issues are taken into account by policy-makers, at all levels, in all policy initiatives, in all departments, ministries or Directorates-General. These policy-makers should be committed to acknowledge the impact on entrepreneurship of everything they do.

It is also important that a focused set of actions is identified to foster entrepreneurship with clear objectives and timetables for implementation whilst bearing in mind that setting up favourable framework conditions for entrepreneurship is of relevance not only for individuals launching a new business enterprise and for small firms to survive, grow further and develop, but also for large firms to continue being entrepreneurial, to adjust and grow.

Considering that a large number of policy areas relevant for entrepreneurship are primarily or exclusively of national competence, these action plans should be directed to government action at both national and European level, and specify what action should be undertaken at what level. Explicit targets for entrepreneurship should be set and the follow-up of recommendations and implemented policy should be prioritised. Comparisons between countries and regions in and outside the EU should be undertaken and benchmarks applied to learn from best practices and encourage policy-makers to improve policies.

In order to address the particularities of individual Member States and foster implementation of the focused set of actions, UNICE suggests that each Member State sets up a special task force consisting of national policy-makers and representatives of the national business community to identify concrete measures, tailored to the needs of that particular country, to achieve the explicit targets and implement the focussed actions.

Lastly, in order to ensure the coherence of EU policy and underline the wide-ranging significance of entrepreneurship issues, UNICE recommends that the action plans also clearly indicate what particular action or target is of direct relevance also to other exercises, for example those that are to be carried out in the context of the implementation of the Lisbon agenda, Feira Charter, etc.

UNICE suggests that the action plans primarily focus on the following themes: firstly, taxation and finance for entrepreneurs; secondly, better regulation and simplification; and thirdly, promotion of entrepreneurship, changing attitudes and the role of education.

4. FOCUS ON TAXATION AND FINANCE

4.1 The overall tax burden

Reducing the tax burden is of direct relevance for increasing rewards, the prospect of which is often elemental for entrepreneurs. High taxes, whether on wealth, labour, earnings, or in the form of levies or social charges, also hinder savings and the creation of venture capital and thus growth and investment and the Green Paper rightfully states that the structure of the tax system, including income and corporate tax, labour tax and VAT, influences the ability of firms to expand. It is thus urgent that the Commission and the Member States put forward more concrete steps than suggested in the Green Paper to reduce the overall burden of taxation whilst maintaining incentives for healthy tax competition between Member States. Bearing in mind the important role of the Member States in this area, taxation should be benchmarked in the Member States and in relevant competing third countries and the performance of the Member States in reducing tax burdens should be followed up.

4.2 Transfer of business

High levels of taxation on the transfer of businesses often seriously affect the continuation of well-performing businesses at the expense of employment and wealth creation. This problem is becoming increasingly urgent considering that more and more entrepreneurs will retire in the near future. There is a need for favourable arrangements for transfer of business assets under tax rules which enable firms to continue trading when ownership is transferred after retirement or due to death.

4.3 Tax barriers to cross-border activity

Tax obstacles to cross-border activities in the internal market affect enterprise and should be eliminated. Entrepreneurs face proportionally significant additional costs on how to cope with tax barriers to cross-border activities, for instance as regards transfer pricing documentation. These barriers need to be addressed by the Commission and Member States.

4.4 Access to finance

Lack of financing is one of the most significant barriers to the start-up and growth of businesses. Entrepreneurs need access to high quality banking products and expert financial consulting support, not only for seed finance to start a new company, but also to grow and to raise the money to buy an existing company, which can also be a way of being entrepreneurial. An efficiently functioning venture capital market and increased competition is essential to satisfy the needs of entrepreneurs and the single market for financial services should therefore urgently be completed. The return on savings should also improve through reduction of taxes to free capital for investment. Tax incentive schemes are a good vehicle for encouraging individuals to invest in growing and new businesses; lower taxes on

ownership and capital would also improve the possibilities for business angels to re-invest their capital.

4.5 Research and development

Efforts in research and innovation are vital for the development of new products and services which are crucial for successful entrepreneurship and especially for companies being able to grow. Publicly and privately financed R&D programmes should expand and the conditions of R&D investment for enterprises should be improved. Existing complicated rules on state aid for R&D should be changed. A true European research area with improved interaction between industry, government research and academia should be created and the rules for participating in Community research programmes should be simplified to ensure wide participation of entrepreneurs. Greater effort must be made with a view to improving financing and fiscal conditions for innovation and improving the efficiency of spending, especially in public research activities.

4.6 Social security inequities

Inequities between the self-employed compared with the employed, and compared with limited companies, due to biases in the tax and social security system, should be reduced to encourage entrepreneurs to leave paid employment to start a business.

5. FOCUS ON BETTER REGULATION AND SIMPLIFICATION

5.1 Reduction of administrative obstacles

Rules that directly or indirectly discourage the creation and expansion of companies are extremely damaging to entrepreneurship. Increased regulation suffocates enterprise. There should be less and better regulation and the annual costs of administrative formalities with which entrepreneurs are forced to comply should be reduced.

The issue of administrative burden is of considerable significance for entrepreneurship and it encompasses a wide variety of areas such as the existing paper burden, simplification, better regulation, deregulation, measurement of compliance costs, legislative reform, impact assessment of legislation, and barriers to market entry and exit. The burden that is brought about by employing people and the difficulties for an entrepreneur to operate flexibly and agree employment contracts that match his needs and the wishes of the employee, the burden of obtaining information on which rules to comply with, and of having to deal with numerous government authorities in the process of meeting requirements, should be eased considerably. Problems are exacerbated by the fact that in each Member State there are systems of national, provincial, territorial, regional and municipal governments, which also have taxation systems and regulatory and administrative requirements that create a big burden on entrepreneurs. These authorities must be actively encouraged to reform, reduce and review these obstacles. In addition, considering that a large number of administrative obstacles are initiated at EU level,

the Commission should achieve the targets it has set in its action plan on deregulation.

Alternatives to regulation should always be sought first; non-regulatory solutions encourage entrepreneurship and are often more successful in achieving initial goals. Preferably, there should be a joint and uniform approach to simplification and deregulation to ensure coherence across the EU. Government reporting requirements should be simplified, using electronic communication tools, enabling centralised reporting of all information required by different government authorities. One-stop regulation shops, special business counters and electronic gateways to all regulatory information should be set up.

European companies are subject to comprehensive environmental legislation. It is especially important that this legislation has a positive cost-benefit effect, is effective in achieving realistic objectives and does not negatively affect competitiveness.

Equally, extensive and rigid health and safety, social and labour regulation, such as constraints on working time and a narrow range of work contracts, make it difficult for entrepreneurs to operate flexibly and establish individual patterns of working hours and a broader range of employment contracts that match the needs of companies and the wishes of the employee. This regulation must be reviewed with a view to seizing the opportunities for simplification. Also, common rules on the mutual recognition of qualifications in the EU should be improved and simplified rapidly to increase the availability of skilled labour. UNICE also suggests that the entrepreneurship pillar in the employment guidelines is strengthened.

5.2 Impact assessment and better consultation

Business impact assessments should be undertaken on all existing and new legislation, both at national and European level. They should be thorough and applied rigorously whilst giving priority to impact assessments on all proposed legislation in addition to tackling the stock of existing legislation over time. A culture should be created of calculating the direct and indirect costs of regulation and procedures at all levels of government. Policy-makers should commit to adopt common goals for regulatory quality and to use agreed and harmonised administrative procedures for impact assessments. Independent advisory bodies should be created, composed of experts who advise decision-makers on the basis of an objective assessment of the cost/benefit impact to avoid policy-makers acting as judge and jury and ensure high quality assessments. New regulations the impact of which has not been properly assessed should not enter into force.

Policy-makers should also improve opportunities for entrepreneurs to express their concerns in policy- and law-making by actively involving representative business organisations at an early stage without devising new formalistic structures that would burden and delay decision-making.

5.3 Reduction of entry barriers

Reform and simplification of existing business entry obstacles is crucial to entrepreneurship. Barriers to business entry caused by lengthy bureaucratic procedures for permits and approvals, taxation and social security systems should be reconsidered with a view to facilitating the start-up and operation of companies. Initiatives should be adopted which facilitate the creation of new enterprises, such as single locations for registration purposes, single registration documents, single identification numbers and mechanisms which enable the sharing of information between public authorities involved in registration.

Barriers to entry related to competition and the advantages of public-sector enterprises should also be removed to improve private-sector opportunities and allow new entrants in previously shielded sectors.

5.4 Reform of insolvency and bankruptcy rules

Severe penalties for failure can greatly impact on the willingness of entrepreneurs to take risks, thus barriers to exit from markets caused by high penalties associated with failure should be reduced. Existing rules impede enterprise and insolvency and bankruptcy rules should be reformed to alleviate the hardship of failure and to make it easier to start a new business after failure.

6 FOCUS ON PROMOTING ENTREPRENEURSHIP, CHANGING ATTITUDES AND EDUCATION

6.1 Promote the spirit of enterprise throughout society to change attitudes

Entrepreneurial spirit is essential for a more dynamic enterprise culture and must therefore be enhanced and promoted throughout the education process. There is a need to generate a more favourable attitude to risk-taking, and to encourage people who are prepared to take risks. In this context, UNICE supports setting up EU entrepreneurship awards to acknowledge and promote successful entrepreneurship.

Attitudes towards entrepreneurship need to be changed, starting at school, at all levels of the educational system, by explaining the positive aspects of entrepreneurial activity as an opportunity open to all. Attitudes amongst policy-makers and bureaucrats should also change. Generally, they do not yet fully recognise the role of entrepreneurship in creating wealth and improving economic well-being. The business climate can strongly differ from one municipality or region to another, sometimes in spite of a common framework of rules, and this has a direct effect on the decisions of entrepreneurs. Politicians and civil servants should be made more aware of the importance of improving conditions for entrepreneurs.

Attitudes regarding failure should also change. Fear of failure is a big barrier preventing people from becoming entrepreneurs. A culture should be created where it is considered normal and possible to restart a business after failure.

6.2 Entrepreneurship and the role of education

It is important that the educational system builds on people's natural entrepreneurial instincts. Schools must transmit knowledge about entrepreneurship, teachers should be trained to do so, and good education material should be available. Teachers should be encouraged to seek contact with the business community to improve their understanding of entrepreneurship and entrepreneurs should be involved to explain to teachers and students how it is to be an entrepreneur. Special projects should be set up which allow young people to try to run a business for one year; this would give them a good understanding of entrepreneurship through learning-by-doing. Universities should also focus more on entrepreneurship and offer special entrepreneurship programmes and courses, also to improve management skills of academics and scientists.

A well-educated and well-trained workforce is essential for growth and education plays a key role in providing individuals with knowledge and skills. To secure a qualified workforce it is necessary to improve the quality of basic technical and scientific training and to focus on lifelong learning tailored to the needs of entrepreneurs.

6.3 Promote networking and commercialisation of spin offs

Networking between small and large firms should be promoted to create business opportunities for small firms whilst allowing large firms to spread risks, increase flexibility, and benefit from the innovativeness of the smaller firms. Well-functioning networks consisting of all sizes of firms boost growth through co-operation and the development of new networks. Identifying synergies and improving methods of co-operation should be promoted at European and national level. The same applies to the commercialisation of spin-offs from the core activities of large firms or university research. Cooperation with authorities at European, national and regional level should be enhanced to encourage companies and universities to support the commercialisation of spin-offs by entrepreneurs more actively.
