



## Foster entrepreneurship and SME growth



### BACKGROUND

Entrepreneurial activity and a thriving SME sector are essential for growth, job creation, innovation and social cohesion. Europe's economic future will to a large extent depend on the innovation and growth potential of European SMEs.

Rapid and effective implementation of the Small Business Act for Europe and enshrining the “think small first principle” at all levels of government – European, national, regional and local – will improve the regulatory and administrative, environment to unleash Europe's entrepreneurial potential.

However, the economic and financial crisis has emphasised the urgent need to improve access to finance. At present, strong risk averseness of investors and fragmented venture capital markets often prevent start-ups to emerge and hold back company growth.

## Stimulate a more entrepreneurial culture

Europe needs to become more entrepreneurial. A particular focus should be put on creating a more entrepreneurial mindset among young people. Mini-company programmes such as those developed by JA-YE and JADE demonstrate how this can be done successfully, but their outreach remains limited. A systematic integration of entrepreneurship education into school and university curricula should be actively promoted.

## Develop coherent and streamlined EU policies to foster SME growth and entrepreneurship

A renewed and strong impetus to the implementation of coherent policies in favour of entrepreneurship and SMEs is needed to develop a business environment supportive of SMEs throughout their life cycle. The proposals set out in the Small Business Act for Europe (SBA) need to be implemented without delay and be included in the Growth and Jobs strategy and its reporting process.

## Fully commit to better regulation and the reduction of red tape

SMEs are particularly affected by over-regulation and regulatory and administrative burdens. Compliance costs for SMEs are high and due to limited human and financial resources more difficult to bear, thereby negatively influencing their competitiveness. The Commission's focus on better regulation, simplification, improved impact assessments and administrative cost reduction is therefore an important step forward. The "think small first" principle needs to be fully anchored at all stages of the policy-making process at EU and Member-State level. The impact of legislation on SMEs must be evaluated and legislation must be conceived in a way that avoids imposing administrative, financial and legal constraints that hamper their development.

## Improve access to finance

The financial needs of SMEs are at their greatest during the start-up and growth phases. In these situations, companies are often considered a high-risk investment and banks are more reluctant to provide financing. The financial and economic crisis has even amplified these problems, especially as alternative sources of financing are still not as developed as, for example, in the USA.

Integration of financial markets in the EU, further development of venture capital markets and innovative financing instruments such as loan guarantees and mezzanine finance need to be pursued to provide SMEs with better and more varied access to finance.

Recent and planned EU initiatives such as JEREMIE, the new financial instruments introduced within the framework of the Competitiveness and Innovation Programme and the modernisation of EIB loan facilities for SMEs are welcome as they contribute to further diversifying the financing offer. It needs to be ensured, however, that a large number of end users are reached and access to finance is truly eased for the targeted SME segments. This will, to a large extent, be the role of intermediary banks at national and regional level.

## Lift obstacles to cross-border activities

Entrepreneurs consider tax rules to be an important obstacle to the development of their cross-border activities. Tax compliance costs make up a high amount of the taxable income of SMEs. It is therefore important to reduce tax obstacles. This could be achieved by simplifying VAT obligations and making the home state taxation principle work. Reduced VAT rates for locally supplied services, including labour intensive services, is a step in the right direction. In the medium term, a competitive and optional common consolidated tax base in the EU could also be a response to help reduce tax compliance costs.

The European Private Company statute should be adopted swiftly by the Council as it would considerably facilitate cross-border operations of SMEs. Implementation of the mutual recognition principle for non-harmonised products will also help SME expansion into new markets.