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SESSION 1: “ENTREPRENEURSHIP AND SMEs: FROM DECLARATION TO IMPLEMENTATION”

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1. BUSINESSEUROPE’s overall vision of SME growth priorities to be promoted at European level

- For BUSINESSEUROPE, the 2008 Small Business Act still contains the right 10 action priorities that need to guide the Union’s SME policy and the national SME policies, namely:
 - Promoting entrepreneurship
 - Giving a second chance in case of business failure
 - Think Small First
 - Responsive administrations
 - Access to public procurement
 - Access to finance
 - Single market
 - Innovation
 - Turning environmental challenges into opportunities
 - Support to internationalisation.

- The issue is therefore implementation. Overall, we consider that implementation of the SBA is work in progress. However, good results in some countries co-exist with worrying lags in others.

- To have dynamic implementation of the SBA everywhere, it is essential that Member States genuinely engage in the enhanced SBA governance process proposed by the Commission. Each Member State must nominate an SME Envoy with sufficient authority to:
 - Promote the SBA principles in national policy-making, and
 - Contribute actively to a renewed best practice dissemination process at European level.



- Seventeen national SME Envoys have been nominated to date; it is vital that the remaining ten nominations take place rapidly.
- In the SBA action agenda, I would like to comment in particular on the following topics, to which BUSINESSEUROPE attaches great importance:
 - Simplification
 - SME access to finance, and
 - Internationalisation of SMEs.

2. Simplification of the legal and administrative environment of SMEs

- It is essential that the Commission exercises greater rigour and a higher ambition when carrying out impact assessments intended to verify whether an EU legislative project can deliver positive outcomes without disproportionate secondary effects on the competitiveness of SMEs.
- An acute concern to understand the challenges that SMEs face should guide action by all Directorates-General of the Commission and not only DG Enterprise. The SME impact assessment process must not degenerate into a caricature in which a legislative initiative by a Directorate-General is deemed not to have negative impacts for SMEs unless DG Enterprise demonstrates that the quantitative economic studies launched by the sponsoring DG are flawed. The burden of proof should be shifted to the DG submitting draft legislation which must prove that the initiative under consideration is useful and does not add to the total administrative burden on SMEs. In addition, impact assessments should also consider qualitative elements and not give disproportionate weight to abstract mathematical modelling based on simplified assumptions.
- Impact assessments relating to possible future Commission proposals relating to Corporate Social Responsibility (CSR), for example, will need to be conducted with extreme rigour.
- BUSINESSEUROPE supports the process under way for reduction of the administrative burden and cost generated as a result of past European legislation. It is essential that to persevere until the 25% reduction target set in 2007 has been fully achieved. This objective represents however only a fraction of total possible reductions. It is therefore essential to set an additional target to be achieved during the lifetime of this Commission. We recommend giving each Directorate-General a net reduction target. This net reduction target should lead to a reassessment of certain existing instruments, in order to ensure that new legislation does not add any new burdens, thereby cancelling out any reductions achieved.
- At national level, too, it is important to carry out SME tests in all policies, and to set targets for reducing administrative burdens accumulated over the years, as has been done in Denmark (The Danish government has had as its



objective to reduce administrative burdens with 25 per cent by 2010 compared to the 2001 level).

3. SME financing

3.1 Venture capital

- BUSINESSEUROPE supports the planned Commission initiative aimed at removing obstacles to cross-border provision of venture capital for innovative SMEs.
- In parallel, it is essential to stimulate the offer of venture capital by European operators. The gap between this offer in Europe and in the USA is very wide. For example, in 2007, Europe filed two to three times more patents for clean technologies than the USA. However, for the same year, corresponding venture capital investments were little more than one third of American investments in these technologies.
- As a first measure to inject fresh dynamism into venture capital activities in Europe, BUSINESSEUROPE calls for introduction of national tax incentives for creation of innovative businesses. France has taken a major step by introducing, in 2004, the “Young Innovative Company” status. This status confers tax exemptions on SMEs (with fewer than 250 employees) that spend at least 15% of their total annual expenditures on R&D. These companies are exempt from all corporation tax and all capital gains tax for eight years after their creation. The measure provides incentives for both companies and investors.
- Secondly, the Member States and the Union need to design policies for reinforcing the long-term financial base of European venture capital operators, which is chronically fragile. One option to explore would be to steer a large portion of pension funds’ resources towards venture capital companies.
- The Commission will also have to see what can be done to make “exit markets” more accessible and more dynamic, to enable the onward sale of companies which have grown thanks to venture capital.
- The actions recommendations I have listed will take time to materialise, resulting in continuing market failures for financing start-ups and young companies. The European Commission and the EIB Group should therefore continue to deploy venture capital instruments such as the GIF (the High Growth and Innovative SME Facility) under the future multiannual financial framework.



3.2 Other sources of finance than venture capital

- Many projects of innovative SMEs are in lower risk class than high-tech start-ups, and these SMEs do not necessarily want to be financed massively by venture capital. Rather, these SMEs are looking for tailor-made financial products occupying the middle ground between venture capital and classical bank loans.

Three types of such financing products are particularly useful:

- Loans with attractive conditions, facilitated by the fact that a public authority puts up guarantees against the risk of default of payment;
 - Mezzanine finance products, like subordinated or convertible loans. Once again, guarantees provided by public authorities can play a key role in making these products more attractive;
 - Financial guarantees granted to SMEs under favourable conditions, thanks to special public counter-guarantees.
- BUSINESSEUROPE is therefore very pleased that the Commission and the EIB Group are offering such products, for example the Risk-Sharing Financial Facility (RSFF) and the SME Guarantee Facility (SMEG). Such instruments should remain on offer in the future.

3.3 Bank loans – reform of financial markets

- The problem of tighter SME access to credit since the crisis needs to be solved, and not made worse by imposing disproportionate financial regulations on banks, with the result that SMEs are starved of financial support.

3.4 Key importance of equity finance

- As an SME moves along its growth path, the consideration that should have precedence is constitution of a solid equity base. A balance sheet with strong equity reduces the enterprise's vulnerability to the ups and downs of business life.
- It is therefore essential to adjust the tax systems, which penalise equity financing over debt financing. Belgium has done this by introducing the "Notional Interests Deduction" system. This system should be disseminated on a broad scale.

4. Internationalisation of SMEs

4.1 Seizing the opportunities in the Single Market

- Too many obstacles hamper participation of SMEs in cross-border public procurement. It is vital to abstain from unduly far-reaching certification requirements and to put in place lighter financial guarantees for SMEs.



4.2 Exports and investments outside the EU

- The largest problem faced by European SMEs is formed by non-tariff barriers to trade. For instance, in many commercial sectors, exporting to or opening an establishment in Japan is virtually impossible given the difficulties posed by non-tariff barriers present in that country. It is vital to solve this problem.
- Regarding EU trade policy instruments, SMEs expect them to be transparent and easy to use, without having to call for the help of specialised lawyers.
- Another issue is improvement of information to SMEs on the regulatory environment in third countries. A number of public or private information services exist at national or European level. However, these initiatives are fairly disparate and there are gaps in the provision of information services. The Commission should explore what synergies might be developed between the existing services.
