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“ADDRESSING THE CHALLENGES OF SMALL BUSINESS ACT (SBA) IMPLEMENTATION AND GOVERNANCE”

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Assessing the implementation of the SBA

1. *Could you tell us what you think has been the most successful SBA measure and the most disappointing one?*

At European level, the late payments directive certainly represents a major step forward. The intervention by the European Parliament was important in bringing about a directive that imposes a new discipline on all players, public and private, in a balanced way.

The failure to adopt the proposal for a European Private Company is definitely a great disappointment and it is important that this absence of a decision is corrected as rapidly as possible.

At national level, I draw attention to the quantitative targets that have been set proactively in some countries for reduction of administrative burdens, in the context of the Small Business Act and just before. A good example of these initiatives is the Danish programme for reduction of administrative burdens by 25% in 2010 as compared with the 2001 level. Setting quantitative targets is the most effective way of kick-starting progress on reducing administrative burdens.

2. *How successful do you feel the SBA has been in fulfilling its objectives? What can be done to improve the implementation of the SBA in the Member States?*

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. We hope that the SME Envoys will deploy a lot of energy for:

- Promoting the SBA principles in national policy-making, and
- Contributing actively to a renewed best practice dissemination process at European level. One needs to remember that it is not possible to be a winning country in a losing continent.

Think Small First

- 1. *One of the main messages of the SBA and the SBA Review is the need for governments and administrations at all levels to "Think Small First". What do you think could be done in practice at national level to improve the regulatory environment for small businesses and make the "Think Small First" principle a reality?***

There are certainly best practices that can be disseminated to help focus the legislator's attention on "Think Small First" when developing a piece of legislation. To create a permanent stimulus to this end, it is very useful to put in place national quantitative targets for reducing administrative burdens. These targets help to raise awareness of the possible consequences of non-application of the "Think Small First" principle.

A large proportion of national legislation is now developed on the basis of directives adopted at European level. It is important that the Commission shows the greatest rigour and the highest 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. The SME impact assessment process must not amount to a process 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.

In addition, when the Council and the European Parliament adopt the Commission's legislative proposals, they should carry out additional impact assessments to measure the effects that these adaptations will have on SMEs in terms of administrative burdens.

Lastly, when a European directive is adopted, member states should refrain from gold-plating.

Access to markets

- 1. According to a Commission study, only a minority of small businesses do trade beyond their national borders, whether within and beyond the EU. Why is this, in your opinion? What could the EU and Member States do to change the situation?***

What can be done to improve the functioning of the Services Directive (in particular the set-up of the Points of Single Contact under the Directive)?

One important novelty of the Services Directive is that Member States had to set up a Point of Single Contact (PSC) to supply relevant information and to allow for completion of formalities.

Member States were free to decide how the point of single contact should be set up and whether an electronic point would be supported by one or more physical contact points. PSC services should be made available for use by domestic and foreign service providers. For companies, it should mean that they do not need to contact several different national authorities to obtain information and complete procedures. In addition, they should be able to do this online via the PSC portal. This brings down bureaucracy and reduces time and costs for businesses.

More than one year after the implementation deadline of the Services Directive, BUSINESSEUROPE observes that most Member States have put in place a functioning virtual point of single contact. However, there is much room for improvement in particular with regard to the scope of information offered, interoperability and user-friendliness.

BUSINESSEUROPE has found that the information provided by the points of single contact is adequate, but often does not cover all services sectors. In most cases, practical information related to tax issues, workers' rights and health and safety rules for instance, is not available. In addition, it is often not possible to complete all the steps to finalise procedures online, which is supposed to be the most important advantage for SMEs. Also some points of single contact do not respond to requests from service providers rapidly enough, which can reduce business opportunities.

In the above context, we recommend Member States to ensure that these important gateways for SMEs are adequately financed and staffed. There is a clear need to improve information provision by covering more administrative procedures and more services sectors, and offer useful practical information, for instance on VAT rules and tax issues.

Access to finance and funding

- 1. Access to sufficient finance is a crucial issue for entrepreneurs, especially following recent years of financial crisis and economic downturn. How do you view the current situation for the SMEs your organisation represents? What are the financial products that could ensure investment activities, to allow SMEs to expand and grow?***

Overall picture

Micro-enterprises, young companies and SMEs in decisive growth phases tend to experience difficulties when it comes to accessing finance for several reasons: many do not have sufficient assets to back their loans, they do not necessarily have a credit record, small loans generate high administrative costs for banks and historical data suggest that credit default is higher for small companies. More generally, SMEs in the EU-12 face even bigger challenges when it comes to accessing external financing.

Several financial instruments are particularly suitable for SMEs: asset-based security, venture capital (in particular for innovative companies), mezzanine finance and micro-credit. However, they are presently not sufficiently available for SMEs and thus hinder their growth ambitions.

The European market for venture capital is still fragmented along national borders which inhibits SMEs' access to capital. BUSINESSEUROPE welcomes the Commission's initiative to create a well functioning internal market for venture capital.

Public schemes in favour of SME finance should be boosted at both national and European level. However, public financing should be limited to situations where market failures have been identified, which can differ from Member State to Member State. Where SMEs in some countries have problems obtaining seed capital others in other countries lack venture capital for expansion. Financing of the first expansion is a general problem as there seems to be a financing "gap" between 100,000 and 1 million euros.

EU financial instruments needed to help SMEs invest and grow

BUSINESSEUROPE is pleased that the Commission and the European Investment Bank Group (EIB Group) have developed, over the past years, a broad spectrum of innovative financial instruments that are capable to help SMEs invest and grow.

In doing this, the Commission and the EIB Group were right to pay attention to technological innovation-based companies and other growth based-companies.

We are happy that, through the 7th Research Framework Programme (FP7), on the one hand, and the Competitiveness and Innovation Programme (CIP) on the other hand, effective solutions have been found to deal with cases where market failures occur with respect to the financing needs of a range of SME categories including:

- Small firms in the first expansion phase, having insufficient collateral;

- High growth SMEs in further expansion stages.

In particular, BUSINESSEUROPE appreciates very much the contribution that has been made to date by the Risk-Sharing Financial Facility (RSFF), the High Growth and Innovative SME Finance Facility (GIF) and the SME Guarantee Facility (SMEG) to promote SME development.

Against this background, BUSINESSEUROPE fully supports the plan of the Commission, mentioned in the Small Business Act Review Communication, of enhancing the existing set of innovative EU financial instruments to help SMEs invest and grow.

These instruments will need to continue to occupy a prominent place in the future EU budget. BUSINESSEUROPE speaks out clearly on this issue in its position on the future of the EU budget. "Unleashing SMEs' growth potential" is included as one of the five overarching goals defined by BUSINESSEUROPE for the EU budget.

BUSINESSEUROPE also calls for continuation of the EIB "Loans for SME" scheme that it has launched in 2008.

Improvements needed

When an enhanced set of financial instruments is being designed, close attention will have to be paid to making them more accessible to SMEs in practical terms. This calls for action on three fronts:

- a. Ensure that financial instruments are presented in a manner that is as easy as possible for SMEs to understand.
- b. Disseminate information on these instruments as widely as possible in the direction of SMEs.
- c. Understand the reasons why some financial intermediaries give EU financial instruments only limited promotion in certain countries. More information and transparency is needed on the reaction of intermediaries to the EU financial products with a view to improving the situation.

Formulas should be found to ensure that the RSFF (or a similar product) is accessible to all categories of company, including small businesses.

- 2. *The SBA Review has shown that targeted support to SMEs, as the engine of Europe's growth and jobs, is widely recognised as necessary. Do you consider that activities supporting the competitiveness of European SMEs need to be implemented in future by an appropriate EU programme, or can we leave this to the Member States?***

The EU 2020 Strategy should definitively contain an SME specific-pillar, so as to support both technological innovation-based companies and other growth based-companies, in the same spirit as the Competitiveness and Innovation Programme.

SBA governance

- 1. *One of the key points of the SBA Review is reinforcing the governance of the SBA and its implementation, including a better involvement of SME stakeholders. What are your expectations of the SME Envoys?***

We hope that the joint work of the SME Envoys will raise SME policy on the Competitiveness Council agenda, and trigger more dynamic SBA implementation policies in the countries that are lagging at the moment. The Competitiveness Council should have a strategic discussion on SMEs and Entrepreneurship at least once a year.

The SME Envoys should engage in a renewed best practice dissemination process at European level, looking at fundamental issues such as how to reinforce equity finance. One way to progress in this direction is to adjust the tax systems, which penalise equity financing over debt financing. Belgium has done this by introducing the "Notional Interests Deduction" system. We encourage to examine this system with a view to its broad dissemination at European level.
