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## Unleashing the growth and job creation potential of SMEs

- Tackling the growth and jobs challenge depends critically on restoring Europe's competitiveness, through a number of fundamental EU strategies, which BUSINESSEUROPE has highlighted in its memorandum to the new Commission, accessible through [www.business europe.eu](http://www.business europe.eu).
- To deliver their full results, these strategies must be flanked with additional SME-g geared measures, addressing the specific challenges that SMEs are confronted with. These measures should be designed to support both the growth and the transformation of SMEs through enhancing their capacity to innovate, to access new markets and to reach the optimal business dimension which is needed to compete at global level.

### KEY ELEMENTS FOR A PRO-SME ACTION AGENDA AT EU LEVEL

- 1 Reduce the volume and improve the quality of EU regulation applicable to SMEs and entrepreneurs
- 2 Enhance the capacity of banks and other investors to lend to SMEs
- 3 Improve SME access to the non-lending financing routes
- 4 Deploy SME-g geared EU financial instruments on a broader scale
- 5 Support SME efforts to innovate
- 6 Favour the integration of SMEs in global value chains and collaboration initiatives.
- 7 Suppress the obstacles to trade and investment by SMEs in the single market
- 8 Support SME efforts to internationalize
- 9 Make national administrations more responsive to SME needs
- 10 Foster a pro-entrepreneurship culture and legal environment in Europe.



## 1 REDUCE THE VOLUME AND IMPROVE THE QUALITY OF EU REGULATION APPLICABLE TO SMEs AND ENTREPRENEURS

### What is at stake?

The EU must improve its competitiveness to hold its own against both developed and emerging economic blocs around the world. Taking a smart approach to regulation will enhance growth and investment. The EU should avoid legislative proposals with a disproportionate impact on competitiveness that add no real value to the single market and growth. This requires a sharp focus on smart regulation. Boosting competitiveness and developing the single market through the use of smart regulation tools to cut red tape and devise proportionate legislation should be a mindset of decision-makers.

Besides this strategic consideration, policy-makers should keep in mind that where a big company spends 1€ per employee in connection with regulations, a small business has to spend on average 10€<sup>1</sup>.

### Put competitiveness and the “Think small first” principle in the center

The new Commission should try to ensure that new EU legislation can apply to companies of all sizes, taking the “Think small first” principle as a reference. This implies to demonstrate the proportionality of administrative burdens that any draft EU legislation would generate for SMEs.

If this demonstration of proportionality cannot be done, BUSINESSEUROPE supports the current practice of considering exemptions or lighter regimes for SMEs and micro-entities in areas where essential public policy objectives (like health, safety and environment) would not be put at risk. This approach needs to be implemented without creating perverse effects hampering the growth of SMEs.

Competitiveness proofing and the SME test must be an integral part of impact assessments for all policy initiatives and legislative proposals. The European Commission should give clearer information on how the “SME test” is applied within its different services.

### Define quantitative goals for reducing regulatory burdens on SMEs

In 2013, the Commission carried out an enquiry on the Top 10 most burdensome EU legislations for SMEs. A clear quantitative objective for reducing the economic burden of these legislations should be fixed. This objective should be part of a broader new

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<sup>1</sup> Source : report from the Expert Group on “Models to Reduce the Disproportionate Regulatory Burdens on SMEs”, May 2007.



EU goal for reducing administrative and regulatory burdens on business for 2015-2020, going beyond the minus 25% goal implemented over 2008-2012 which only covered administrative costs due to information obligations.

## Increase stakeholders' involvement in the better regulation process

BUSINESSEUROPE suggests establishing a platform for stakeholders' (including business organizations) generated proposals on how to make concrete burden-reductions. The platform could possibly be part of a revised mandate for the two existing High Level Groups on Better Regulation and Administrative Burdens. The proposals should be subject to a 'comply-or-explain'-principle i.e. the Commission should publish its responses, clearly stating which proposals it intends to pursue, and explaining why some proposals will not be subject to further consideration.

## 2 ENHANCE THE CAPACITY OF BANKS AND OTHER INVESTORS TO LEND TO SMEs

The quantitative constraints that SMEs experience on the credit supply side since 2008 are largely explained by:

- the impact of new EU financial regulations on bank lending. This needs to be kept in mind when calibrating the future parameters of these financial regulations.
- the uncertainties in the financial system, which affect banks' lending capacities, and lead to strong differences in interest rates according to countries. Completing a full European Banking Union is vital to reduce these uncertainties.

Furthermore, the Commission, the EIB and the ECB should facilitate a revival of the securitisation market within a properly regulated environment. Such revival would enhance banks' lending capacity. In this connection, ways to improve the access of SMEs to affordable credit ratings should be explored.

It is important to strengthen the monitoring of the SME lending market, with a view to capturing signals about difficulties encountered by borrowers.

In three European countries, national electronic financial matchmaking platforms have been launched, connecting SMEs to a community of lenders, including banks and specialized investors. This brings in more speed, more competition and more transparency. The pan-European deployment of innovative digital matchmaking platforms should be facilitated to help deploying these benefits on a broader scale.

All the above-mentioned measures will not be sufficient to improve SME access to finance. We also need a resolute European strategy for expanding the non-lending financing options. Initiatives should be taken for enhancing knowledge and use of these options in order to remedy the current excessive dependence on bank financing.



## **3 IMPROVE SME ACCESS TO THE NON-LENDING FINANCING ROUTES**

### **Assist the market-based development of alternatives to lending**

The Commission should assist the market-based development of alternatives to lending geared to SMEs, mid-tier companies and fast growing businesses, such as hybrid funding methods (mezzanine finance), equity funds and venture capital. Equity capital is very important for SMEs as it contributes to the overall stability of a company and can improve its capacity to attract bank lending and other types of finance.

With a view to facilitating the cross-border provision of venture capital (VC), the Member States should work together for aligning the eligibility criteria related to tax incentives for VC investors, respecting fiscal sovereignty.

### **Secure better possibilities for banks and insurance companies to be involved in implementing alternatives to lending**

The calibration of capital requirements rules for banks and insurance companies (Solvency II) needs to ensure that the riskiness of assets is correctly assessed, so as not to create a negative bias against assets that are essential for SME growth, such as equity, securitized SME loans' portfolios and covered SME bonds.

### **Facilitate SME access to financial markets**

BUSINESSEUROPE looks forward to contributing to the 2015 Commission consultation on creating a pan-European market for raising money through bonds. This initiative should allow SMEs and mid-sized companies to issue bonds cheaply and easily, which is not the typical situation in the countries which have markets for SME bonds.

### **Encourage the creation of a European private placement market**

The EU should create a European private placement market by addressing existing barriers and obstacles to cross-border placement in EU Member States arising from differing national rules and arrangements.

### **Encourage the development of crowdfunding initiatives in the member states**

This should be done basically through sharing of best practices. The sharing of best practices should help identifying some common principles, in particular in the area of investor protection. A too burdensome and premature national and EU regulatory action could stop the development of crowdfunding.



## 4 DEPLOY SME-GEARED EU FINANCIAL INSTRUMENTS ON A BROADER SCALE

The EU budget and EIB Group resources should be further used to develop SME-geared EU financial instruments, in particular given the high leverage effect demonstrated by these instruments.

In order to successfully design new SME-geared financial instruments in the context of the new EU investment plan in preparation, it is important that EIB/EIF clarify first their current general policy regarding SME financing. Adding new financial instruments in the EIB/EIF offer must go hand in hand with actions aimed at making these instruments truly user-friendly. This calls for:

- ensuring that financial instruments are presented in a manner that is as easy as possible for SMEs to understand
- disseminating information on these instruments as widely as possible
- ensuring that financial intermediaries make active promotion of these instruments in all EU countries.

## 5 SUPPORT SME EFFORTS TO INNOVATE

Strengthening innovation is a crucial requirement to overcome the crisis and enhance competitiveness. Innovation is a powerful engine for sustainable growth and job creation in the EU. Therefore, it is essential to promote investment in innovation among SMEs, supporting them in their efforts for adopting or developing new ideas and solutions, and for developing partnerships, including at international level.

Active promotion of the Horizon 2020 programme will be essential for:

- materializing the positive decision that SMEs should have access to 20% of the Horizon 2020 funding
- ensuring a satisfactory uptake, throughout the EU, of the Horizon 2020 finance instruments geared to SMEs (debt and equity platforms).

BUSINESSEUROPE welcomes the approach of Horizon 2020 of supporting innovation in a wide sense (not only technological). Due attention needs to be paid to the interplay between services and products and to the role of new innovative business models. This will allow many SMEs making a positive contribution to the Horizon 2020 objectives, and serve the objective of enhancing growth.

Horizon 2020 and other programmes should also encourage improvement of innovation management, innovation being considered in all the areas where it occurs: technology, organizational models, management of human resources, relations with suppliers/customers. In particular, the concept of innovation should include innovative business management models - such as lean organisation models - aimed at simplifying organizational processes, eliminating unnecessary burdens, reducing costs and, thereby, increasing SMEs efficiency and growth. In this context, selective EU initiatives could accelerate the dissemination of lean organisation models.



## 6 FAVOUR THE INTEGRATION OF SMEs IN GLOBAL VALUE CHAINS AND COLLABORATION INITIATIVES

### Facilitate connections with global value chains

Innovative enterprises integrated in value chains play a key role for the competitiveness of the European Union as they generate significant multiplier effects through inter-linkages with companies of all sizes including SMEs.

It is important to promote the development of existing business ecosystems with SME participation, and the creation of new such ecosystems. Continuous company interactions inside business ecosystems generate higher added value and other benefits.

Value chains are often lead by large or mid-size global “frontrunners” or “leader companies”, which have an important carrier function because they offer platforms for other firms to integrate in the chain. As a result, domestically oriented SMEs and service providers also have the chance to tailor their products to suit world demand and benefit from global growth. SMEs can also significantly enhance their innovation capacity by cooperating along the value chain.

The future EU industrial policy should result in a much more business- and innovation-friendly framework, enabling more large Europe-based companies to act as frontrunners. This economic framework should also enable ever more SMEs to reach a sufficient level of efficiency and of “technological readiness” to be attractive to join forces with the frontrunners.

### Support innovative SME cooperation models

For many SMEs, cooperating with other SMEs can help reducing the costs linked to production, innovation and access to markets. The Commission has already recognized the merits of some SME aggregation models, like clusters (which the EU supports with training programmes for cluster managers) and business networks focused on technical cooperation. Other aggregation models exist, like export consortia. The Commission should keep all these models in mind when designing initiatives aimed at increasing SME competitiveness.

## 7 SUPPRESS THE OBSTACLES WHICH HAMPER TRADE AND INVESTMENT BY SMEs IN THE SINGLE MARKET

### Avoid gold-plating

EU Directives may give Governments room to exceed the minimum level that is required to implement EU Directives correctly. When national implementation of EU legislation exceeds the minimum level that a legal act requires, one talks about “gold-plating”. While authorized under EU law, decisions by Member States to ‘gold-plate’



EU-legislation can lead to a fractured single market and generate disincentives for SMEs to internationalize.

BUSINESSEUROPE believes that gold-plating in principle should be avoided. Member States should explain why there is a perceived necessity to gold-plate even if this could burden businesses and complicate trade and investment in the EU. They should justify the reasons for this, estimate the effects of the measures on business and publicly communicate this.

## Remove remaining barriers in the digital single market.

Fragmentation in the EU concerning VAT, consumer and data protection rules must be addressed. This does not necessarily require new legislation, but in some cases only better and more uniform application of the existing rules.

## 8 SUPPORT SME EFFORTS TO INTERNATIONALIZE

### Pursue an ambitious EU trade agenda, opening new business opportunities

The growth of many SMEs depends on pursuing an ambitious EU trade agenda. This trade agenda should promote the elimination of tariffs and non-tariff barriers, enhanced regulatory coherence and regulatory cooperation, simplification of trade procedures, promotion of investment friendly environments, ensuring that trade restrictive practices in third markets are effectively addressed.

Concluding the negotiations on the TTIP (Transatlantic Trade and Investment Partnership) is vital for SMEs, given the prohibitively high transaction costs that they are exposed to when they consider trading with the US.

The designated “SME Chapter” in the TTIP should be a real multiplier for the entire set of benefits that will be created through the agreement. It should facilitate ways for SMEs to gain more knowledge about their counterparts, as well as creating meaningful and targeted information points, helping them to achieve regulatory compliance at all levels of government.

### Continuously improve EU instruments for supporting SME internationalization

The EU promotes SME internationalization through financing or running dedicated support organisations or programmes, such as:

- the “Enterprise Europe Network” (or “EEN”), which helps European SMEs to connect with partners within and outside the EU;
- the “EU Business Centres” financed by the EU in Asia;
- the training programmes and missions organized for approaching the Japanese market.





These EU programmes are delivering significant results – some more than others. Continuous improvement must be the motto (in particular for services that are delivered in third markets), paying due attention to:

- avoiding a “silo approach” in the deployment of these programmes, to increase effective use of resources
- giving adequate visibility to these EU programmes, and ensure that they focus on areas where they can bring added value compared to national initiatives.

It is crucial that business associations are more involved at the design phase of these programmes and of any other mechanisms aimed at helping SME internationalization, in order to be sure that specific features of SMEs are properly taken into account.

EU support for internationalization of SMEs should include initiatives helping SMEs to integrate in global value chains that link European production centres and third markets.

Under the conditions above, BUSINESSEUROPE supports the Commission’s idea to develop an integrated Commission strategy to help SMEs to do more business outside the EU (with the objective of increasing the percentage of such firms up to 20% by 2020), and is ready to discuss practical approaches.

## Explore possibilities of cooperation between organisations providing support for SME internationalization

Inside and outside the EU, there are more than 1200 public and private services supporting the internationalization of European SMEs, which seems impressive. But in fact, this toolbox is not optimized to enable SMEs to exploit the full business potential of non-European countries. There are gaps in the service offer and missed opportunities for synergy between players.

That’s why BUSINESSEUROPE supported the proposal, made by the Barosso II Commission, to bring a European dimension to the supply of services for SMEs in a number of priority third markets (establishing local platforms of cooperation between service suppliers).

The Treaties give broad competences to Member States for trade promotion, in a regime where competition plays between Member States. At the same time, it is clear that all the support functions do not show the same degree of sensitiveness vis-à-vis European cooperation. Possibilities should be explored for sharing basic information (on the market and the legal, tax and administrative environment, for example) on a free of charge or paying basis according to the nature of information. The Commission should encourage win-win cooperation approaches between the relevant players resulting in a new pooled information resource accessible by European SMEs and intermediaries.

But the cooperation between players should not develop only in the specific context of given third markets. There is also a need for a more strategic overall cooperation on SME internationalization. With this in mind, the Commission should bring together the various support organisations and stakeholders active in the local third markets as well as in Europe in a focused network or platform.





## 9 MAKE NATIONAL ADMINISTRATIONS MORE RESPONSIVE TO SME NEEDS

### Set clear objectives for improvement of the national business environments

The Small Business Act (SBA), as a set of 10 basic pro-entrepreneurial policy lines, was adopted in 2008 not only by the Commission but also by the Council. It has delivered valuable initial results. The SBA needs however to be implemented in a much more ambitious way, at both national level and Commission level.

About half the Member States still don't have a well established SME test for developing national legislation. This situation needs to be rectified.

A new governance of the SBA is needed, to increase its impact. The discussions in the Network of SME Envoys should inspire more national pro-SME initiatives, aiming at clear objectives in terms of improvements to the national business environment. These objectives could be, according to the policy areas concerned:

- either common objectives of minimal regulatory efficiency, defined at EU level
- either member-states specific objectives reflecting national circumstances and needs.

The definition of these objectives, and progress towards them, should involve national business associations.

There are huge differences in administrative efficiency across Europe. A small firm planning to manufacture simple steel products (with no production of toxic waste or effluents) gets the technical licences needed after 3 days in 3 EU countries, and after 3 months in 7 other EU countries. An EU objective should be set whereby the licenses needed to operate a company are obtained within 1 month.

### Zero-tolerance for late payment by public administrations

The EU Late Payment Directive stipulates that bills must be paid within 30 days by public authorities. The Commission should have a zero tolerance attitude vis-à-vis late payments by public authorities. The Commission must also push for a satisfactory solution for the backlogs of late payments originated in the past.

## 10 FOSTER A PRO-ENTREPRENEURSHIP CULTURE AND LEGAL ENVIRONMENT IN EUROPE

BUSINESSEUROPE calls for:

- modernizing education systems. All member states should ensure that entrepreneurship skills are embedded into curricula across primary, secondary, vocational and higher education before the end of 2015;



- minimizing the factors that negatively influence the level of ambition of entrepreneurs (such as high taxation levels and heavy administrative/regulatory burdens);
- giving a true second chance to honest entrepreneurs having failed, through implementation, by the Member States, of the Commission recommendation of 12 March 2014 on the discharge period for bankrupt entrepreneurs. Statistics show that in the US, one third of the companies having achieved the highest growth are lead by entrepreneurs who failed with the first business they created;
- EU countries to put in place national action plans on business transfers and have a one-stop shop on transfer or a transfer of business element in existing one-stop shops by 2017.

BUSINESSEUROPE welcomes the Commission proposal on the Single Member Company, which could be a useful legal tool for helping small businesses to expand their activities abroad.

## **FINAL REMARK: THE NEED FOR A TWIN-TRACK APPROACH TO IMPLEMENT A STRENGTHENED EU PRO-SME ACTION AGENDA**

In conclusion, BUSINESSEUROPE calls for the above pro-SME policy goals to be achieved:

- through the design and implementation of the EU strategic priorities and
- through a revised and strengthened Small Business Act (SBA), to be actively implemented at both EU and national level. The Commission should make a proposal for a revised SBA early 2015. As indicated in point 9, a new governance of the SBA is needed, to increase its impact.

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