BUSINESSEUROPE

SPEAKING NOTES

20 February 2012

EPP GROUP SEMINAR

THEME I: SUPPORTING SMALL AND MEDIUM-SIZED ENTERPRISES IN ORDER TO BOOST GROWTH AND CREATE JOBS IN EUROPE

Sub-theme: The Small Business Act: promoting SMEs' growth by helping them tackle the remaining problems which hamper their development

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A. REMINDER ABOUT SBA

The Small Business Act, adopted in 2008, defines 10 policy areas that deserve special efforts to underpin SME growth:

1. Promoting entrepreneurship
2. Giving companies a second chance in case of failure
3. Think Small First
4. Responsive administrations
5. Access to public procurement
6. Access to finance
7. Single market
8. Innovation
9. Turning environmental challenges into opportunities
10. Support to internationalisation

SBA is to be implemented at EU and national level.

B. Implementation of the SBA by the Member States level

Promotion of SME development is present in most government programmes. But this objective often does not receive the determination it needs. The Small Business Act is being implemented at **very different speeds** by the Member States. In some countries, the time to start a business is 32 days, whereas the EU average is 14. This EU average is itself much too high. The time required to transfer property can be as high as 152 days in some countries, against an EU average of 34 days.

So **Member states must accelerate the modernisation of their pro-SME policies**. Establishment of the **network of national SME Envoys** is encouraging in that respect, and is **expected to produce the following results**:

- The SME Envoys should intensify their exchange on innovative measures developed in their country to facilitate SME development.
- The Commission should monitor progress against the performance targets it has recommended to Member States in three selected areas (time for starting a business, availability of financing, participation in public procurement contracts,…).
- And finally, Member States should systematically apply the SME test to upcoming national legislation.

C. SBA IMPLEMENTATION BY THE COMMISSION

For SBA implementation, the Commission has given special priority to:

- Better regulation for SMEs
- Access to finance
- Internationalisation of SMEs.

Below are a few BUSINESSEUROPE messages on topical points in the policy debate.

1. Better regulation for micro-enterprises

- It is absolutely essential to limit the extension of the regulatory burden for micro-enterprises and SMEs in general because SMEs operating in good conditions make a strong contribution to job creation. Between 2005 and 2010, for instance, **85% of net job creation in the EU was among SMEs.**

- We consider that the **Commission** is developing innovative and **positive ideas for** better regulation of **micro-enterprises** (one to nine employees), in response to a request from the European Council.

- We are happy to see that the Commission has decided to adapt its regulation philosophy to allow for the fact that **there are two categories of legislation**:

  – First, legislation which covers **sensitive issues** such as consumer health, product safety, etc. For these issues, it is important to **define completely harmonised obligations** and implementing rules to be obeyed by all categories of business;
  – Second, legislation which covers **less sensitive issues** and where **modulated obligations** and implementing rules differentiated by business size **can be envisaged**. Such modulation can be achieved with partial exemptions (lighter regimes), extended transition periods, temporary exemptions, etc. This modulation of obligations has already

been applied by the Commission, but to a limited extent, and without a clear and well-established methodology.

- The need to envisage differentiated treatment arises from the fact that uniform administrative obligations can entail an administrative **burden** that is **higher by a factor of six to thirty for SMEs than for larger enterprises** (Commission figures).

- In this context, we welcome the Commission's decision to apply a more rigorous SME test **when preparing legislative initiatives which do not involve sensitive issues** requiring uniform rules for all businesses. **We support** the Commission's intention of designing all future legislative proposals in such a way **that micro-entities in particular are excluded from the scope of the proposed legislation unless the proportionality of their being covered can be demonstrated.**

- **We are satisfied** to see that the Commission has now made it very clear that it is the **DG initiating a draft proposal** which **has to demonstrate this proportionality.** This has not been the case hitherto. A proposal was deemed to meet the proportionality requirement unless DG Enterprise could produce, at very short notice, an economic (quantitative) study proving the contrary. This system has not functioned well in the past because relevant economic data were often lacking. In future, in cases where there are insufficient quantitative data, initiating DGs will have to make stronger efforts to produce solid qualitative analyses assessing whether a regulatory initiative is justified or not.

- We observe that this **Commission's initiative of pushing for a "standard impact assessment methodology" is sometimes wrongly understood as a "standard exemption concept for micro-enterprises".** We believe it **important that the Parliament is not dragged into this confusion** since it could slow the impetus towards putting in place framework conditions which are more conducive to entrepreneurship.

2. <u>Access to finance</u>

a) The need for a balance approach in designing regulation on finance

- **The conditions for access to loans have tightened** in most European countries. Banks are looking to hold increasingly low-risk assets, and this has led to **market deficiencies in the financing of SMEs** and start-ups.
- Moreover, the European Banking Authority is concerned about under-capitalisation of banks and has required 30 banks to **raise** their **capital ratios** to 9% of their risk-weighted assets by July. In this context, European banks may cut their asset base to meet capital requirements, **potentially reducing the supply of credit in Europe.**

- **BUSINESSEUROPE has supported** the actions of international and European **regulators** aimed at reinforcing prudential rules. **However, the objective of safeguarding access to finance should not be lost of sight.** Too narrow a focus on stability-enhancing regulation risks pushing up the costs of finance to a level which is not conducive to growth in investment and employment. Comprehensive impact assessments on the availability of finance of new regulatory initiatives which analyse the cumulative effects and interface of all relevant financial reform measures, accounting and prudential rules should be carried out.

- In the context of the **CRD IV proposal**, we are happy to see that **Mr Karas** wants to **lower the risk weight for SMEs loans** and we look forward to assessing his report.

- We also call for a shortening (from 2 years to 1 year) of the period to assess the effects of the new liquidity rules on SME lending.

b) EU financial instruments funded from the EU budget

- Given the current macro-economic context, the EU financial instruments funded from the EU budget and managed by EIF are of essential importance. The **COSME programme** (Competitiveness of Enterprise and SMEs Programme) foresees a continuation after 2013 of successful EIF **guarantee and venture capital instruments** for growth-oriented SMEs. The Commission's budget proposal for the financial arm of COSME (i.e. 1**.4 billion euros** over the period 2014-2020) **must be regarded as an irreducible minimum. An increase of this envelope is highly recommendable.**
- The proposed **Horizon 2020** programme also contains an equity facility and a guarantee facility intended to support research- and innovation-oriented enterprises. For these two facilities, the Commission proposes a budget of **3.8 billion euros** over seven years (30% of this is expected to support SMEs, i.e. 1,1 million euros). **BUSINESSEUROPE believes that these amounts must absolutely remain intact in** the upcoming difficult **discussions** between member states **on the multiannual financial framework.**
- EU financial instruments are particularly important in light of the fact that the provision of venture capital in Europe shrank from 17 billion euros in 2000 to 3 billion euros in 2010.

3. Internationalisation of SMEs

- In November 2011 the Commission proposed guidance for a **new EU strategy for SME internationalisation.** BUSINESSEUROPE completely endorses the Commission's concern to act as a good manager and to carry out **first** of all a **detailed assessment of the functioning of numerous support instruments** which have been developed hitherto, such as:

- Enterprise Europe Network (EEN), which must deliver information to the SME doorstep;
- SME Centres abroad;
- support programmes for brokerage events.

BUSINESSEUROPE urges that this assessment **should be a preliminary** to an in-depth **examination** of the **possibilities for optimising the current EU support instruments portfolio.**

- A budget of **0.5 billion euros** has been proposed **for these instruments** in the framework of the **COSME programme**, for the period 2014-2020. If a budget of this order of magnitude is to be used effectively, it will be important to **put in place a new governance model for** EEN, as announced by the Commission. **Representative business organisations should be present in this new governance structure,** so that the activities of services providers in the field of internationalisation are truly in line with the priorities of companies.

- Lastly, BUSINESSEUROPE attaches great importance to **bringing a European dimension to the supply of services for SMEs exporting or investing outside the EU.** The EU member states and business networks should explore the possibilities for **new models of labour division**, making it possible to fill gaps in support services for SMEs. The support of Parliamentarians for encouraging the development of win-win models with positive fallout for all stakeholders would be appreciated.

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