**Background document**

**INT/755 – *SBA experiences in the USA and EU: 'best practices' for innovative SME actions***

# **EU development – from Charter for Small Enterprises to Small Business Act**

## **European Charter for Small Enterprises – 2000**

### This Charter was adopted by the EU leaders at the Feira European Council in June 2000. It was a self-commitment from the Member States to improve the business environment for small enterprises in the Member States and at EU level, with no legal force.

### The Charter was specifically intended for small enterprises with fewer than 50 employees.

### Key considerations were:

*“Small enterprises are the backbone of the European economy. Europe’s efforts to usher in the new economy will succeed only if small business is brought to the top of the agenda.”*

*“Small enterprises must be considered as a main driver for innovation, employment as well as social and local integration in Europe”.*

### Under this Charter the European Council decided to concentrate on specific action lines:

* education and training on entrepreneurship;
* cheaper and faster start-up;
* better legislation and regulation;
* availability of skills;
* getting more out of the Single Market;
* taxation and financial matters;
* technological capacity;
* top-class small business support;
* stronger representation of small enterprises’ interests at EU and national level.

### In Mr Pezzini's 2000 opinion[[1]](#footnote-1), the EESC welcomed the Charter. It recommended that the evaluation criteria needed to be improved, using objective criteria such as business start-up rate, the lifespan of new companies, the cost of credit, and the availability of risk capital for small companies. These criteria could be used to establish a scoreboard.

### In Mr Giron's 2001 opinion[[2]](#footnote-2), the EESC recommended that the yearly implementation report deal with the various types of small enterprises and not SMEs in general. The report should be separate, not integrated in the Lisbon Strategy.

### Until 2005, activities and progress were documented in the annual Charter Reports on the situation in the EU and per Member State, but in 2006 reporting on the Charter was integrated into the Lisbon Reporting.

## **EU "Small Business Act" (SBA-EU) – 2008**

### The Commission studied the SBA approach in the USA, and published its Communication "Think Small First, a Small Business Act for Europe" in 2008[[3]](#footnote-3).

### "Being SME-friendly should become mainstream policy, based on the conviction that rules must respect the majority: the ‘Think Small First’ principle."

### "The symbolic name of an 'Act' underlines the political will to recognise the central role of SMEs in the EU economy".

### A fundamental difference between the Charter of 2000 and the SBA is: the Charter was specifically intended for small (and micro) enterprises with fewer than 50 employees. The SBA has a wider target group: SMEs with fewer than 250 employees.

### Only a limited number of new legislative proposals were proposed:

* block Exemption Regulation on State Aids;
* European Private Company (later withdrawn);
* reduced VAT rates for labour-intensive services;
* modernisation and harmonisation of VAT invoicing;
* late payment directive (amendment).

### The bulk of the SBA concerns a new policy framework, integrating existing enterprise policies and building on the Charter for Small Enterprises.

### The 10 principles for designing and implementing SME policies at EU and national level are:

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| **No** | | **Principle** | | **Commission / Member State actions** | |
| I | | Environment in which businesses and entrepreneurship can flourish | | European SME Week; Erasmus for Young Entrepreneurs; network of female entrepreneurs; taxation-friendly transfer of businesses | |
| II | | Second chance after bankruptcy for honest entrepreneurs | | wind up non-fraudulent bankruptcies within a year | |
| III | | Design rules according to ‘Think Small First’ principle | | subsidiarity and proportionality; mutual recognition and self- or co-regulation; SME test for new legislation; better consultation; derogations for reporting; 25% reduction in administrative burden; simplification of existing EU regulations | |
| IV | | Make public administration responsive to SMEs | | reduce time and fees to set up a business; reduce and simplify licences and permits, granted in one month; less statistical burden; implementation of Services Directive, including single contact points | |
| V | | Facilitate participation in public procurement and better use state aid possibilities | | Code of Best Practice for contracting authorities; electronic public procurement portals; subdivide contracts into lots; SME-friendly state aid policies | |
| VI | Better access to finance and timely payments in transactions | | strengthen venture capital markets; fiscal incentives for investments; better use of cohesion and agricultural programmes | |
| VII | Benefit from the Single Market | | increase SME participation concerning standards; reduce trademark fees; eliminate fragmentation of consumer protection rules; mutual recognition principle; Boost SOLVIT | |
| VIII | Promote upgrading of skills and innovation | | Leonardo Da Vinci programme on apprentices; participation in RTD Framework Programmes; simplify state aid rules to support RTD; stimulate high growth enterprises; develop cluster strategies | |
| IX | Turn environmental challenges into opportunities | | better access to Eco-Audit and Management Scheme EMAS; support for eco-innovative start-ups; Community Guidelines on state aid for environmental protection; use of Cohesion Policy programmes | |
| X | Benefit from the growth of markets | | opening up of non-EU private and procurement markets; European Business Centres in India and China | |

### In the opinion by Mr Malosse and Mr Capellini[[4]](#footnote-4) the EESC supports a European-style SBA, but proposes a more ambitious one. It refers to the American SBA.

### Key Committee recommendations included:

* a binding legal instrument governing 'Think Small First';
* establishing an SBA Committee, involving Member States and European representative bodies;
* appoint an SME coordinator at each Commission DG;
* discuss an annual SBA plan in each Member State, separately from the National Reform Programme;
* appoint a national SME envoy in each Member State, responsible for implementing the SBA at national level.

## **Review of the EU Small Business Act (2011)**

### In 2011 the Commission published its communication 'Review of the SBA for Europe'[[5]](#footnote-5). The Commission concludes, two years after starting the SBA, that there is progress, but more needs to be done.

### In its evaluation the Commission concludes regarding its progress on the SBA:

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| **Commission’s self-evaluation progress** | **Examples** |
| Improving business environment | Block Exemption Regulation on State Aids; European Private Company, not adopted; Reduced VAT rates for labour- intensive services; Modernisation and harmonisation of VAT invoicing; Late payment directive amended; Commission has adopted the SME test in its impact assessment |
| EU’s role in access to finance has grown | By 2013 around 300 000 SMEs benefiting from Competiveness and Innovation Programme CIP; SME Finance Forum |
| Access to markets is improving | Progress on SMEs’ access to standards, including support for Normapme; SMEs secure 33% of value of public procurement; SME centre opened in China |
| Entrepreneurship takes its place | New financial instruments for start-ups and fast-growing firms; simplification of EU RTD programmes; cohesion and agricultural programmes better used |

### Regarding developments in the Member States, the Commission is less positive:

* progress in reducing the administrative burden and implementing national SME tests is slow;
* "access to finance has improved", but a stronger approach is needed;
* few countries promoted the European Code of Best Practices in order to improve SMEs’ access to public procurement;
* "no progress can be reported in the area of simplification of bankruptcy procedures".

### The SBA Review proposed new actions responding to the economic crisis and in line with the Europe 2020 strategy in the following areas:

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| **Areas of action** | **Main elements** |
| Smart regulation | 'SME Test', taking into account size of enterprises; 'only once principle' for data gathering; simplify accounting framework; reduce "gold plating"; regulatory 'fitness checks'. |
| Financing needs | More loan guarantees; simplify funding procedures; venture capital funds should be able to function freely in EU; ‘credit ombudsman’ solutions; create one-stop shops where SMEs can apply for European, national and local grants. |
| Enhance market access | Unfair commercial practices; Common Consolidated Corporate Tax Base; reduce administrative burden of VAT; revision of standardisation system; cross-border debt recovery; Code of Best Practices facilitating SMEs' access to public procurement.  Support EU SMEs in non-EU markets; address problems with Trade Defence Instruments; eliminate non-tariff barriers in Free Trade Agreements.  Energy Efficiency Plan; Eco-innovation Action Plan; better use of state-aid possibilities and European Social Fund. |
| Entrepreneurship, job creation and inclusive growth | Female entrepreneur schemes; project on business transfers; Social Business Initiative; start-up time for new businesses to 3 days, costs to 100 euro; reduce time to get permits to one month; wind up bankruptcies within 3 years. |

### Strategic improvements involve strengthening governance:

* The Commission will continue to issue general annual reports on the individual Member States in line with the Lisbon strategy; SBA progress is included in this exercise.
* An SBA Advisory Group will be set up, comprising representatives of governments and business organisations. Its task is to evaluate reports, disseminate information and promote good practices. (Although there has been an Enterprise Policy Group based on this model since 2006, it is unclear what the current status of this SBA Advisory Group is).
* The SME Envoy Network was introduced, comprising the Commission's SME envoy and those of the national administrations. This should establish a direct link between the Commission, national administrations and national business organisations.
* Further development of the SME Performance Review, to monitor the Member States' implementation of the SBA based on success indicators.
* Setting up national and local SBA implementation plans, backed up by a strong monitoring mechanism and in coordination with business organisations. (Status quo unclear).

### In the 2011 opinion by Mr Lannoo[[6]](#footnote-6) the EESC recognises that greater attention has been given to SMEs.

Key Committee conclusions included:

* the Committee believes that the SBA should take a more binding form;
* implementation of the SBA and its ‘Think Small First’ principle is often patchy;
* the SBA will not succeed unless a multi-stakeholder governance partnership is established (with social partners and public and private stakeholders).
* the essential role of intermediary organisations from the public and private sector by providing tailored services is neglected;
* the EESC calls on the Council to establish a special annual Competiveness Council for SMEs, microenterprises and the SBA.

## **Public consultation on the SBA – 2014**

### In September 2014 the Commission opened a consultation how the SBA should be revised, called "A strong policy to support SMEs and entrepreneurs 2015-2020".

### The Commission concludes that the SBA has not been fully implemented in many Member States.

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| **Five key areas** | **Possible new elements** |
| Reducing administrative burden | Lowering cost of intellectual property;  Better consultation of SMEs and their representative organisations;  Simplify tax regimes for start-ups. |
| Access to finance | Strengthen venture capital markets;  Mobilise COSME for 220 000 SMEs: venture capital and guarantees;  Develop alternative sources of EIB finance. |
| Access to markets | European Enterprise Network: yearly target 500 000 SMEs as clients;  Integrated strategy on internationalisation;  Measures for mid-range enterprises, to support their globalisation. |
| Entrepreneurial and innovation potential | Scale up Erasmus for Young Entrepreneurs: 10 000 exchanges per year;  Projects on business transfers;  European Cluster Growth Policy Platform. |
| Reinforcing skills development | Training schemes for skilled workers;  Dual system in vocational training;  Better image of skilled crafts and technical jobs. |

### The consultation is closed and the Commission will publish a report on the results. A proposal for a new SBA could be adopted in the first half of 2015.

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1. OJ C 204, 18.07.2000, p. 57. [↑](#footnote-ref-1)
2. OJ C 48, 21.02.2002, p. 11. [↑](#footnote-ref-2)
3. [COM(2008) 394 final](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:EN:PDF). [↑](#footnote-ref-3)
4. [OJ C 182, 14.1.2009, p. 30](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:182:0030:0035:EN:PDF). [↑](#footnote-ref-4)
5. [COM(2011) 78 final](http://ec.europa.eu/enterprise/policies/sme/small-business-act/files/sba_review_en.pdf). [↑](#footnote-ref-5)
6. [OJ C 376, 22.12.2011, p. 51](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:376:0051:0057:EN:PDF). [↑](#footnote-ref-6)