

SME UNION of the EPP
22, Rue de Pascale
B-1040 Brussels
Tel.: + 32/ 2/ 233 38 38
Fax: + 32/ 2/ 230 92 18
sme@sme-union.org
www.sme-union.org



Small and Medium Entrepreneurs Union
of the European People's Party

A Small Business Act (SBA) for Europe

SME UNION of the EPP Draft Input

March 2008

Key elements for a Small Business Act (SBA) for Europe

A. General elements of a Small Business Act (SBA) for Europe

- Make SBA a **legally binding** instrument
- Make the “**Think Small First**” principle a **guiding principle** in all relevant legislation and national law making
- **Benchmark European and national SME-Measures on a regular basis**, e.g. at the Competitiveness Council meetings.

B. Binding content concerning SMEs

(Annual reporting on progress / implementation by Commission and Member States)

1. Simplify the regulatory framework

- Any legal initiative should undergo the following control: New proposals: obligatory consultations (provided at an early stage or even “pre-consultations” of stakeholders to draft green papers, provide consultations in the three main official languages) and **impact assessment**; aim: clear, user-friendly and understandable legislation.
- **New EU-legislation should be systematically limited in time** as far as certain measures are appropriate. After expiration, the validity, not the abolition of such regulations has to be justified.
- Simplify **Intrastat** with a view to alleviate the statistical reporting of economic operators, in particular SMEs.
- **Reduction of administrative burden of at least net 25 percent**: Laws, norms, documentation obligations and statistical reporting requirements are far too complex and extensive for SMEs. Therefore the SME UNION proposes the simplification of norms and processes for SMEs with less than 250 employees.

This would lead to a significant reduction in administrative efforts and expenses. The problem could be tackled in the following way: Distinction between A- and B-policies: while the A-policies apply to big companies, B-policies (which are lighter and slimmer versions of the A-policies) are enacted for SMEs. The target lies in a reduction of 25 percent for SMEs within three years. A contribution to this target could also be seen in the establishment of a European Private Company Statute (EPC).

A revision of the existing rules in the areas of innovation, research and development, venture capital, supporting schemes for education and employment, services of general economic interest, regional aid, support programmes for the protection of the environment, supporting schemes for infrastructure in the areas of traffic, energy as well as information and communication is necessary.

In addition the adoption of a general block exemption regulation and the evaluation of the establishment of independent national authorities for the support of state aid policies have to be discussed. The frequently used financing method of SMEs in the field of capital guarantees has to be secured within the block exemption regulation. The objectives of the Commission are welcomed, especially where simplifications and accelerations of processes as well as measures against state aid competition among member states are concerned. In the same way it is welcomed that the extensive and complex regulation framework is to be revised for the sake of clarity.

2. **Simplify Taxation**

- **Increase “de minimis” Rules in the VAT Area:** Harmonize threshold up to which an entrepreneur may be exempted from paying VAT.
- **One-Stop-Shop for value added tax:** this request aims at the minimization of the administrative effort for entrepreneurs who are doing business across national boundaries in other EU member states. This regulation should make it possible for entrepreneurs to fulfil the value added tax responsibilities in the business’s country of origin.

3. Improve SMEs' access to Single Market and Innovation

- Set up a Statute for a **European Private Company** to simplify cross border activities
- Promotion of **innovation programmes**: A SME friendly innovation definition, as already considered lately by the EU Commission, should support within the scope of the promotion of innovation especially the SMEs. The focus should especially lie on innovation in the services sector. By strengthening innovation programmes in rural areas SMEs should be motivated to start businesses there which would lead to a stimulation of these regions.

4. Ensure better access for SMEs to Public Procurement

- Prioritize **splitting of tenders** into expert-lots and partial lots
- **Simplify conditions for obtaining loans and credits** in the context of public procurement
- Appropriate organization of **public contract placing** especially supporting innovative solutions for SMEs and ensuring their regional involvement.

5. Improve SMEs access to Finance

- **Make EIB – funding available to SMEs at regional level.** In this context EIB should introduce an information campaign to increase awareness of SMEs for EIB funding. EIB should ask the financial intermediaries in its negotiations with them to consider especially SMEs with their respective regional needs when drafting their financial products.
- **Microcredits:** There is already a lot of effort on the EU-level to support microfinance in the member states; only the EIB does not offer a product yet. SME UNION therefore proposes a global loan facility for micro loans (global micro loan facility), which would cover up to 75 % of the projects costs. In one person and micro enterprises the need for capital often exceeds the EUR 25.000,-threshold, often only marginally. We therefore propose to set the upper

limit for individual projects eligible for support under the EIB global micro loan facility at EUR 50.000,-.

In general the target for EU-support for micro loans should not be restricted to "non-bankable groups", because also for one person enterprises and micro businesses access to micro-finance often could be difficult due to the reluctance in the banking sector in some countries to extend very small loans.

To reduce the risk of failure of the individual business, publicly supported micro credit initiatives could be linked with advice by regional chambers (or SME associations if there are no chambers in the respective region), and/or subsidized mentoring/coaching by professional consultants.

- **Finance in the range of EUR 25.000 to EUR 1 Mio** : The need for capital for one person and micro enterprises can often exceed the EUR 25.000,- threshold, often only marginally. Because there are already a lot of EU-initiatives to support microfinance, in the framework of the Small Business Act priority should be given to finance above the microfinance threshold, which means finance in the range of EUR 25.000,- to EUR 1 Mio. Dependent on the situation in individual member states the range could be narrower defined in the respective country and would therefore allow the necessary flexibility.

One good example for a finance initiative in the Small Business Act would be the "initiative small business" (Initiative "kleiner Mittelstand") by the German promotional bank KfW which consists of a number of programmes to support small business (like loan guarantees, support for mezzanine finance, micro finance, and advisories services).

Concerning **mezzanine finance** and **venture capital** the Small Business Act should give priority to "down sizing" which would mean giving access to these instruments also to smaller enterprises (see also final report on mezzanine finance by the 5th Round Table of Bankers and SMEs, May 2007) - In state aid law the Risk Capital Guidelines already in principle foresee a EUR 1,5 Mio upper limit for an investment per enterprise and year that can be supported publicly. Programmes on mezzanine and venture finance should not be solely concentrated on innovation but should also support the financing of business

transfers to secure existing enterprises (it is well known that in the EU a large number of enterprises is going to be transferred in the next years).

Since the EIF is already very active in the venture capital market, the EIB should develop a product designed to foster the mezzanine market for small businesses.

Without doubt the EIF has contributed to the build up and growth of the venture capital market in the EU. The EIF should now concentrate more on branches and regions where still an equity gap exists because only market failure would justify public, or in this case EIF intervention; It should be examined whether the pari passu-principle (EIF and private co-investors invest on equal terms) is an obstacle to the aim of closing equity gaps in small business finance.

Because of the current crises on the market for asset backed securities the EIF should give new impulses to the SME loan securitization market.

6. **Promote entrepreneurship, skills and mobility**

- **Set up an ERASMUS for young entrepreneurs and apprentices.** Use Pilot projects such as “Erasmus for entrepreneurs”, Comenius plus and “Erasmus for apprentices” to strike a new path for the better use of European funding programs.
- **Include entrepreneurship in general-education schools** as well as in technical training and business studies taking into consideration best practices developed in the vocational training sector, like e.g. a European Standard in Entrepreneurship Education (Germany) or an “Entrepreneurs’ Skills Certificate” (Austria).
- Promote the “**Dual Qualification System**” as a good practice.
- Encourage Small business managers, employees and apprentices to upgrade their **ICT skills** by way of further awareness-raising and training that takes into account their specific situation.

7. Make Sustainability real for SMEs

- **Capitalize SMEs' position when drafting renewable energy legislation:** SMEs have a specific proximity to the customer. They advise customers on renewable energy / energy efficiency measures (photovoltaic installations, heat pumps, etc) and carry out the works. Furthermore a lot of SMEs employ specially qualified energy consultants, which are allowed to issue energy performance certificates for buildings. With their competence SMEs also play a crucial role in decentralizing energy production.
- **Promote the unbundling-concept** (splitting networks from the production and sale of energy) as well as the idea of decentralizing production. SMEs rely on secure and cost effective energy supply, but they can also strengthen decentralized production of power. Therefore, an unrestrained access to the grid is necessary.
- Small enterprises have difficulties to deal with environment regulation: The SBA should include a political approval on a **quick and full implementation of the proposed European Compliance Assistance Programme (ECAP)** at European and national level, in order to help small enterprises to understand and to apply environmental legislation.
- **Energy-saving and SMEs:** To increase the energy-saving potential of SMEs there has to be better and more appropriate information and investments in the framework of SME instruments programmes promoted.

8. Ease SMEs hardships with late payments

- Add various **sanction fees** to payments which are late: This measure encourages debtors to pay on time. There have been various "best practice"-solutions in some member states that can be implemented on a EUwide basis.
- Take steps to **unify bankruptcy laws** in Europe in order to bring the same conditions for companies throughout the Union. At present, some countries make the life of SMEs harder due to strict laws in this area.

- **Limit payment length:** SMEs would benefit from congruent payment terms in a sector. If this could be achieved Europe-wide, competition for companies in this field becomes more transparent.
- **Include payment record** into the European Business Register (EBR) and national business registers. Thus companies are encouraged to pay earlier in order to build up a reputation as a reliable partner.

9. **Shift focus of grants from individual to regional perspective**

- SME are helped in a bigger way by **making EU-grants available for regions** and not for single projects alone. Having experts from the region choose the projects is much more effective and targets the right companies. From a long term perspective, **investments in infrastructure** are more beneficial for SMEs in a region than grants for particular projects or companies.

10. **Provide a suitable business environment for women entrepreneurs**

- The European Commission should add a **specific chapter on women entrepreneurship** including the following issues:
 - Strengthen the position of female entrepreneurs by a **better access to finance**, especially via micro-credits. Surveys have shown that financing is the major issue to keep women from starting their own business.
 - **Advertise the existing programs** in a more efficient way, so that the awareness for grants and other aids in any kind of form is raised.
 - **Better combination of working and family life:** It should be easier for women to combine work and family life i.e. by having good provisions for maternity leave and childcare.

11. **EU support for SME energy audits**

- In order to provide security for SMEs which need to rely on stable framework conditions to plan their projects, the Commission in dialogue with the Member States have to ensure that innovative energy efficiency technologies and

services are supported so small businesses can profit from the business opportunities in this field. **Energy audits** have to be made easier available, at affordable prices, in cooperation with banks and business organisations. The newly created European Enterprise Network could be a qualified first and single point of contact. Practical implementation of energy saving measures identified during such energy audits have to be facilitated by suitable **financing models and EU-level funding programmes** in close connection with these audits.

12. European Private Company (EPC)

- Set up a Statute for a European Private Company to **simplify cross border activities**.
- The future EPC Statute should not act as a mandatory substitute for national statutes but as an **optional alternative**.
- In order to reduce costs for cross-border operations and to increase legal certainty, an EPC statute has to be **as simple and quick as possible** as regards **registration formalities** and **accounting standards** in order to offer an attractive alternative for European SMEs.

13. Community Patent

- The Small Business Act would represent a unique chance to strengthen the IPR protection for SMEs. Small enterprises need **efficient IPR protection** to protect their innovation efforts vis-à-vis competitors from outside the European Union.
- To lower the costs for necessary IPR protection the future community patent system has to create a system of **cheaper and faster translation mechanisms** and to **reduce the number of working languages**.
- For SMEs being active abroad it is helpful to gain **access to the necessary information** concerning foreign IPR protection in their home countries.
- A cheap, reliable and fast **Community patent litigation system** for SMEs has to be introduced.

14. **SME definition**

- The widening of the definition of SMEs would lead to an **emptying of any SME policy**. 250 employees is already a quite big enterprise in Europe – due to this already wide definition real SMEs are missing European support. **Expanding** the definition of SMEs would mean more money for larger enterprises and **fewer money for SMEs**.
- Often companies having more than 250 employees are already world market leaders – they should not be addressees of any SBA policy.
- The current SME definition is **necessary to adjust existing market faults** and to remove economic disadvantages for the SMEs.

Further information: sme@sme-union.org, www.sme-union.org; Tel: +32/2/233 38 38

The SME UNION (Small and Medium Entrepreneurs Union) of the EPP (European People's Party) is the business organization of the EPP and network of pro-business Christian-Democrat, Conservative and Center Right politicians and political organizations. As officially recognized EPP Association its main objective is to shape EU policy in a more SME friendly way. www.sme-union.org