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**COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**THINKING SMALL
IN AN ENLARGING EUROPE**

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The Lisbon European Council set the objective of making Europe the most competitive and dynamic knowledge-based economy in the world by 2010. Europe's competitiveness depends strongly on its small businesses, which are a key source of jobs, a breeding ground for business ideas and a main driver for entrepreneurship. For this reason, the Feira European Council endorsed the "think small first" principle¹ as one way to progress towards the Lisbon objectives. This message has been reaffirmed in the Commission's 2003 Spring Report to the Spring European Council, which places particular emphasis on boosting investment, jobs and growth through knowledge, innovation and business dynamism².

To meet this challenge requires a better business environment within the Internal Market, including for example the lightest possible administrative and regulatory burdens on businesses and access to finance. It also requires entrepreneurial attitudes that prompt people to transform ideas into businesses and to learn from failure. It also calls the EU to develop more positive attitudes towards entrepreneurial initiatives and risk taking.

To respond to this challenge, the Commission and its services are publishing a series of documents assessing progress in supporting Europe's small and medium sized enterprises. These examine whether or not the Union is meeting its commitments and how small business friendly is the business environment that is being created. This Communication acts as an "executive summary" for those reports, highlighting five key messages.

This Communication and these reports:

- Report on the Implementation of the European Charter for Small Enterprises³;
- Report on the implementation of the European Charter for Small Enterprises in the candidate countries to accession to the EU⁴;
- "Creating an entrepreneurial Europe: The activities of the European Union for small and medium-sized enterprises (SMEs)"⁵;
- "The SME Envoy: an active interface between the Commission and the SME Community"⁶

¹ This commitment is embodied in the European Charter for Small Enterprises as endorsed by the Heads of State or Government at the Santa Maria da Feira European Council of 19-20 June 2000 (Annex III of the conclusions of the Santa Maria da Feira European Council).

² "Choosing to grow: Knowledge, innovation and jobs in a cohesive society", COM(2003) 5, 14.1.2003.

³ COM (2003)21.of 21 January 2003.

⁴ SEC (2003)57.of 21 January 2003.

⁵ SEC (2003) 58.of 21 January 2003.

⁶ SEC (2003) 60.of 21 January 2003.

help to set the scene for the Green Paper on entrepreneurship launched the same day examining the Union's overall approach to entrepreneurship and the conditions needed to ensure the capacity of European businesses to grow.

Most measures to improve the environment for small businesses fall under national responsibility. In this context, much of the Commission's work in this area aims to help Member States improve their performance through the so-called Open Method of Co-ordination, which itself responds to a request of the Lisbon European Council.

1. Europe must listen better to small businesses

Small businesses represent the vast majority of businesses in Europe. This is why Member States committed themselves to “think small first”. However, one of the difficulties is that small businesses and their employees are not always good at making their concerns known. They may feel that they have more pressing concerns than talking to government. As a result, consultation of small and medium sized enterprises in policy and law making remains low across the EU.

The report on the Implementation of the European Charter for Small Enterprises shows that some Member States are however leading by example with an array of different channels to speak out to small businesses. For example, the Small Business Council in the UK organises hearings with small businesses across the country and represents the voice of small business to the Government. Its Chairman participates in ministerial meetings and presents annual policy recommendations to the Government. For its part, the Danish administration consults over 1 000 representative companies each year on administrative burdens. A new method to measure administrative burdens was developed in Sweden and Finnish business representatives participate in working groups drafting legislation. Business organisations in countries such as Germany and Austria are regularly consulted on draft legislation.

On the other side of the equation, several countries still provide no opportunities for small businesses to express their interests and concerns. More needs to be done as a matter of urgency to give small businesses the opportunity to voice their views.

This challenge becomes more explicit within the future enlarged Europe. From the report on the implementation of the Charter in the candidate countries it can be seen that several of these countries have still to create means to involve business representatives in the policy and law-making process. Feedback from the business community is a key to ensuring that new measures to foster entrepreneurship are on the right track from the start.

In addition, business organisations, in particular those representing small and medium sized enterprises, also have a role to play in further developing their representation. Their members should recognise that this is in their interest and support their organisations accordingly.

Listening to small businesses and integrating their concerns into different Community policies is a major task for the Commission SME Envoy, appointed within the Enterprise Directorate General just over one year ago. The SME Envoy acts as a facilitator between SME representatives and the Commission services seeking to ensure that SMEs' needs are taken into account in Community policies and initiatives. He can play an important role in increasing the awareness of SME issues inside the Commission, in fostering dialogue with business organisations and in promoting the “think small first” principle.

2. Member States step up exchange of good practice

When it comes to listening to small businesses, clearly there is scope for learning from successful practice. This is starting to happen in other areas, as demonstrated in the report on the implementation of the Charter. A growing number of Member States demonstrate the influence of other countries' ideas in shaping their national policy measures. This is real progress that responds to the conclusions of the Barcelona European Council.

For example, Denmark has developed a web site to register companies on-line. This was to some extent inspired by the results of an EU-wide project. Sweden has created a loan guarantee scheme for SMEs inspired by practices developed in the Netherlands and in Finland. Belgium has learned from the experience of Denmark, France, the Netherlands and Austria in designing its cluster policy⁷.

The Commission is pushing ahead with this process of learning from good practices, which is now starting to bear fruit. The candidate countries are also joining in. Some of their innovative measures may provide a source of inspiration to the Member States.

However, while Member States are learning from one another, performance remains uneven across the EU. For example, registering a company on-line is already possible in some Member States⁸ such as Denmark and Austria, soon in Sweden, and is planned in Spain and France. However, other Member States keep struggling with lengthy and complex start-up procedures. Some Member States offer small businesses the opportunity to complete obligations on-line, while others are only starting to make forms available by electronic means.

There is a risk that the best may be getting better and the worst performers not progressing. There is also a clear need for candidate countries to close the gap that separates them from EU frontrunners. Efforts to exchange good practice must be stepped up. Only in this way can Europe bridge its performance gaps, particularly in the context of an enlarged Europe.

3. Teaching Entrepreneurship: the role of Education and Training

Whether or not to wish to be an entrepreneur is a question to which a fair amount of people in the EU gives a negative answer. The propensity towards entrepreneurship⁹ remains relatively weak across the EU when compared to the US. However, some Member States such as Greece, Portugal, and Spain have a higher propensity towards entrepreneurship than the US, and Italy has an equivalent rate. In addition, people working in small and medium sized businesses need access to appropriate learning opportunities to keep their skills and competence updated. That is why Member States are increasingly turning their attention to the promotion of entrepreneurship in education and training, thus meeting the interest of Europeans, many of whom are willing to learn how to start or take over a business.

⁷ These measures are described in Member States' 2002 reports on the Charter, available at http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter2003.htm.

⁸ Source: Member States' reports on the Charter.

⁹ In 2001, EU propensity to entrepreneurship (48 % of people would favour to be self-employed) remained 11 percentage points below the US propensity (59%). Greece (68 %), Portugal (63 %), and Spain (60%) have higher propensity rates than the US, and Italy has the same rate (59 %). Source: Flash Eurobarometer 107 (2001): Entrepreneurship. Survey conducted on behalf of The European Commission, Directorate-General Enterprise by EOS Gallup Europe (http://europa.eu.int/comm/enterprise/enterprise_policy/survey/eurobarometer83.htm).

The Charter report shows that Member States such as Belgium are developing framework programmes to support entrepreneurial initiative and positive attitudes towards entrepreneurship¹⁰. Overall, there is a growing awareness that entrepreneurship is an attitude and a choice of life that needs to be fostered and taught from an early age. Self-motivation, creativity, initiative and the ability to cope with risk can be encouraged by progressive education from an early age.

One year ago, only two Member States were starting to promote entrepreneurial attitudes such as initiative and motivation in primary schools. Today almost one third of the Member States¹¹ are implementing initiatives to this end and more is in the pipeline. Several new measures targeting secondary schools have been launched. For example, projects putting pupils directly in contact with entrepreneurs, either by taking entrepreneurs to schools, or by taking pupils to visit enterprises are in place in Ireland, Luxembourg and the UK¹². Secondary school students in some Member States including Greece attend classes on entrepreneurship. And at least half the Member States are helping secondary school students to learn how to create and develop a company: the Netherlands is particularly committed to this end¹³. Raising teachers' entrepreneurial knowledge is also a growing concern in several Member States' policies.

All this points Europe on to the right track to become more entrepreneurial. But while progress is encouraging, initiatives in education and training will only produce effects over the medium- to long-term.

4. Creating an entrepreneurial culture in the candidate countries

For the candidate countries, building an entrepreneurial culture is the main challenge. Beyond the implementation of the *acquis communautaire*, the candidate countries need competitive enterprises¹⁴ and a favourable business environment in order to reap the benefits from the internal market.

In the candidate countries in particular, fostering entrepreneurial attitudes starts with education. The report on the implementation of the Charter in the candidate countries shows that there are encouraging signs. Teaching entrepreneurship and business skills has become part of the secondary school curriculum in almost half of the candidate countries¹⁵. And throughout the candidate countries there are a wide variety of training programmes to enhance business skills. Training programmes for small businesses in Estonia and Lithuania, for example, have been embedded in a broader context of lifelong learning. But there is a long way to go to provide a comprehensive approach to entrepreneurship-related education at all levels.

¹⁰ Source: Belgium's 2002 report on the Charter.

¹¹ These countries are Ireland, Sweden, Finland and the UK. Also Norway is carrying out such measures.

¹² See the Report on the Implementation of the European Charter for Small Enterprises, COM (2003) 21. and Member States' national reports available at http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter2003.htm

¹³ Students may learn how to create a mini company in Belgium, Germany, Spain, Italy, Luxembourg, the Netherlands, Austria and Norway.

¹⁴ According to a survey measuring the number of people involved in starting a business, Candidate Countries surveyed do not demonstrate a distinct pattern as a group compared to EU Member States. Global Entrepreneurship Monitor, 2002 Executive Report Reynolds, Bygrave, Autio, Cox and Hay.

¹⁵ Entrepreneurship is part of the school curriculum in Poland, Hungary, Latvia, Lithuania and Romania.

Public authorities also need a shift in mentality to provide a favourable environment for the creation, growth and transfer of businesses. In this context, candidate countries are starting to cut red tape. The administrative costs and time required to set up a new enterprise have been reduced in such a way that some candidate countries¹⁶ are at the same level as the best European performers. One-stop-shops have been set up to reduce the administrative burden, and bankruptcy laws have been improved in several countries.

To further reduce red tape for small businesses, some candidate countries¹⁷ have begun to provide information and services on the Internet. The interactive use of electronic communication tools has been fostered in such a way that entrepreneurs in Slovakia, Malta, Latvia and Lithuania can submit tax declarations and other official documents electronically.

In other areas, progress is less encouraging. Access to finance for SMEs is still difficult, although many candidate countries use tax instruments efficiently to increase SMEs' financial capacity. Lithuania, for example, has introduced a lower basic tax rate for micro enterprises than for larger companies, as well as other concessions in form of exemptions and VAT reductions¹⁸. Also innovation and technology potential are not yet sufficiently exploited. Coherent national strategies are still missing or too recent to have had any significant impact.

5. Putting SMEs at the forefront of all Community policies

Because the European economy is SME-driven, almost every Community policy has an SME dimension. SMEs' special needs and concerns are incorporated into most Community policies and programmes, as presented in the report on the activities of the European Union for SMEs.

For example, the Structural Funds are spending some €16 billion¹⁹ on SME-targeted projects in the period 2000-2006. Approximately one third of this Community aid to SMEs is dedicated to advisory services and to shared business services, such as incubators, networking, and clusters. In addition, this Community aid is triggering large matching support from national funds.

Also the Multi-annual Programme for Enterprise and Entrepreneurship and in particular SMEs²⁰ and its financial instruments, is geared towards improving the business environment of small and medium sized enterprises.

In the candidate countries, pre-accession assistance has increasingly been channelled to support small and medium sized enterprises. This reflects candidate countries' willingness to use available funds to implement the European Charter for Small Enterprises. After enlargement, the Structural Funds should play an important role in fulfilling the Charter's commitments.

¹⁶ This is the case of Malta in particular, but also Cyprus, Latvia, Lithuania and Romania.

¹⁷ These include the Czech Republic, Bulgaria, Estonia and Turkey.

¹⁸ Source: Lithuania's report on the implementation of the Charter, available at http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/charter_ccs_2003.htm.

¹⁹ This corresponds to approximately 11% of the total budget of the Structural Funds. Source: "Creating an entrepreneurial Europe: The activities of the European Union for small and medium-sized enterprises (SMEs)", SEC(2003) 58

²⁰ Council Decision 2000/819/EC of 20 December 2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005), OJ L 333, 29.12.2000, p. 84.

SMEs are also an important target for the Sixth Framework Programme for RTD. For 2002-2006, nearly €2,2 billion have been allocated to support SMEs' research and innovation efforts, certainly making the Sixth Framework Programme one of the largest support instruments in the world for SMEs' research. SMEs also benefit from the LIFE-Programme, the financial instrument for the environment, which spent € 28 million in 2002 on projects in which SMEs are involved, or from the EU Eco-label scheme, where 80 % of the participating companies are SMEs²¹.

The SME Envoy also has an important role to play in improving SME access to information and to EU programmes, and in further developing a horizontal and co-ordinated approach on SME issues.

The way ahead

The SME package is part of a wider policy approach targeted at progressing towards the Lisbon goals, and feeds into the forthcoming Spring European Council²².

Enterprise Europe may be on the right track, but faster progress is needed to enable the EU to meet the Lisbon objective of making Europe the most competitive and dynamic knowledge-based economy in the world, with more and better jobs and greater social cohesion, by 2010.

One key area where progress is needed is in the promotion of entrepreneurship. That is why the Commission has launched a public debate on how to further improve the entrepreneurship agenda, through its Green Paper on Entrepreneurship. Based on the analysis of progress in Enterprise Europe including the SME package, the Green Paper poses essential questions on how to produce more entrepreneurs and how to get more European firms to grow.

If Europe can provide a constantly improving environment for its small businesses and stimulate and exploit its entrepreneurial potential, then its future competitiveness will be much more assured.

²¹ Source: "Creating an entrepreneurial Europe: The activities of the European Union for small and medium-sized enterprises (SMEs)", SEC(2003) 58

²² The European Charter for Small Enterprises commits the Commission to report annually to the Spring European Council.