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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 25.6.2008
SEC(2008) 2102

COMMISSION STAFF WORKING DOCUMENT

accompanying the

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Think Small First
A Small Business Act for Europe**

Summary of the Impact Assessment

{COM(2008) 394 final}
{SEC(2008) 2101}

SUMMARY

This impact assessment (IA) report accompanies the Proposal for a “Small Business Act” for Europe. This proposal is the overarching element of a package of measures intended to fully unlock the growth and jobs potential of EU SMEs.

This IA first shortly synthesises some key findings from the literature on the crucial role that SMEs and entrepreneurship play in economic growth and social and regional cohesion. SMEs represent almost 70% of total employment in Europe and are responsible for most net job creation. In addition, SMEs and entrepreneurship are increasingly important for economic growth in the framework of a knowledge-based and global economy.

Despite the significant progress achieved thanks to the existing comprehensive EU SME policy, this IA shows that SMEs in Europe are not reaching their full potential. In particular, EU SMEs tend to have lower productivity growth, innovate less and grow more slowly post entry than their US counterparts. Even though the existing EU SME policy is performing well and is already targeting many of these problems, this worse performance when compared with the US shows that there is still room for improvement.

This analysis has therefore screened existing measures already implemented or planned and identified a number of remaining issues that might individually or together hamper the performance of EU SMEs. This list, which does not claim to be exhaustive, due to the wide scope and inherently interdisciplinary nature of SME policy, includes two categories of problems:

- coordination and/or implementation issues of existing policies;
- remaining market or regulatory gaps not addressed sufficiently by existing policies.

The table below summarises the results of the screening exercise:

Remaining problems	Implementation /coordination problems	Remaining market or regulatory gaps
Impact of future EU legislation on SMEs		
Heterogeneity of the implementation of the “Think Small First” principle at national level, including: <ul style="list-style-type: none"> – Start-ups – Stigma of failure + bankruptcy procedures. 		
Entrepreneurship is still not sufficiently reflected in education and training policies		
Insufficient level of women’s entrepreneurship		
SMEs’ difficult access to markets		
SMEs’ access to public procurements and culture of tendering authorities		
SMEs’ difficulty in accessing, using and participating in the development of standards		
Insufficient access to finance <ul style="list-style-type: none"> • Availability of mezzanine finance • Availability of micro-credit • Fragmentation of venture capital 		
Difficulty taking advantage of the opportunities linked to the environment		
SMEs’ difficulties in accessing international markets and especially fast growing markets		

Against this background, a number of objectives have been set. The general objective for the “Small Business Act” is to fully unlock the growth and jobs potential of European SMEs and make full use

of their innovative capacities, in order to contribute to the objectives of the renewed Lisbon Partnership for Growth and Jobs decided in 2005.

To reach this general objective, and following the analysis in the problem definition, two different types of specific objectives have been designed and can be summarized as follows:

- (1) Improve the implementation of the “Think Small First” principle and the coordination of existing policies, by:
 - increasing the partnership with Member States to better implement and coordinate existing policies;
 - anchoring the “Think Small First” principle in policy making at EU and national level.

- (2) Address the remaining regulatory and market gaps EU SMEs are facing:
 - fostering entrepreneurship, by:
 - promoting entrepreneurship and the image of entrepreneurs, including in the education system;
 - encouraging new entrepreneurs, in particular female entrepreneurs;
 - developing further SMEs’ access to finance, by:
 - increasing the availability of micro-credit and mezzanine finance for SMEs;
 - reducing venture capital market fragmentation at EU level;
 - increasing SMEs’ access to markets, by:
 - fostering a more SME-friendly culture among tendering authorities;
 - improving SMEs’ access to, use of and participation in the development of standards;
 - increasing SMEs’ awareness of the opportunities of sustainable products and processes by developing on the ground environmental and energy advice;
 - improving SMEs’ access to international markets and especially to the fast growing markets of China and India.

According to these objectives, policy options have been developed. However, due to the particular nature of the “Small Business Act”, which is a package of measures of different nature (legal and non-legal), only two options could be assessed:

- the first option consists of the existing EU SME policy, which is mainly based on the exchange of best practice and targeted EU support programmes. This “no additional action” option serves as the baseline against which the other option is assessed;
- the second option consists of stepping up the existing EU SME policy through a political partnership approach with the Member States, aimed at enhancing framework conditions for SMEs and entrepreneurship and including targeted policies to address the remaining market and regulatory gaps. It aims to establish a true political dynamic between the EU and Member State level to put SMEs at the forefront of economic policies as part of a long-term vision. In substance, this requires first an improvement in the policy approach towards SMEs both at Community and national levels by making sure that legislation and programmes are conceived from the start and then implemented in a way that respects the needs and specific characteristics of SMEs (the “Think Small First” principle). Secondly, a set of new actions could be developed into a coherent framework, in the policy areas where a justification to act has been ascertained.

A third option, proposed by many stakeholders, could have consisted of developing and implementing a fully-fledged Community approach to SME policy with legally binding objectives and principles to be implemented at EU and Member State’ level and far-reaching Community

programmes to address the remaining regulatory and market gaps EU SMEs are facing. However, as many of the areas relevant to SMEs' growth potential are mainly or partly in the remit of Member States (e.g. education, start-up, insolvency law), setting legally binding objectives would be clearly in contradiction with the subsidiarity principle, which is a requirement and presupposition for Community action. This option was therefore not selected for further analysis.

The analysis of the impacts of each option presents a qualitative assessment of the positive and negative impacts. It gives an indication of the extent to which each of the options can resolve the remaining issues established in the problem definition as well as indications of the potential drawbacks. Given that the proposal for a "Small Business Act" represents a package of measures in a wide range of areas of a different nature, and that the detailed impacts of any measures which would normally require an impact assessment will be analysed separately, a quantitative analysis could not be performed. This would have required complex modelling going beyond the scope of proportionality for this impact assessment and would have included a very high level of uncertainty. Therefore, the impacts of the options are compared on a qualitative basis and, where possible, quantitative estimation of the effects on economic growth, social and environmental dimensions is provided.

The conclusion of this impact assessment is that the second option is preferable. This option would enable substantial SME growth, job creation and increased environmental protection, while at the same time being cost-effective, and being part of the Lisbon Partnership for Growth and Jobs. This approach would allow for a balanced approach between the ownership needed at all levels and a necessary degree of peer pressure through a regular monitoring of a high level political commitment. Indeed, the "Small Business Act" for Europe would be monitored regularly in the framework of the Partnership for Growth and Jobs in order to adapt the actions over time and optimize the impacts in a cost-effective manner.