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ENTERPRISE EUROPE

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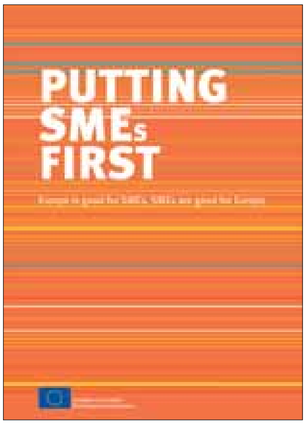

Prioritising small and medium-sized enterprises

The Directorate-General for Enterprise and Industry has published a comprehensive guide to European SME policy. Designed to accompany the Europe-wide SME Day campaign in June *(see photos of the Brussels event on page 11)* and demonstrate the Commission's commitment to making a priority of small business concerns, the publication provides a detailed yet easily accessible guide to measures affecting SMEs, both those already in place and the many planned improvements.

In addition to outlining the policy approach underpinning the slogan "Europe is good for SMEs, and SMEs are good for Europe", it addresses topics of immediate concern to SMEs: access to finance, red tape, doing business across borders, and dealing with standards and intellectual property rights. The guide is available for download and consultation online at **ec.europa.eu/enterprise/smes/**

ENTREPRENEURSHIP

Finding better ways to help small business

The European Charter for Small Enterprises has been the backbone of the Commission's policies towards SMEs since it was drawn up six years ago. Designed to promote improvements in the legislative and administrative framework within which small businesses operate, it is now a vehicle for highlighting examples of good practice from which regulatory authorities across the continent can learn. This new emphasis is the focus of this June's Charter annual conference in Vienna.

The European Charter for Small Enterprises has established itself as the reference point for the Commission's small and medium-sized enterprise (SME) policy after EU leaders endorsed the concept at their Lisbon European summit in 2000. Its importance and geographical scope have expanded considerably in the intervening years.

Originally intended for the then 15-member Union, it now provides a framework for 44 countries spread across the continent. It is increasingly making its presence felt at decentralised policy-making levels. Five regions have endorsed it and seven more are considering using it as a basis for their SME policies.

With its ten carefully selected principles, the Charter's strength lies in the fact that it covers activities at every stage of a small company's life cycle. These range from its first fledgling steps (see article 'One-stop shop for start-ups', page 6), through its development to a possible transfer (see article 'Helping business handovers', page 9). The Charter process has also addressed the issue of businesses that do not make it through the cycle, highlighting problems that lead to insolvency, and looking for ways to remove the stigma of bankruptcy and give entrepreneurs a second chance (see article 'Insolvency prevention and new hope for failed entrepreneurs', page 7).

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The Charter's 10 key areas

- Education and training for entrepreneurship
- Cheaper and faster start-up
- Better legislation and regulation
- Availability of skills
- Improving online access
- Getting more out of the single market
- Taxation and financial matters
- Strengthening the technological capacity of small enterprises
- Successful e-business models and top-class business support
- Stronger, more effective representation of small enterprises' interests at EU and national level.

The Charter's existence has helped encourage national regulatory authorities to improve the business environment for small companies. It has also acted as an incentive for laggards to catch up and has provided the Commission with a reference point against which it can identify SMEs' needs.

As a measure of its importance, the Charter has helped to raise the profile of the 'think small first' principle both inside EU institutions and within national administrations. It laid the foundation for agreement last autumn for a comprehensive Commission strategy for small businesses.

At the same time SME policies have become fully integrated into the Lisbon strategy for growth and jobs as Member States commit themselves to unlocking such companies' full business potential. The specific measures being taken to achieve this particular goal are now set out in the individual national reform programmes, which contain policy commitments to improve a country's overall economic competitiveness.

Learning from others

Evidence shows that the Charter process is helping more and more countries to learn from each other's good practices. In 2003, there were only five cases. The following year this rose to 23 and by 2005 it had again climbed to 27.

Denmark, for instance, drew on the experience of Ireland, The Netherlands, Finland, Sweden and Norway when introducing support for small companies to use e-business. Stakeholder consultation in Estonia is modelled on the Danish model, while Austria developed its 'ABC of Business Start-ups' on the basis of Germany's '€5 business' competition.

The Charter's annual conferences are one of the main forums for exchanging ideas and experiences. To reinforce that role, the Commission has produced a brochure containing 40 examples of good practice, whittled down from the 155 submitted by Member States, Norway, Bulgaria and Romania.

The cases reflected the three priorities of this year's conference. The first was to help firms to get more out of the single market by ensuring easy access to information on legislation and standardisation. The second focused on business support, especially for start-ups and business transfers, while the third covered measures to increase the uptake of e-business.

Over one-third of complaints to Euro Info Centres (EIC) from SMEs looking to do business in another country concern difficulties in tracking down the relevant information.

To overcome such obstacles, for instance, Estonia's chamber of commerce and industry EIC has developed a special information service with the Bristol EIC in the United Kingdom. This provides entrepreneurs with weekly data on over 2,500 published procurement notices throughout Europe. Subscribers can also receive information tailored to their needs on a daily basis.

Business support services helping a company to maximise its ability and to deal efficiently with officialdom can often mean the difference between success and failure. In the UK, aspiring business people can obtain 'The No-Nonsense Guide to Government Rules and Regulations'. Written in plain English, it explains the legal and administrative rules. Over 350,000 copies of the guide have been distributed since 2003.

Charter's future

As it reaches a new stage in its development, the Charter complements the formal Lisbon reform strategy and provides a follow up to the decisions EU leaders take at their annual March economic summit. In Vienna, one of the workshops focuses on the issues entrepreneurs have to bear in mind when recruiting their first employee – a subject specifically raised at the European Council three months earlier. Another examines business start-ups – a crucial issue for Europe's economic competitiveness.

Helping SMEs is a continuous process. The Charter will inject its input by playing to one of its strengths: the ability to bring policy makers and practical practitioners together, allowing them to network their experiences. In this process, the Commission will revisit good practices identified earlier to analyse their subsequent development and establish whether further lessons can be learned.

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For useful links, visit the online version of the article at

ec.europa.eu/enterprise/library/ee_online/art10_en.htm

ENTREPRENEURSHIP

One-stop shop for start-ups

Starting something new is never easy. An idea may appear a commercial winner, but unexpected administrative hoops and costs can easily dampen initial enthusiasm and prevent would-be entrepreneurs from making that crucial leap. The European Union has now committed itself to simplifying the regulatory landscape so that, at the latest, an SME can be created in a one-stop shop in all Member States by the end of 2007.

European Union political leaders have placed moves to reduce the financial and administrative problems individuals face when trying to set up their own company firmly on the political agenda.

At the Brussels March summit, they agreed that their governments "should take adequate measures to considerably reduce the average time for setting up a business, especially an SME (small and medium-sized enterprise), with the objective of being able to do this within one week anywhere in the EU by the end of 2007". A wide-ranging investigation into the situation in the EU-15 revealed that in 2002 some 24 days was the average for a private limited company.

The summit laid down further conditions. Start-up fees should be as low as possible and the recruitment of a first employee "should not involve more than one administration point".

The official endorsement to make this a policy priority came after the Commission noted in its formal submission to the EU leaders' meeting – 'Time to move up a gear' – that among the fundamental obstacles preventing Europe's business sector from realising its full potential was the many problems start-ups face.

It pointed to the fact that the time taken to start up a company can vary between five days in one country to 60 in another. Equally, it added, the administrative costs range from the negligible for some to many thousands of euros for others.

The Commission suggested that the way around the problem would be to create a one-stop shop to assist would-be entrepreneurs and to enable businesses to fulfil administrative requirements all in one place – preferably electronically – and under short deadlines.

Interestingly, the Commission, although it talked of one week as the "ultimate objective", did not propose a firm timetable within which an application to set up a company should be processed. The European Summit did.

Problems and solutions

The problems start-ups in Europe face have been well documented. A 2002 Best Project report, 'Benchmarking the Administration of Start-ups', prepared for the Commission, examined the number of days, and separate procedures individual enterprises and private limited companies (PLCs) had to negotiate in the EU-15 before being formally recognised. Both encountered obstacles of varying magnitudes.

There was considerable variation in the typical time it took to establish a company in the different countries. For an individual enterprise, this ranged between one and 35 business days, with an average of 12, while for a PLC, it was between seven (United Kingdom) and 35 (Italy), with an average of 24 days.

Differences were even more marked in other areas. The typical average cost of setting up a PLC was €830, and could rise to as high as €2,232 in one country (Austria) while was completely free of charge in another (Denmark).

The differences raise many questions. Why do some Member States require procedures that others do not consider necessary? Why do some need 26 separate formalities to register a business when others can make do with 8?

In contrast, Portugal offers an example of what can be achieved. Although slightly above the EU average in 2002, with 26 days for a PLC, the country's ministries of justice, finance, labour and social security, economy and innovation have since collaborated to create a single access point counter with electronic links making it possible to create a company in around one hour.

The initiative, which is advertised on the government's portal and the website of every ministry involved, began in July 2005. Since then, over 1,100 companies have been created in an average time of 75 minutes. The project has been so successful that the six original counters have now doubled in number.

The way ahead

The Commission will actively monitor Member States' progress in facilitating setting up a company, and is organising a workshop on start-up procedures in Europe to identify key issues and to look closely at business organisations' concerns. Cheaper and faster start-up procedures will also be one of the focus areas in the 2006/2007 exercise to identify good practice in the context of the European Charter for Small Enterprises (see article 'Finding better ways to help small businesses', page 4). In addition, the 2002 Best report provides a wealth of information and a number of good practices, which could give guidance and inspiration to the Member States.

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For useful links, visit the online version of the article at
ec.europa.eu/enterprise/library/ee_online/art07_en.htm

ENTREPRENEURSHIP

Insolvency prevention and new hope for failed entrepreneurs

In a competitive world, bankruptcies are an unfortunate fact of life. Last year, there were some 140,000 in the EU-15. But they do not need to be inevitable, nor should they automatically prevent entrepreneurs from having a second chance. To promote a climate where risk-taking is encouraged and a fresh start is possible, well functioning support measures need to be in place and the negative effects of non-fraudulent business failure, particularly an overly rigid legislative framework, tackled.

Insolvency is invariably a shattering experience. It can also be a learning opportunity, enabling entrepreneurs to profit from their mistakes and have more success in a subsequent venture. It is this positive aspect that the European Charter for Small Enterprises has consistently championed (see article 'Finding better ways to help small businesses', page 4).

There are now signs that the message is getting through as efforts to maximise the potential of entrepreneurs who had earlier failed replace unnecessarily severe bankruptcy legislation. One-third of Member States plan to reform their national insolvency legislation according to the National Reform Programmes which they drew up last year setting out their policy aims within the Lisbon Growth and Jobs strategy.

The European Commission's recent report 'Modern SME policy for growth and employment' also emphasises the importance of developing measures that will reduce the burden of risk that can never be divorced from entrepreneurial activities.

The changes are designed to diminish the complexities of bankruptcy law, to offer more solutions in cases of actual, or impending, insolvency and to make it easier to restructure companies and help their owners embark on a fresh start.

The genesis for much of this action can be found in the 'Best Project' launched in 2003 by the Commission in which stakeholders were consulted on restructuring, bankruptcy and fresh starts. This emphasised the importance of early recognition of looming difficulties, the need for legal systems to provide the option of restructuring and a clear distinction between unintended bankruptcies and financial scams.

Practical measures

Emphasis for some of the changes now being implemented in the EU-25 is on helping businesses in difficulties; in others the aim is to remove obstacles in the way of a second chance.

France, for instance, operates a system whereby companies approaching the danger zone of financial viability can receive support and advice from three insolvency practitioners as well as from a specialised website, while in The Netherlands a well-established organisation of retired entrepreneurs provide free assistance to small and medium-sized enterprises (SMEs) in trouble.

In the UK, reformed insolvency legislation assists entrepreneurs who failed due to reasons beyond their control by reducing the number of disqualifications and the discharge period for remaining debts. Germany has developed a handbook for potential restarters, set up a network in North Rhine-Westfalia for people in this situation and recently created a new START Award.

Fresh start conference

An opportunity to assess the many measures in this area and to contemplate further initiatives came with the Commission-organised conference on insolvency and fresh starts in Brussels on 28 March. The day-long event brought together national and European officials and representatives of international organisations.

Participants were presented with details of an OECD project into bankruptcy legislation. Out of 26 countries surveyed, 14 have public sector supported early warning systems and six operate fast-track proceedings for reorganising SMEs. Honest bankrupts are automatically granted a discharge in five countries, while in a dozen a plan for repayment for (part of the) debts is necessary.

They were also confronted with the harsh reality insolvency can have on individuals. An entrepreneur described how her own company offering business back-up services near Munich airport went bankrupt after 9/11. She came back fighting and successful, proving there can be a future after a setback.

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For useful links, visit the online version of the article at

ec.europa.eu/enterprise/library/ee_online/art09_en.htm

ENTREPRENEURSHIP

Helping business handovers

Transferring ownership of a small company, especially if this goes outside the family, can be a fraught business. Unexpected obstacles may lead to lengthy delays and frequently the absence of advice or access to finance can scupper the whole project with detrimental effects on jobs and the local economy. The European Commission has tabled new recommendations, taken stock of progress made during the past decade and selected the subject as one of the priority themes at this year's Charter for Small Enterprises conference in Vienna.

When a viable small business closes because its owner cannot find a successor, it rarely hits the headlines. But thousands of economically sound companies in Europe disappear every year because the collective factors involved in the operation are so huge.

As entrepreneurs born in the post 1945 baby boom look towards retirement, the problem will become more acute. It is estimated that within the next ten years one-third of this group will decide to call it a day. In concrete terms, that will affect almost 700,000 companies in the Union and just under three million employees every year.

Changing ownership of a company involves far more than simply signing on the dotted line of a legal document. Both outgoing and incoming proprietors need to be aware of the many issues involved and help to address them. The Commission, as part of its overall updated strategy for small and medium-sized enterprises (SMEs), has highlighted four areas it is urging Member States to address.

Key recommendations

For owners, many of whom may have founded their own business years earlier, letting go of the reins may be a difficult, even traumatic, experience. Sometimes, the decision may be taken too late and be forced because of a crisis such as ill health.

As a result, the Commission is proposing that campaigns be organised to make owners aware of the benefits of an orderly transfer, and offer advice and counselling. One possibility might be to follow the example of Austria and The Netherlands. In

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both countries, business proprietors are contacted individually when they reach a certain age to help prepare them for a possible handover.

However, it is would-be owners who face most problems. A major one is finance. Transferring a company is generally more costly than setting one up. Funds have to be found not just for purchasing material and financial assets, but also for items ranging from customer goodwill to potential future earnings.

The Commission's second recommendation is that these factors should be borne in mind and that start-up facilities, loans and guarantees should be available not only for establishing a new business, but also for taking over an established one. Examples already exist. Interest-reduced loans are available in Belgium and Luxembourg. In Denmark, France and Austria loan guarantees exist which decrease the risk premium.

Taxation is another financial consideration. The Commission would like to see wider use of partial income tax exemptions when owners sell their business, especially if the money is used to invest in another company or to prepare for retirement.

France and Ireland offer tax exemptions; Belgium, Germany and Austria provide for reduced tax rates; and the United Kingdom tapers fiscal relief.

Finally, the four-point strategy recommends injecting greater transparency into the business transfer market to promote better match-making between potential buyers and sellers. This could be achieved through databases for businesses up for sale, impartial support services and comprehensive mediation facilities that act as honest brokers between both parties.

Chambers of commerce are already active in this area in Germany, France, Italy, Luxembourg, The Netherlands and Austria.

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For useful links, visit the online version of the article at

ec.europa.eu/enterprise/library/ee_online/art08_en.htm

ENTREPRENEURSHIP

Action plan delivers on promises

Most of the initiatives contained in the entrepreneurship action plan the Commission launched in early 2004 have now been delivered. Among the key results are an increase in EU finance for measures to help businesses, the promotion of student mini-companies, and the development of a Euro Info Centre database to bring potential business partners together. The action plan provided a series of initiatives that were successful in meeting its objective of fostering entrepreneurship, according to a new report* on the progress made over the past two-and-a-half years. It also provides a firm foundation for future activity in this area.

Back in January 2003, the Commission presented a Green Paper to determine what were considered to be the main problems faced by entrepreneurs and small and medium-sized enterprises (SMEs). As a result of this public consultation, the concept of entrepreneurship was placed firmly on the political agenda. The immediate outcome was agreement on a detailed action plan just a year later.

The entrepreneurship action plan identified five strategic policy areas that could help to imbue a sense of entrepreneurship in individuals in the first place and then encourage an environment in which this could flourish.

The areas were: fuelling entrepreneurial mindsets, encouraging more people to become entrepreneurs, gearing entrepreneurs for growth and competitiveness, improving the flow of finance, and creating a friendlier regulatory and administrative framework for SMEs.

More specifically, the action plan tackled practical issues such as helping to prepare SMEs applying for bank loans under Basel II´s new rating culture, transferring companies from one owner to another (see article ‘Helping business handovers’, page 9), and promoting links between Innovation Relay

** Report on the implementation of the Action Plan ‘The European Agenda for Entrepreneurship’.*

Under the slogan 'Europe is good for SMEs, SMEs are good for Europe' the European Commission turned the spotlight on small firms this year during a series of SME Days held in almost all 25 EU member states.

In Brussels, senior representatives from business organisations – Eurochambres, the Union of Industrial and Employers' Confederations in Europe and the European Association of Craft, Small and Medium-sized Enterprises – met on 12 June with Vice-President Günter Verheugen, Commissioner for Enterprise and Industry, Françoise Le Bail, Commission SME Envoy, and German MEP, Jorgo Chatzimarkakis, who is rapporteur for the Competitiveness and Innovation Progamme in the European Parliament.

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Centres (IRCs) and clusters in order to encourage the transfer of innovation from SMEs to partners in other regions. In all, there were 36 initiatives, 90% of which have already been delivered.

Keys to success

The importance of the action plan lies in the fact that it brought a series of initiatives together into a coherent and integrated whole emphasising the importance of entrepreneurship itself and the key role that SMEs, which are a major source of jobs, business dynamism and innovation, play in the EU´s economy.

The second salient feature of the package is that it achieved its success through dialogue and voluntary commitments. The Commission offered its services as a promoter and facilitator for ideas, acting as a catalyst for others. With the help of interested parties ranging from governments to the business community, these ideas have gradually taken root.

Joint efforts to educate future entrepreneurs

The action plan attached great importance to education and fuelling more entrepreneurial mindsets. European and national officials, educationalists and the business community came together at EU level initially to identify their objectives and then the ways in which these could be achieved.

The activities included support for a working group of national experts on entrepreneurship education, a widely-disseminated booklet in 12 languages on 'Helping to create an entrepreneurial culture', a Commission communication and inclusion of the promotion of an entrepreneurial mindset within the EU's lifelong learning programme.

The Commission is promoting the role of student mini-companies in secondary schools as a highly effective way to tackle the lack of entrepreneurial spirit in the EU and thereby boost the creation of jobs. Some 15% of secondary schools in the European Union offer such courses, but only 1-2% of EU students participate in them. Mini-companies are a real opportunity for students to acquire basic business techniques and to develop personal qualities and generic skills – such as creativity, self-confidence, teamwork, responsibility and initiative – that are increasingly important for everyone in today's knowledge society. Initial studies show that 20% of participants create their own company after school.

A range of tangible achievements

Substantial progress has also been made on access to finance. The new Community financial instruments from which SMEs will be able to benefit are part of the Competitiveness and Innovation Framework Programme (2007-2013). They have been redesigned to increase their flexibility and have a total budget of some €1 billion (see article 'Powering business through better access to finance', page 13).

The Commission is enhancing SME business cooperation in the internal market. For instance, there is now a series of business and match-making events, known as 'Pan-European Business Cooperation Schemes'. These cover 20 industrial sectors or related commercial activities at major international trade fairs in the EU and have enabled some 4,000 companies from the EU, EFTA/EEA, candidate countries and Russia, Ukraine and Moldova to participate and improve their business connections.

The Commission has gathered together expertise to address a phenomenon which in 2005 alone affected some 140,000 companies in the EU-15 and threatened the jobs of 1.5 million employees: business insolvencies. There are good signs that priorities such as preventing bankruptcy and promoting start afresh schemes are being implemented at national level, since approximately one third of the Member States' 2005 National Reform Programmes contain plans to reform national insolvency legislation.

The future

The entrepreneurship action plan has proved to be an invaluable tool in contributing to the common strategic objective of boosting entrepreneurship in Europe. The many initiatives it spawned are becoming part of the modern SME policy** the Commission approved in November 2005 and will be followed up in this context.

Achieving tangible results requires full-hearted commitment from the private and public sector and local, national and EU administrations. The Commission, for its part, has integrated entrepreneurship into the European Union's flagship jobs and growth strategy. As such, the promotion of entrepreneurship is now a key element in its Competitiveness and Innovation Framework Programme.

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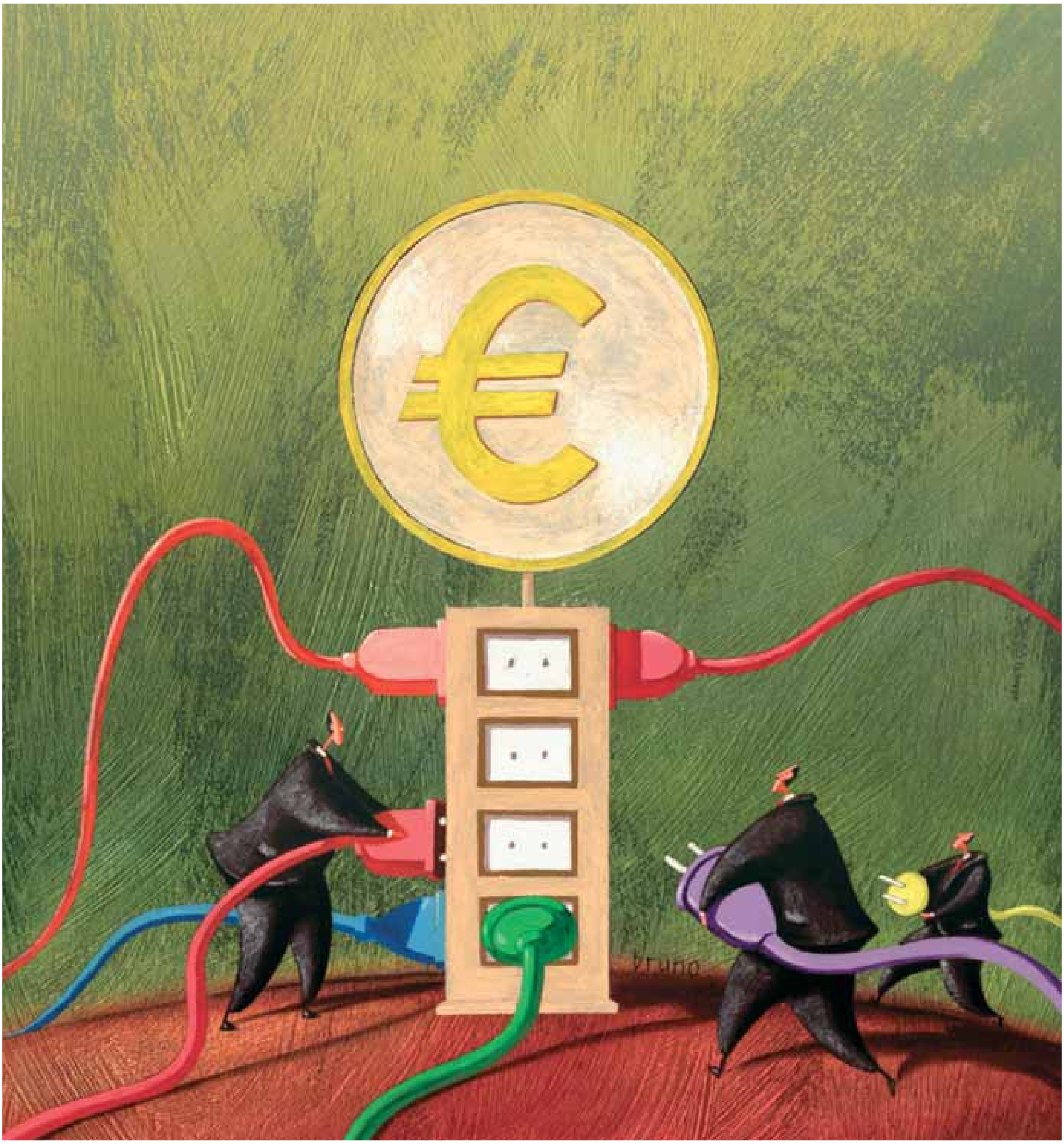
For useful links, visit the online version of the article at

ec.europa.eu/enterprise/library/ee_online/art14_en.htm

*** Commission Communication 'Implementing the Community Lisbon Programme – Modern SME Policy for Growth and Employment'. COM (2005) 551 final of 10.11.2005.*

COMPETITIVENESS

Powering business through better access to finance



One of the main challenges facing small businesses is securing sufficient finance. This is especially important during the crucial start-up phase, but is also a factor at different stages of their life cycle. A new European Commission communication shows how to ensure finance flows to the small firms who need it to power their development. It presents three goals: more bank financing for innovation, more risk capital for growth financing and better performing financial systems.

Small businesses have a crucial role to play in creating jobs and boosting economic growth in Europe. They are the source of much of the entrepreneurship, energy and innovation that makes the Union competitive. It is they, rather than larger companies, that are best placed to create the new employment opportunities Europe needs. But to make the most of their assets and abilities, they require investment for restructuring, innovation and production and, because of their diversity, their financial needs vary.

The finance can take many forms. For some, it is access to risk capital – a term that encompasses informal investors such as business angels, venture capital funds and growth stock markets – in the early days of their business life that is crucial. For others, it is debt finance. A Eurobarometer survey in September 2005 revealed that 14% of the Union's 23 million small and medium-sized enterprises (SMEs) need better access to this form of funding since they still meet obstacles when looking for a loan or a micro credit for their next project.

Banks remain the leading source of funding for SMEs, but the main financial gap facing small businesses occurs when their initial funds are depleted and they are not yet ready for mainstream venture capital investment. That is the time they need business angels or other seed investors able to provide investments ranging from €25,000 to €2-3 million. Both are in short supply, since many finance providers consider this to be a risky activity with high transaction costs and low returns.

Business angel investments in Europe are less than a tenth of the €20 billion in the US and have a far lower rate of return. The relative absence of seed and early stage investments prevents new businesses from reaching a point where they can attract expansion capital. It is this break in the financing chain that must be tackled.

In the US, early-stage venture capital investment is equivalent to 0.04% of GDP – a level that Sweden, Denmark and the UK have already reached. For the rest of Europe to match this would require an annual investment of some €6 billion. In addition, total venture capital investment in technology in the US is four times that of Europe and the average investment in the Union is far smaller: €0.9 million compared to €6.1 million.

Taking effective action at every stage

To tackle the problem effectively will require action by national, regional and European authorities, by the financial sector in the shape of banks, pension funds, venture capital funds, guarantee institutions and business angels, and even by small businesses themselves.

Ultimately, the Commission would like to see conditions in place that would allow investment by venture capital funds in seed and early-stage companies to be increased threefold by 2013.

Europe needs a favourable regulatory environment for the whole financing chain from pre-seed to investor exits. For instance, a taxation system that favours debt to the detriment of retained earnings can be a major obstacle to building stronger balance sheets.

Measures to improve access to finance are being implemented in conjunction with ongoing parallel efforts by Member States to cut red tape and improve the regulatory environment so that SMEs do not suffer from unclear bankruptcy laws, slow justice systems and weak creditor rights.

Many Member States have already created a friendly financial environment for SMEs. A recent survey by the Milken Institute showed that EU countries made up half of the top 20 rankings, while the UK is a world-leader in providing funding to small businesses.

Taking these performances as a starting point, the Commission is encouraging national authorities to learn from each other's best practices. It points to the need for schemes that will offer fiscal and social charges advantages to entrepreneurs, employees and investors in innovative SMEs, and for the avoidance of tax and other thresholds that can make it difficult for such companies to grow above a certain level.

The venture capital industry itself must shoulder some of the responsibility for improving the present situation. It is less efficient than in the US, often financing projects too early and with too little funding as can be seen by the paucity of sources for early stage and seed capital investments.

The Commission sees a greater role for banks in financing innovation projects. It plans to organise meetings between banks and small businesses to examine the current situation, and to evaluate the advantages of tax relief systems for young innovative companies.

It is not just potential financiers who need to raise their game. Small businesses seeking funding need to become more sensitive to investors' concerns, more skilled at understanding the advantages and constraints of different forms of finance, and at presenting their projects to potential backers.

This will be all the more necessary as the capital requirement changes introduced by Basel II, an international agreement on recommendations from bank supervisors and central bankers, leads banks to increasingly use rating systems to evaluate risks – a development which will require SMEs to improve their financial literacy and to have an even closer dialogue with their financial institutions. Specially tailored investment readiness programmes could help to raise this awareness among small businesses.

Breaking down national barriers

The EU's fragmented financial market is a major handicap that needs to be addressed. With 25 sets of operating conditions, raising venture capital funds and investing across borders is complex and expensive. The fragmentation makes it difficult for funds, especially in the EU's smaller Member States, to achieve a critical mass and to develop the knowledge of sectors that is necessary to make a success of investments.

Work is now taking place to identify the legal and regulatory barriers standing in the way of cost-efficient market access for venture capital fund managers. By removing these, cross-border investment can become a reality, making venture capital funds in Europe more competitive and better performers.

The communication emphasises the need for venture capitalists to develop a successful exit strategy whereby they transfer their investment to a new recipient. The presence of at least one European grown stock market where firms could list easily and stocks would be readily accessible to qualified investors would help to achieve this.

The Commission also believes that it is necessary to ease the cross-border operations of financial exchanges by removing obstacles to the use of competing clearing and settlement systems, and by applying common rules to trading.

Increased SME financing

The relative absence of private sources of finance means that key investors are often either public or public-private partnerships. The EU is playing its part with a cocktail of measures that act as highly effective forms of leverage.

Doubling the funding of financial instruments for the period 2000 to 2006, between 2007 and 2013, the Commission's Competitiveness and Innovation

Framework Programme will make €1.1 billion available for access-to-finance schemes. This contribution is expected to leverage up to €30 billion for some 400,000 SMEs.

The flexibility of the programme means that the venture capital investments can be put to different uses. They are available to provide guarantees for debt finance and mezzanine finance – hybrids of loans and equity – and as micro credits for small businesses.

Separate funding is available from the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative which forms part of the Union's cohesion policy. This is designed to improve access to finance by SMEs located in regions that qualify for the scheme, in the form of micro credit, venture capital, loans and guarantees. In particular, it will support technical assistance, business creation and expansion, and innovation. SMEs will also have access to finance from the Seventh Research Framework Programme.

The combination of the funds – and their complementary nature – should ensure as smooth a transition as possible from a company's research efforts to the time it can bring its product to the market. The existence of the EU finance will act as an effective leverage to attract further investment. Over time, it is hoped that this catalyst will lead to an increase in private funding and less reliance on the public purse.

When allocating the EU funds, the Commission will work closely with the European Investment Bank – the Union's main lending instrument – and the European Investment Fund. It will also insist on regular cooperation between the various networks, such as the European Business Angels Network and Gate2Growth, which are active in innovation, finance and industry.

Keeping the power on

Because risk capital investments tend to be made for long periods, the Commission is stressing the importance of the existence of stable government policies that do not present investors with surprises or sudden changes in the regulatory environment.

A detailed annex to the communication describes the various initiatives the Commission is planning to ensure easier access to finance becomes a reality. These include the creation of expert groups and round tables to focus on specific issues, potentially more flexible state aid rules for risk capital and implementation of the new funding opportunities. A Commission report in 2009 will analyse the progress made.

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INNOVATION

Consensus defines roadmap for innovation strategy

Innovation policy encompasses a wide spectrum of issues that affect a company's operating environment and its opportunity to innovate. Increasing Europe's innovation capacity will help to create new markets, reinvent old ones and strengthen the ability of firms to face up to the challenges of globalisation. How to achieve this is one of the central themes of Finland's six-month EU presidency. At their informal meeting in July, government ministers in charge of competitiveness policy set out a roadmap that will guide work in the months ahead.

Traditionally, informal ministerial gatherings are focused on general political discussion rather than on policy specifics. Competitiveness ministers may have broken the mould at their get-together in Jyväskylä, on 10-11 July, when they got to grips with the policy issues that must be addressed to stimulate innovation.

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Commissioner for Enterprise and Industry, Günter Verheugen, talking to Commissioner for Science and Research, Janez Potočnik at the Informal meeting of EU ministers responsible for competitiveness issues in Jyväskylä, Finland, on 10 July 2006.

Günter Verheugen, the Commissioner for Enterprise and Industry, summed up the practical success of the meeting when he described it as among the most useful informal Councils he had attended during his European career. What had marked this event out from others was its ability to create "a very broad consensus on what kind of innovation strategy Europe needs and must develop".

That consensus, with its clearer understanding of where responsibilities lie at national and European levels, will underpin the innovation strategy that the Commission intends to present in September.

For Mauri Pekkarinen, Finland's Trade and Industry Minister, the two-day gathering, which had included presentations from outside speakers such as Jorma Ollila, the Chairman of Nokia, and Professor Gordon Murray from the University of Exeter, helped define a 'roadmap'.

This did not contain details on the content of future proposals or an action plan to develop European innovation policy. Rather, it set out a structure that identified the nature of the challenge facing the Union. This places emphasis on the ability of firms to respond innovatively to the changing views and needs of customers and users: the demand-side of the market. The reinforcement of this dimension increases the effectiveness of policies, such as R&D and education, which have always had a major role in European innovation policy, but which are more focused on the supply side.

Three areas for action

For Mr Pekkarinen, the ingredients of the EU's innovation policy can be grouped into three categories: regulation, funding and institutions. These will take clearer shape in the months ahead.

The legislative and regulatory framework within which entrepreneurs operate needs to be fine tuned in such a way that it offers greater rewards to innovation. Less red tape, an efficient single market and a fully functioning patent system can all help. But so too, can reform of state aid rules and public procurement practices so that these are used to get the best out of innovative projects.

Finance, in sufficient quantities and at the right time, is crucial for innovation. Ministers raised the possibility of using the EU's structural regional and social funds more intensively to finance innovation and emphasised the importance of prompt financing commitments by national authorities.

They identified the need for an EU-wide venture capital market and pointed to the contributions that public R&D support to industry-led European Technology Platforms can make in improving European competitiveness – a formula specifically recognised in the forthcoming Seventh Framework Programme for Research and Development.

Partnerships and institutional link-ups have an important role to play. Two-way contacts between universities and businesses can help match market opportunities and technical solutions, turning ideas into marketable goods and services. This process could also be helped by the proposed European Institute of Technology with its continental-wide network.

Making innovation a permanent feature

The wider approach towards European innovation policy which emerged from the Jyväskylä informal meeting had initially been set out in a discussion note* distributed to ministers beforehand. This had identified four key policy measures the Finnish Presidency considers to have a bearing on demand for innovation: competition and innovation-friendly regulation, innovation-oriented public services, a research system adaptable to business needs, and a strong culture for entrepreneurship.

Armed with the roadmap, Finland is now looking to make discussion on innovation policy a permanent feature of the European competitiveness agenda. It will be helped towards this goal with the publication in September of the Commission communication on innovation.

EU heads of state and government will debate the subject at their informal summit meeting in Lahti in late October. These various strands will be brought together in a package of recommendations for future work that will be presented to the meeting of the Competitiveness Council in December and be formally endorsed by the European summit a few days later.

The end result will see a clear set of key issues identified over the previous six months which will be taken forward by future EU presidencies, beginning with Germany in January 2007.

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* *'Demand as a driver of innovation – towards a more effective European innovation policy.'*

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INNOVATION

Commission launches innovation challenge

Innovation is the key to strengthening Europe's long-term growth and competitiveness. The message is not new, but it has become more urgent as the recent Commission communication, 'Putting knowledge into practice: A broad-based innovation strategy for the EU', makes clear. Reflection and deliberation must be replaced by action if Europe is to close the gap with the US and not be overtaken by new competitors, especially China. The Union has largely put in place the optimal conditions for action. It is now up to national authorities to make full use of them.

Innovation policy is climbing to the top of the European Union's agenda. At their Spring Summit earlier this year, EU leaders asked the Commission to bring forward a broad based innovation strategy for Europe and innovation policy was one of the main themes at the leaders' informal talks in Finland in October.

Governments are also attaching higher priority to the policy, committing themselves to specific measures in the national reform programmes they now draw up annually as part of the Union's wider economic growth and jobs strategy.

The communication provides a focus for these activities. It emphasises the need for national authorities to take a strong lead in encouraging innovation, highlights ten strategic areas where action is required and demonstrates how the trend can benefit society as a whole.

The communication maintains that the time for new commitments is past and calls for "political leadership and decisive action". Günter Verheugen, the Commission Vice-President and Enterprise and Industry Commissioner, was equally direct when presenting the communication.

"What we need is the political will. Member states have to realise that time is pressing now and that this is the only realistic opportunity that we have," he said, adding "Political elites in member states must stop giving the impression we can leave everything as it is".

One reason the EU's innovation potential has not been fully exploited, according to the communication, is because of deficiencies in the overall framework conditions. For this reason, it points to the need to reallocate resources to education, information and communication technology, research and the creation of high value jobs and growth.

Ten priority actions

1. Devise innovation-friendly education systems
2. Establish a European Institute of Technology
3. Create a European labour market for researchers
4. Strengthen research/industry links
5. Use cohesion funds to foster regional innovation
6. Reform state aid rules to promote R&D and innovation
7. Enhance intellectual property rights
8. Protect new digital products, services and business models
9. Develop a strategy for innovation-friendly lead markets
10. Stimulate innovation through procurement

Finally, the Commission believes that successful innovation policies have more than simple economic value. They can be used to address citizens' concerns ranging from climate change and the depletion of natural resources to diseases and personal security. Technological developments can bring potential solutions, helping to ensure Europe is an innovation-friendly society.

To encourage this trend, the communication introduces the concept of 'lead markets' in order to encourage the creation and marketing of innovative products and services. This could be achieved by identifying areas where the removal of barriers would encourage competition and lead to the emergence of new consumer demands.

As an example, the report points to the new business opportunities, ranging from smart services to components and materials and new energy supply resources, that would come from the emergence of a lead market for intelligent, near-zero energy buildings.

Preparing the ground

The latest thrust for innovation policy comes as many major decisions for modernising the EU's economy have already been taken. The relaunch in 2005 of the Lisbon Strategy for growth and jobs provides an overall policy framework to make Europe's regulatory and economic environment more innovation friendly.

More specifically, the Commission's communication on 'More Research and Innovation' adopted in October 2005 offered, for the first time, an integrated approach to EU research and innovation. It aims to improve the conditions for private sector investment and identified 19 initiatives to promote innovation and research.

Some elements of these individual headings have already been completed. Among the more important are the changes to state aid rules to help small businesses and easier access by companies to innovative capital, the creation of 11 sectoral cluster networks and the promotion of standards to support innovation.

The major source of EU funding on offer is contained within the Union's 7th Research and Development Programme. This has undergone many changes from its predecessor and has more opportunities to inject finance into research programmes. Finance is also available from the new Competitiveness and Innovation Framework Programme and from structural funds, which have a total of €308 billion for investing in knowledge and innovation.

The Commission is currently preparing measures to strengthen European companies' intellectual property rights around the world and expects to table a proposal in October. Work is taking place to remove obstacles to the free movement of people and goods to encourage more cooperation between research institutes and the development of clusters that are important not just on a regional basis, but globally.

Mr Verheugen has also pointed to the need for more active efforts to woo back to Europe scientists and researchers who, after training, have taken their knowledge abroad, more often than not to the United States.

Aiming for better scores

An indication of the current state of play across the continent can be found in the annual European Innovation Scoreboard (EIS). The 2005 edition identified four separate categories with a lead group of Finland, Denmark, Sweden and Germany. At the other end of the spectrum are countries losing ground. They include Estonia, Spain, Bulgaria, Poland, Slovakia and Romania.

The scale of the challenge facing countries which are gradually catching up their counterparts can be seen by the fact that none of the ten will reach the EU average by 2010. At best, Hungary and Slovenia will do so by 2015, but for Malta, Slovakia and Poland it could take 50 years.

Three indicators are particularly important: the rate of business expenditure on R&D, the share of science and engineering graduates, and participation in lifelong learning activities. They reflect the availability of suitably trained people and the capacity to develop and maintain employees' skills as new technologies and organisational methods arrive. The trio illustrate the point that basic research is only one of four ingredients necessary for a successful innovation policy.

Innovators also require the skills, finance and market opportunities that can turn raw ideas into reality. This can be seen from the five key dimensions of innovation identified in the annual EIS: innovation drivers, knowledge creation, innovation and entrepreneurship, applications, and intellectual property rights.

Way ahead

Now that the Union has put in place at EU level the basic infrastructure, provisions and funding programmes to boost innovation, the Commission is passing the baton to national authorities and encouraging them to use the opportunities that exist.

The more this is accompanied by the creation of an innovation culture in Europe and widespread cooperation, where the strengths of one partner can compensate for the weaknesses or deficiencies of another, the higher the chances of success.

At the same time, innovation policy makers across Europe are being encouraged to develop a deeper understanding of the impact of the measures they put in place to encourage innovation and to continually assess these as the global market evolves. The Commission will play its part in this process through its PRO INNO Europe initiative for transnational policy learning. By the end of the year, this is expected to have launched 21 new projects.

The political priority being given to innovation is coinciding with a sharp increase in R&D spending in European economies, according to a recent analysis of investment by European companies active in this area. In the next few years, the Commission expects that spending on research and development will increase by over 5%.

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SECTORS

Strands of optimism for European textiles

Europe's textile and apparel industry has a promising future ahead, provided it plays to its strengths and continues to adapt to changes in the competitive environment. This cautiously upbeat assessment comes from the High Level Group set up in early 2004 to analyse the challenges facing the sector. In its latest report, the group explains the basis for its optimism and tables a series of new recommendations to optimise the industry's chances of success.

The High Level Group rejects as "pessimistic in the extreme" suggestions made in some quarters that in 15 years' time Europe's textile and clothing industry will have all but disappeared in the face of relentless competition from China and India. Instead, it offers a vision for the industry up to 2020 that it suggests is realistic, credible and achievable.

The Group, chaired by Enterprise and Industry Commissioner Günter Verheugen, offers several objective reasons for believing that the future is far from bleak.

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It notes that during 2005 – the first full year of liberalisation after the disappearance of quotas allowed by the WTO Agreement on Textiles and Clothing – the surge in imports from Asia at greatly reduced prices did not happen to the extent that had been feared. At the same time, despite a relatively strong euro, especially against the dollar, exports largely held their own at €36 billion in 2005.

During the first quarter of 2006, world textile exports to the EU fell by 11%, while, during the same period, European clothing exports to China grew by 16% after a 15% increase in 2005 although yearly exports still account for less than €1 billion. As the Group noted, the early months of 2006 have shown a degree of optimism that was missing in previous years.

Textile industry in EU-25 in 2005

Turnover: €198 billion
Employment: 2.7 million
Added value: €59.9 billion
Companies: 230,000
Investment: €5.07 billion
Exports: €36.5 billion
Imports: €73 billion

Playing to strengths

The group believes that, given the strength and know-how of European machine manufacturers, the Union will maintain its technological lead up to 2020 at least. It predicts that labour costs in higher wage economies as a share of overall costs will diminish, partly due to more productive machinery and partly to higher energy and transport prices and environmental constraints.

But, against a background of continued growth in international trade and continued job losses in the sector, the report notes that "the EU textiles and clothing industry will have to become leaner and meaner", enjoying higher productivity from a much reduced workforce and concentrating more on exports.

There is a need for radical restructuring in the industry. This should involve more carefully considered cooperation, and more focused innovation and development efforts, leading to the creation of substantially larger company groups that have the essential critical mass and business plans to make a convincing financial case to credit institutions.

Technological advances will see new uses for textiles beyond traditional clothing and domestic items. These can range from protective transport and medical garments to artificial sports surfaces and lightweight non-metal components for motor vehicles.

These developments will help traditional clothing areas as well, encouraging a move towards mass customisation as companies offer consumers prompt, personally tailored items through virtual try-on technology.

The EU is already making its contribution, providing funding of €14 million through the LEAPFROG project and over €30 million for various innovative projects for medical, protective and building textiles.

Specific recommendations

Following on from the 36 recommendations which it made in its first report in June 2004, the group identifies areas of action in a handful of specific areas: competitiveness, regulatory and internal market issues, education, training and employment, intellectual property rights, regional aspects, research and development, innovation and trade policy.

Some of these draw attention to elements of the first report which remain to be fully implemented, notably efforts to clamp down on counterfeiting and the supply of a suitably skilled workforce. Others break new ground.

A number concentrate on intellectual property rights (IPR). The EU should work closely with developing countries to emphasise that it is also in their interest to ensure that legally registered brands and designs are protected. The group suggests that countries could learn from Germany and Belgium, which have set up successful anti-counterfeiting cells. It would like to see a code of ethics applied at trade fairs preventing companies from copying their competitors.

In addition to stressing the need for investment in research and innovation and greater use of standardisation, the latest report has a more political message for the industry. It must improve its public image, emphasising its successes and firmly relegating the days of 'dark satanic mills' to history.

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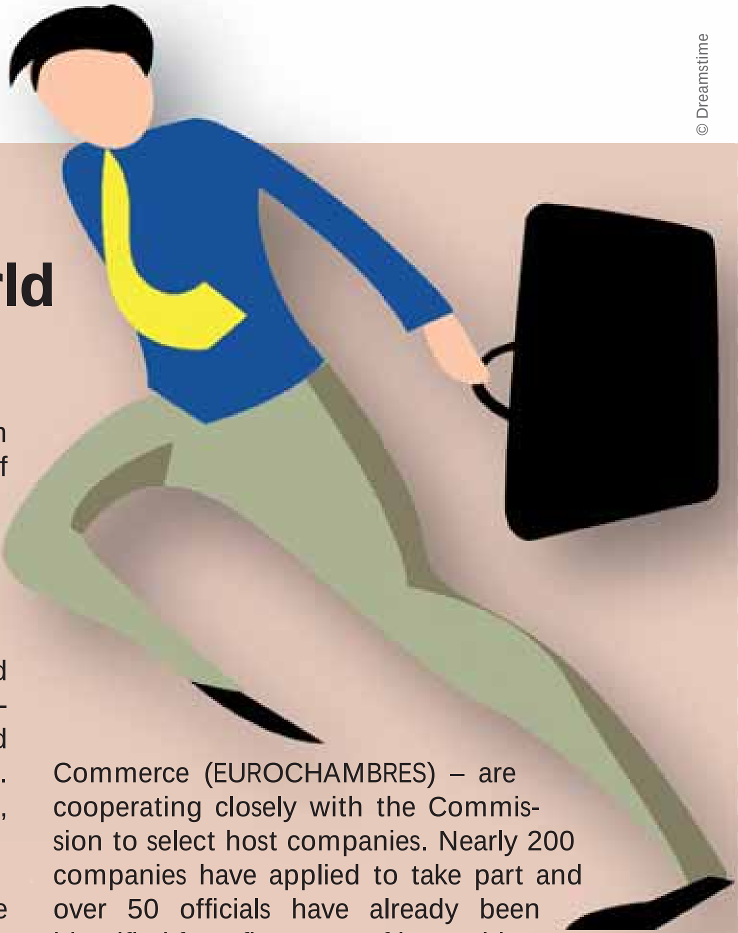

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MOREOVER

Going out into the world

European Commission staff are getting out from behind their desks to gain first-hand experience of day-to-day life in the world of business. By 2009, all 300 senior officials in the Directorate-General for Enterprise and Industry will have spent at least a week with a small or medium-sized enterprise (SME).

The Enterprise Experience programme is designed to give officials a better understanding of the realities facing SMEs as they shadow key personnel and become familiar with their business environment. Apart from enriching their professional experience, this should improve the quality of EU lawmaking.

The initiative follows a successful pilot scheme in which seven volunteers were hosted by SMEs involved in areas as varied as carpentry, bakery, textiles and oil and gas pipelines in four EU countries: Germany, Austria, Italy and Poland.

The programme is generating strong interest from business. Three pan-European business organisations – the Confederation of European Business (UNICE), the European Association of Craft, Small and Medium-sized Enterprises (UEAPME) and the Association of European Chambers of Commerce (EUROCHAMBRES) – are cooperating closely with the Commission to select host companies. Nearly 200 companies have applied to take part and over 50 officials have already been identified for a first wave of internships, using match-making criteria carefully designed to ensure the most suitable placements.

For further information:
ec.europa.eu/enterprise/exp_prog/index.htm

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