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**COMMISSION STAFF WORKING PAPER**

**Report on the implementation of the European charter  
for small enterprises in acceding and candidate countries**

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## **PART I: INTRODUCTION**

### **Small companies are the key to competitiveness in an Enlarged European Union**

Small businesses are as much the backbone of the economies of the acceding and candidate countries as they are in the EU-15. In these countries there are current approximately 6 million enterprises, most of them which are micro-sized, and SMEs account for 72 % of total employment<sup>1</sup>. Small companies are the key to competitiveness throughout Europe, and will be crucial for the enlarged EU to achieving the Lisbon objective of making the EU the world's most competitive and knowledge-based economy.

The EU has recognised, at highest political level, the importance of small businesses through the adoption of the European Charter for Small Enterprises by the General Affairs Council in Lisbon on 13 June 2000 and its endorsement at the Feira European Council on 19-10 June the same year. The Charter recommends that governments focus their policy efforts on ten key areas crucial to the business environment for small businesses. The implementation process for the EU Member States was launched during spring 2000. The acceding and candidate countries have been taking part in the process since spring 2002. At the March 2003 Brussels European Council, Heads of State and Government underlined the importance to accelerate the implementation of the European Charter for Small Enterprises in an innovative way.

### **The small enterprises at the core of acceding and candidate countries' performance**

During the last decade a large majority of the acceding and candidate countries have successfully gone through the process of creating and consolidating market economies. A healthy private sector is considered by all of the countries to be essential for the creation of prosperity. Governments have made efforts to improve the regulatory environment, which has enabled a smooth transition to market economies and which in turn has led to an upturn in the economic situation. Small enterprises have been a key element of this process and the improvement of the environment in which they operate is therefore of high priority.

The birth rates of enterprises in these countries are high<sup>2</sup>; and the development of human capital in the countries in Central and Eastern Europe has also been positive<sup>3</sup>. However, in the field of innovation the acceding and candidate countries still have a long way to go.<sup>4</sup> For access to finance, the available indicators<sup>5</sup> are well below the EU average, with a few

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<sup>1</sup> Observatory of European SMEs 2002, No. 2, p.14.

<sup>2</sup> Compared to an EU rate fixed at 100, the net birth rate is 902 in the case of Romania, 602 for Poland, 492 for Estonia, 452 for the Czech Republic, 403 for Hungary, 250 for Turkey. The related gross birth rate remains well above the EU average in most of the countries: around 300 in Estonia, above 200 in Poland and Romania, between 150 and 200 in Bulgaria, Hungary, Latvia, and around 150 in Slovenia.

<sup>3</sup> The number of graduates in business and law-related matters is well above the EU average (+125%) in Bulgaria, Cyprus, Estonia, Hungary, Latvia, Poland, Romania and Slovenia.

<sup>4</sup> The expenditure of research and development as percentage of GDP is generally below half of the EU member states rate (with the exception of the Czech Republic and Slovenia; the only countries where the expenditure is above 1% of the GDP). These data show a clear delay in obtaining the Lisbon objectives of 3% of the GDP by 2010. It should be noted however that some of the countries are considering raising this expenditure during the years to come. The total number of patents is less than 10% of the average of the current Member States. Hungary and Slovenia have a higher number of patents than the other acceding and candidate countries.

<sup>5</sup> These are: market capitalisation, newly listed companies, portfolio composition of institutional investors, and venture capital.

exceptions: Slovenia and Malta on the number of listed companies; and Latvia on venture capital<sup>6</sup>. In general terms the above mentioned data are in line with the main findings of the present report on the implementation of the European Charter for Small Enterprises.

### **Preparations for enlargement**

On 1 May 2004 the EU will enlarge from the current 15 Member States to become a Union of 25 Member States. A major effort has gone into the preparation of this enlargement, particularly by the acceding countries themselves. All of them have made important progress in the development of a thriving business sector, but sustained efforts will be necessary after accession to reach the same level as the current Member States. Further efforts will also be necessary for the three other candidate countries in order to prepare themselves for a future membership in the EU.

In order to support the candidate countries in their preparations for accession to the EU, the Commission started in 2001 a systematic dialogue with candidate countries on enterprise policy in parallel with the formal process on enlargement<sup>7</sup>. The first result of this dialogue was the "Report on the Candidate Countries' measures to Promote Entrepreneurship and Competitiveness", better known as the CC BEST report<sup>8</sup>. This report proved to be a useful tool for enterprise policy-makers throughout Europe, helping them to identify good practice carried out in the fields of education and training for entrepreneurship, access to finance, access to research and innovation, business support services, better public administration and simplification of procedures for enterprises, and employment and working conditions.

After the success with the CC BEST report it seemed logical to continue the dialogue with the candidate countries within the framework of the European Charter for Small Enterprises. In February 2002 the Commission invited the candidate countries to endorse the Charter, and on 23 April 2002 in Maribor (Slovenia) all thirteen candidate countries signed the "Maribor Declaration" in which they acknowledge the principles of the Charter as the basis for their action to support and develop small enterprises. They also expressed their interest in participating in the reporting process on the implementation of the Charter. The first report on progress of the implementation of the Charter was published on 21 January 2003<sup>9</sup>.

### **The relevance of the Charter process in acceding and candidate countries and its effects on neighbouring areas**

The Charter process is now consolidated and has contributed to putting the acceding and candidate countries in line with the objective of creating a more competitive business environment. It has opened a regular policy dialogue among the national administrations and the business community, the EU institutions and the Member States well in advance of accession. The acceding and candidate countries have understood the political value of the Charter process and are giving it visibility. There is of course still much to do to reach the level of competitiveness that the European Union has set for itself. The definition of effective

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<sup>6</sup> Data from the "Pocketbook of enterprise policy indicators", 2002 edition, published 2003, Enterprise publications, European Commission.

<sup>7</sup> The negotiating Chapter on SMEs was opened and closed in the first semester of 1998 with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia, and in the first semester of 2000 with Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia.

<sup>8</sup> Commission staff working paper SEC (2001) 2054 of 20 December 2001, [http://europa.eu.int/comm/enterprise/enterprise\\_policy/enlargement/best.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/best.htm).

<sup>9</sup> Report on the implementation of the European Charter for Small Enterprises in the candidate countries for accession to the European Union, Commission staff working paper SEC(2003)57, 21.1.2003

policies to support SMEs and entrepreneurship, as well as the improvement of the necessary administrative infrastructure, will therefore remain the policy priorities in the enlarged EU.

Following the adoption of the Charter by acceding and candidate countries in Maribor (Slovenia) on 23 April 2002, the process has also been launched in other geographical regions. The countries of the Western Balkan, Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, and Serbia and Montenegro, as well as Moldova, adopted the Charter in Thessalonica (Greece) in May 2003. This year, they have started their first cycle of the implementation process. The results will be reported in a separate Commission Staff Working Paper.

The EU partners in the Mediterranean area (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian National Authority, Syria and Tunisia) all agreed in Rome in October 2003 to launch a process to adopt a “Euro-Mediterranean Charter for Entrepreneurship”, based on the model of the European Charter. This Charter should be adopted in 2004 and the European Commission will thereafter monitor its implementation.

### **The Tallinn Conference, an important step forward in the implementation process**

In September 2003 in Tallinn (Estonia), the European Commission organised, in co-operation with the Estonian Ministry of Economic Affairs and Communications, a conference on the implementation of the Charter in the acceding and candidate countries. At this conference, experts from European governments and the private sector discussed how to enhance the competitiveness and dynamism of small enterprises and the way to ensure that decision makers listen to them in an enlarged Europe. They also presented their best enterprise policy practices and issued recommendations in four key areas related to the Charter: the use of structural funds in the enterprise policy, the use of indicators, benchmarking and targets in enterprise policy, business innovation and entrepreneurship and achieving better regulation.

The first of the workshops at the Conference focused on ways to make an efficient use of Structural Funds to achieve the objectives adopted in the European Charter for Small Enterprises, for the present and up-coming programming periods. The workshop concluded that the role of business support institutions in information and promotion of support is critical and should be strengthened. It is equally important to listen to the voice of entrepreneurs and business associations and take their concerns into account throughout the whole programming and implementation process. Finally, the implementation system must guarantee effectiveness, transparency, detect irregularities and be free of political pressures. There was also a useful exchange of views and experiences on how to enhance the use of indicators, benchmarking and targeting in enterprise policy. This workshop recognised that benchmarking and comparisons across the EU Member States will drive change, increase spill-over between countries and facilitate the exchange of best practice. Peer pressure and the political will to do as well as, if not better than neighbouring countries are equally important drivers of policy action.

How to enhance business innovation and entrepreneurship was another issue in Tallinn. This workshop concluded that the lack of support infrastructure for innovation, risk-averse culture and poor understanding and valuing of entrepreneurship in several acceding and candidate countries constitute the main barriers to innovation. This calls for systematic action to raise awareness of innovation and entrepreneurship as drivers of economic growth. There is still a lack of efficient support to SMEs, particularly in the field of access to start-up capital. Finally there is a need to better adjust training programmes, both the content and delivery modes, to the needs of small business.

The acceding and candidate countries should broaden the narrow innovation concept focused on technical innovation to include also organisational or marketing innovations. The effectiveness and better visibility of the national innovation policy in candidate countries could be improved by raising the awareness of the contribution of entrepreneurship and innovation to the national economic growth within the government and within the business sector. This should be accompanied by better horizontal innovation policy integration in all other policies at the national and EU level.

The Charter has become a useful tool to support small business in an enlarged Europe and to share best practice and experience across the Union. The conference showed that there is an impressive amount of good practice and innovative ideas on how to make Europe more entrepreneurial. However, more efforts should be made to use these ideas and good practices better by sharing and disseminating them more efficiently. Furthermore, new innovative ways of implementing the Charter, such as peer reviews and national targets, will also have to be developed.

### **The current report**

The current report on the implementation of the European Charter for Small Enterprises is the second one for the acceding and candidate countries. Bilateral meetings in the thirteen countries took place in the period June - September 2003. All meetings were well organised by the national Charter co-ordinators in co-operation with Commission staff. Representatives of the business community were more active than in the previous bilateral meetings held in 2002. All the countries submitted their national reports to the Commission on time. The reports contain all the necessary information on the practices implemented in the ten Charter areas, as well as the contacts details for the responsible people. The national reports are likely to become useful tools for all persons interested in knowing more about the activities in the fields of the Charter in the different countries. The complete reports have been available on the Enterprise DG website since November 2003<sup>10</sup>.

The current report, together with the related reports for Member States<sup>11</sup> and for the countries of the Western Balkans,<sup>12</sup> will be used as input for the preparation of the Spring Summit of the Heads of state or Government to be held in Brussels on 25-26 March 2004. Achievements and problems in key areas.

Acceding and candidate countries are showing a clear will to fulfil the commitment they made in Maribor. Both the first Charter report and the Tallinn conference have showed that all the countries have started to actively implement the Charter principles in their national enterprise policies. By doing this they are also aligning their enterprise policies with the Lisbon strategic objectives and they are starting to take part in the open method of co-ordination. The conference also confirmed that the acceding and candidate countries have become an integral part of the process aiming at creating a more entrepreneurial Europe. They are almost fully integrated into EU policy mechanisms, forums and initiatives in the field of enterprise policy.

Last year's Charter reports showed that the most significant progress was made in reducing the burdens on business start-ups. Efforts were also noted in the field of better regulation and

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<sup>10</sup> [http://europa.eu.int/comm/enterprise/enterprise\\_policy/charter/charter-2004\\_cchtm](http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter-2004_cchtm)

<sup>11</sup> Report on the implementation of the European Charter for Small Enterprises, Communication to the Council and the European Parliament, COM(2004)64

<sup>12</sup> Report on the implementation of the European Charter for Small Enterprises in the countries of the Western Balkans, Commission staff working paper SEC(2004)149

education for entrepreneurship. The report also clearly showed that candidate countries were lacking behind the current EU Member States in the field of innovation. Access to finance was emphasised as a matter of serious concern. Finally, candidate countries as well as EU Member States were considered not to have made sufficient efforts to include the small businesses interests in the policy making process.

From this year's reporting it has become clear that important efforts have been made in particular in the fields of education for entrepreneurship and the improvement of online access. In the field of cheaper and faster start-ups the acceding and candidate countries were well advanced already last year and further progress has been made. The fields of innovation and access to finance and the representation of businesses in the policy-making remains however issues of serious concern.

The second part of the report illustrates the most relevant achievements made in the acceding and candidate countries made by acceding and candidate countries and highlights good practices. For the first time, this year the countries were asked to rank the ten areas of the Charter according to four criteria<sup>13</sup>. Their answers have been analysed in the third part of the report. The objective of this exercise was to find out which Charter areas are of priority for the governments in their action to improve the business environment. All the thirteen countries provided the requested information. The results have allowed the drawing of some interesting conclusions on how the implementation of the Charter has progressed and which direction the coming policy actions will take. The final part contains an assessment of the state-of-play in each of the ten areas covered by the Charter, a series of conclusions regarding the progress that has been made and recommendations for the future.

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<sup>13</sup> The four criteria are: - in which areas do the small companies consider action most important;  
- which areas is likely to have the highest structural positive impact on the business environment;  
- in which areas would your country have the best good practice;  
- and in which area do you intend to focus the policy actions in the 12 months to come.



## **PART II: WHAT HAS BEEN ACHIEVED: SUMMARY OF NATIONAL REPORTS AND THE COMMISSION'S ACTION**

### **1. Education and training for entrepreneurship**

Charter objectives: *Europe will nurture entrepreneurial spirit and new skills from an earlier age. General knowledge about business and entrepreneurship needs to be taught at all school levels. Specific business-related modules should be made an essential ingredient of education schemes at secondary level and at colleges and universities.*

*We will encourage and promote youngsters' entrepreneurial endeavours, and develop appropriate training schemes for managers in small enterprises.*

The public authorities in the acceding and candidate countries are aware that their action in the educational area can have a strong impact and stimulate entrepreneurial behaviour among young people. Indeed, the most significant good practice can be found in this area.

Entrepreneurship is taught in the primary schools only in a few countries, such as the **Czech Republic**, where business education is given within more general courses on civil studies, family studies and practical activity. "*I learn to manage my finances*" is the topic for a course for years three to five in **Lithuania**. In almost every country, on the other hand, secondary schools have courses on entrepreneurship, not only in the vocational education sector but also more and more in the secondary school education preparing for university studies.

Five countries have been introducing new courses on entrepreneurship in 2003. The most interesting example is **Hungary** where the general curricula have been revised to include mandatory courses in entrepreneurial skills from an early age. This measure has become operational in the school-year 2003-04, by which more than 100,000 students will get acquainted with this subject in both grammar and technical schools. **Latvia** will take a similar initiative as from next year (2004-05) in the final classes of primary education.

In **Poland**, the course called "*Foundations of entrepreneurship*" has since September 2002 become compulsory in all types of secondary schools. An interesting feature of this measure is that for lyceums the school-hours are doubled compared to vocational schools (76 hours vs. 38 for the whole year). **Romania** has introduced the "Educational entrepreneurship" subject for one hour per week in the Art and Craft schools. At the end of 2002, **Slovakia** approved new curricula on business matters which put a strong access on the development of business plans. In the school-year 2002-2003, entrepreneurship became a subject in many sectors of the vocational higher schools in **Turkey**.

**Estonia** has one of the best practices with the "*Junior Achievement*" programme that covers not only the development of entrepreneurial skills such as writing a business plan but also promoting the entrepreneurial state of mind. In **Bulgaria**, a programme having exactly the same name as the Estonian one and the same practical approach promotes *out-of-class* learning method that proved to be successful and should be applied more widely throughout the country. "*Junior achievement*" programmes exist in **Latvia, Lithuania, Slovakia** and **Romania** as well.

In **Cyprus** the courses on entrepreneurship, so far existing only for the final classes of secondary education, will be extended as from next school year to all classes. In the **Czech Republic**, interest in optional subjects linked to entrepreneurship is steadily rising.

'*Entrepreneurship in Technical Occupations*' is the title of a two-year course in trade schools. In October 2002, **Poland**, a very active country in this field during the last year, has implemented the "*First work*" programme which promotes the entrepreneurial attitude among school graduates who are ready to enter the labour market.

## 2. Cheaper and faster start-up

Charter objectives: *The costs of companies' start-up should evolve towards the most competitive in the world. Countries with the longest delays and most burdensome procedures for approving new companies should be encouraged to catch up with the fastest. Online access for registration should be increased.*

The situation in this area is generally improving thanks to the actions undertaken by public authorities. **Malta** (one day to a week) and **Cyprus** (eight days reduced to four by paying a modest fee) are the best performers as far as the time needed to register a company. **Estonia** is another good performer with short delays (eight to sixteen days for general or limited partnerships, two to eight weeks for private limited companies). For sole proprietors the time is reduced to one day and no cost.

The most relevant progress since the previous report seems to have taken place in **Turkey**, following to the adoption of a law in June 2003. According to the national report, procedures to establish a company have been reduced from nineteen stages to three and can be finalised in one day and in a single centre (the Chamber of Commerce or Industry). However, the amount of documentation required to establish a company seems to be unduly high and gives reason to certain doubts on the practical implementation of the newly adopted measures. In addition, the costs to set up a company seem still very high in Turkey.

In **Slovenia**, the one-stop-shops system will allow new entrepreneurs to perform all registration formalities in one place. The initiative is well structured and complete, but its implementation on the ground is delayed (the original planning was to have one-stop-shops in all municipalities operational by September 2003, and now the target date is 2004) due to problems of co-operation with the local authorities and their low IT infrastructure.

**Poland** has been a good performer during the last year and further progress is expected by the end of 2003, when all entrepreneurs will be registered in the National Court Register. However, the list of formalities required of start-ups seems to be still quite long. In **Slovakia** in 1999 the average time to start-up a company was 150 days, whilst today that period has in principle been reduced to about 30 days. However, some obstacles such as the 14-day waiting period for a trade licence to take effect after being issued need to be removed. Further progress is expected with the adoption of the measures to make the Commercial Register more effective. The **Czech Republic** has a low record in this area, as in the best cases it takes six to seven weeks to prepare the file for registration in the form of a notary's deed, the handling of the file for the trade licensing authority, the registration in the commercial register.

On-line registration procedures are only a reality in a limited number of countries, but some of them have advanced plans in this respect for the next future. In **Malta** a new online system is in the final stages and will be introduced by the end of 2003. Substantial steps forward have been made in **Romania** following to the recent establishment of the *National Electronic System* which provides entrepreneurs the possibility of completing and submitting electronically the documentation for obtaining permits and licences, as well as for registering with the trade register. In **Lithuania** the law states that an enterprise is registered within 15

days from the submission of requested documents, and the possibility to complete documents through on-line procedures is foreseen as from July 2004.

Membership of the Chamber of Commerce is voluntary in almost all the countries. The only exception is **Slovenia**, where membership of the Chamber of Commerce or the Chamber of Crafts (this case especially for micro-enterprises) is compulsory for all companies. In **Turkey** artisans and craftsmen must apply for the Chamber within the first 30 days of activity, and fees are differentiated by law in three geographical groups according to the economic level of the regions. In **Bulgaria** as well membership is mandatory only for craftsmen.

### **3. Better legislation and regulation**

Charter objectives: *National bankruptcy laws should be assessed in the light of good practice. The learning from benchmarking exercises should lead us to the improvement of current practices in the EU.*

*New regulations at national and Community level should be screened to assess their impact on small enterprises and entrepreneurs. Wherever possible, national and EC rules should be simplified. Governments should adopt user-friendly administrative documents.*

*Small enterprises could be exempted from certain regulatory obligations. In this context, the Commission could simplify competition legislation to reduce the burden of compliance for small business (See page 22).*

Concerning national legislation on bankruptcy the promising trend noted in the previous report implementation report has continued. In principle all countries have now introduced modern rules on bankruptcy issues, allowing for a fresh start after bankruptcy. Other important legislative measures have been taken to improve the business environment. In order to reduce the delays for registering companies in the **Czech Republic**, the government has decided that the keeping of the Commercial Register shall be the responsibility of a newly created registration office placed within the Ministry of Justice. The Czech Republic is also introducing a new Bill on Public Research institutions which aims at improving the business environment through the creation of good conditions for co-operation between the research institutes and the business community.

The Maltese authorities are introducing obligatory basic management courses for new entrepreneurs to improve the services offered by the new enterprises and to help the entrepreneurs succeed in their new venture. **Malta** has a new measure for companies which are in some financial difficulties but is considered as being able to survive as a viable commercial entity.

In **Slovakia** new legislation on income taxation was adopted which reduces in particular the tax burden for both natural and legal persons and which equalise business income taxation for natural and legal persons. A New Act aiming at giving more precise and new definitions of terms and obligations of the accounting unit entered into force in Slovakia in January 2003.

**Turkey** has introduced legislative amendments which aim to introduce provisions for the automatic granting of investment allowances to the investor without an investment incentive certificate.

In 2003, the **Lithuanian** Seimas adopted amendments to the law on investments. The principal purpose of this law is enrich the range of investment promotion methods and set up

the guidelines of state support for investment with the aim to increase volumes of foreign and domestic investments in the country.

A new Entrepreneurship Promotion Act will be introduced in **Slovenia** which defines the principles and objectives of enterprise policy, and regulates how it is to be implemented. It sets out the institutional arrangement and measures and instruments to strengthen the support environment for entrepreneurship innovation.

A new **Slovenian** Spatial Planning Act and the Construction Act aim at simplifying and reducing the procedures for obtain land and permit. The Slovenian government is also planning a new Tourism Development Promotion Act, which aims at providing a legal basis for a new method of strategic planning and implementation of the annual tourism policy. **Bulgaria** has adopted a new law on the Reduction of Administrative Regulation and Administrative Control of the Business activity aiming at shortening the procedure for instance in case of requirement for prolongation of licenses and registrations for business activities. **Poland** has also introduced new legislation to simplify the procedure for registration of new economic entities.

Some of the countries provide for regular evaluation of the impact of legislation on the business community. Since 2003 **Bulgaria** has an obligatory requirement for a regulatory impact assessment of draft laws which introduce new licensing or registration regimes. **Slovakia** has introduced yearly evaluations of legislative measures concerning SMEs. In **Lithuania**, too, a system for regular evaluation is in place. **Romania** provides for evaluation of the impact of legislation on business environment through the social dialogue system.

In the **Czech Republic**, online forms are being prepared to be used for entries into the commercial register. **Latvia** has adopted a policy planning document "concept of E-government", which lays down the basic principles of electronic administration including the use of more user-friendly administrative documents. The **Romanian** Ministry of Communications and Information Technology is conducting several pilot project concerning on-line administrative forms. In **Turkey** the number of application documents has been reduced. In **Estonia** the development of user-friendly documents is an ongoing process. In order to adopt user-friendly administrative procedures the **Maltese** government introduced E-government. **Cyprus** also allows for computerised forms.

The Charter recommends that small enterprises shall be exempted from certain regulatory obligations. Despite this recommendation, several of the countries do not allow for exceptions from regulatory obligations for SMEs. However, among the countries that provide exemptions the following interesting examples should be noted.

In **Malta** small companies are exempted from drawing up accounts. Small companies may also seek private exempt company status that entitles them to relaxed obligations for Company secretary annual return and loans to directors. It is also possible for small companies to have removal of audit requirement in respect of annual financial statements. Also in **Lithuania** and **Bulgaria** small enterprises may manage their financial accounting in a simplified manner. **Poland** has special rules according to which small companies (less than twenty employees) may be exempted from drawing up work regulations and wage and salary regulations. **Romania** provides for exemption from VAT. **Latvia** has certain tax incentives for small companies. In **Turkey** companies with less than fifty employees are exempted from certain social obligations.

In most countries the regular involvement of business representatives in the **legislative process** is not mandatory. In some countries (**Estonia, Slovakia, Lithuania, Romania**) draft legislation is made available on the Internet and every citizen (including business representatives) has the possibility to access and comment draft laws and regulations. Hence, the business community can and is widely expected to contribute to the legislative process; however, it often depends on the initiative of the business organisations to do so.

In **Romania**, the public authority has the obligation, in case of a written request by a legally set up organisation, to organise a meeting for public debate of the respective draft regulation. In addition, there is an obligation to consult business associations with regard to the drafts of regulations with impact on business environment. In **Lithuania**, business organisations have the possibility to participate in the hearings of parliamentary committees. Another form of participation in the legislative process for business is the possibility of hiring professional lobbyists who provide proposals and explanations concerning preparation of drafts and legal acts. In **Hungary**, legislation provides for the preliminary analysis of the impact of new legislation on the economic position of the sector and sets up the mechanism for conciliation with the organisations of small entrepreneurs.

Some important legislation affecting the business community might be discussed in tripartite meetings (i.e. meetings of the government, employers, and trade unions) before being further considered (the **Czech Republic, Turkey, Malta, Bulgaria**).

#### **4. Availability of skills**

Charter objectives: *We shall endeavour to ensure that training institutions, complemented by in-house training schemes, deliver an adequate supply of skills adapted to the needs of small business, and provide lifetime training and consultancy.*

Several countries have taken initiative to help small enterprises in this area. Almost everywhere the institutions responsible for these initiatives are national public agencies for SME development.

Smaller enterprises still do not consider in-house training as a priority in their work-plans. In addition, costs of training remain an obstacle. According to a recent survey, in the **Czech Republic** 46% of small enterprises provide their employees with educational and development activities beyond the scope of compulsory training (against 70% of medium-sized and 82% of large enterprises). **Slovakia** mentions administrative burdens for participating in EU-funded training projects as one of the reasons for entrepreneurs' lack of interest in training modules.

**Cyprus** is a frontrunner in this area thanks to the extensive activity of the *Human Resources Development Authority*, for which the clear target is micro-entrepreneurs. Three out of four entrepreneurs, who attended its courses on management and other business-related issues, including EU topics, run small companies, and one out of two comes from micro businesses. Years ago, **Turkey** has established the *Vocational Training and Small Industry Supporting Foundation*, which provides training to existing and future workers in the SME sector, in particular for artisans and craftsmen, in collaboration with the professional organisations. Last year, **Lithuania** successfully launched two programmes in this area through its National Agency for SMEs (SMEDA). The "*Support to Would-be Entrepreneurs*" programme subsidised 80% of the advisory and training costs for 843 potential entrepreneurs, while the "*Business Growth Project*" has similar features but it is addressed to workers employed in the SMEs sector.

The National Agency for SMEs in **Romania** launched a multi-annual programme for supporting SMEs access to advice and training. Grants cover up to 60% of costs for enterprises. The amount budgeted for 2003 has already been completely used. **Slovakia** supports training for entrepreneurship through the SMEs regional support networks. Courses are three to five days long and are divided between short-term (Quality Management Systems, information technology, e-commerce) and long-term (marketing, management) perspectives.

After having successfully launched and strengthened its policy to develop industrial clusters, **Slovenia** is linking this activity with the vocational training system in order to fill the gap for creative and flexible workers.

Many of these programmes are co-financed by EU programmes such as Phare or Leonardo. In **Bulgaria** Leonardo supports an initiative on quality and environmental management. Some countries (**Latvia, Lithuania**) promoted courses to prepare SMEs workers to the entry in the EU. Phare supports the “*Academy of Foreign Trade*” in **Poland**, which trains small entrepreneurs in trade organisation and techniques.

A rather interesting and specific initiative is presented in the **Bulgarian** national report. A programme for the social adaptation and economic integration of released militaries focuses on the entrepreneurial perspective for them. Seven centres have been set up in different cities and courses are provided in universities and professional organisations.

## **5. Improving online access**

Charter objectives: *Public authorities should be urged to increase their electronic communication with the small business sector. Thus, companies will be able to receive advice, make applications, file tax returns or obtain simple information online, therefore faster and more cheaply. The Commission must lead by example in this area.*

The most advanced countries are focusing on enhancing the **interactive communication between the business community and public authorities**. In these countries, businesses can download and submit forms electronically as well as carry out secure payments transactions in the net.

In **the Czech Republic**, since 2003, taxable entities have been able to submit tax returns for road tax, property tax, and VAT online in the form of a data message accompanied by a guaranteed electronic signature.

In **Estonia**, within the e-Tax Board initiative, companies can submit files directly to the Tax Board’s database. Also in **Bulgaria**, enterprises may file documents and applications and tax returns online.

In **Poland**, small enterprises may file social insurance documents on-line. The e-Government initiative in **Malta** has enhanced the interactive communication between businesses’ and public authorities by giving access to information, making it possible to submit forms and making payments online.

In all countries an increasing amount of **information** targeted at enterprises is put online and the existing web pages are developed more accessible, interactive and user friendly.

Many countries have created specific internet web portals targeted to SMEs. The **Lithuanian** Development Agency for Small and Medium Sized Enterprises (SMEDA) has developed a web portal containing business information on starting up a business, business legislation,

financial institutions and funding possibilities. The users can also send questions and receive answers on-line. SMEDA has also participated in a joint project with other 10 Baltic Sea region states to develop a Baltic Market web site for SMEs (<http://www.svv.lt/balticmarket/>), providing information in English on topics such as starting up a business, import and export procedures, customs duties, employment, investments, financial sources, taxation etc in all Baltic Sea Region countries.

In addition to its official web site, the **Cyprus** Productivity Centre has developed the Cyprus Business Portal, (<http://www.kepa.gov.cy/bizportal>) a one-stop business management resource centre on the Internet with the aim of providing the business community with information, and tools on major areas of interest. The Portal was developed having in mind the needs of SMEs and all the services are offered free of charge.

The **Turkish** Foundation for Small and Medium-sized enterprises (KOSGEB) has created a SME Information Sharing Network, the KOBINET, which aims at developing the e-trade activities of SMEs. The initiative is complemented by a System of Internet Cafes which aims at teaching employees of small and medium enterprises necessary IT skills.

## 6. More out of the Single Market

Charter objectives: *The Commission and Member States must pursue the reforms underway aiming at the completion in the Union of a true internal market, user-friendly for small business, in critical areas for development of small businesses including electronic commerce, telecommunications, utilities, public procurement and cross-border payment systems.*

*European and national competition rules should be vigorously applied to make sure that small businesses have every chance to enter new markets and compete on fair terms.*

Accession negotiations on the free movement of goods were provisionally closed with the 10 acceding countries between December 1999 and May 2001 (formal closure took place at the conclusion of the total accession negotiations in December 2002). The Accession Treaty signed in Athens in April 2003 includes the transitional arrangements concerning the renewal of marketing authorisation for pharmaceuticals with five countries: **Cyprus** (until 31 December 2005), **Lithuania** (until 1 January 2007), **Malta** (until 31 December 2006), **Poland** (until 31 December 2008) and **Slovenia** (until 31 December 2007). A further transitional arrangement was negotiated with **Poland** regarding the validity of licences for medical devices issued under current Polish legislation until 31 December 2005. Apart from these transitional provisions, new Member States should have adopted and implemented the EC legislation by the day of accession.

Accession negotiations on the free movement of goods have been provisionally closed with **Bulgaria** in June 2002 and **Romania** in June 2003.

Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (**PECAs**) are an important instrument of the pre-accession strategy in the field of the free movement of goods as they create an enlarged internal market for products in certain industrial sectors prior to accession to the EU. PECAs are now operational with **Hungary**, the **Czech Republic**, **Latvia**, **Lithuania**, **Slovenia**, the **Slovak Republic** and **Estonia**. New sectors should soon be added to these agreements.

## 7. Taxation and financial matters

Charter objectives: *Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises. Member States should apply best practice to taxation and to personal performance incentives.*

*Entrepreneurs need finance to translate ambitions into reality. In order to improve the access of small enterprises to financial services, we will:*

*Identify and remove barriers to the creation of a pan-European capital market and to the implementation of the Financial Services Action Plan and the Risk Capital Action Plan;*

*Improve the relationship between the banking system and small enterprises by creating appropriate access conditions to credit and to venture capital;*

*Improve the access to the structural funds and welcome initiatives by the European Investment Bank to increase the funding available to start-ups and high-technology enterprises, including equity instruments.*

A major problem in the development of micro and small enterprises in the acceding and candidate countries is the lack of funding in the start-up and growth phase. The financial organisations are often unable to provide seed and start-up capital. They often have difficulties in providing products adapted to the needs of small enterprises. The SMEs do not often make use of financial opportunities because they lack information or because they are unable to properly present their business idea to convince investors. The countries where some progress has been made as regards financing of SMEs are those where, for different reasons, the competition between commercial banks has increased.

This has happened for instance in **Bulgaria** and **Hungary**. The wary attitude of commercial banks towards small enterprises has been tackled in the **Czech Republic**, where several banks have extended their offer of specific products to SMEs (for instance, business overdraft and credit facilities, operating and investment loans). In **Estonia** the access to finance of SME has improved since 2001 and the creation of the Credit and Export Guarantee Fund (KredEx) which operates in the area of business loans guarantees. According a law introduced in May 2003, KredEx guarantees will be counter-guaranteed by the State and have become even more trustworthy for the financial institutions issuing loans to SMEs. This can be considered a success story among public credit guarantees in candidate countries given that 90% of the guarantees provided by KredEx go to micro or small enterprises.

In **Lithuania** the privatisation of the financial sector during the last two years has resulted in a bigger availability of funds, which helped banks to focus on SMEs, even if collateral remained very high. To minimise this problem, the "Invega" national guarantee fund has been introducing some new schemes such as the "First instalment" principle, by which when the debtor repays to the bank the first half of the loan, the guarantee ends. Therefore, "Invega" guarantees obligations will end relatively faster and the number of potential beneficiaries will increase. In **Romania** some progress has been made as nowadays some banks have SMEs as their only or preferential target, and since 2002 the National Credit Guarantee Fund has become operational and has been trying to develop throughout the whole territory.

The **Slovakian** Government owns a bank (SZRB) which co-ordinates all the public activities in support of SMEs, by granting bank guarantees on credits, one-off non-repayable



contributions, indirect and direct credits. The co-operation between the SZRB and commercial banks has increased in the last twelve months. Guarantees granted in 2002 are ten times more than two years before. The Enterprise Fund in **Slovenia** runs similar actions to the Slovakian SZRB. In addition, since last year the Fund started action to support young and new entrepreneurs, thus creating three new jobs for each enterprise taking part in the programme. In 2003 two new activities were introduced: granting guarantees and loans with a four-year moratorium on the principal and interest-free over the first four years.

**Cyprus** is the candidate country with the best situation in the area of access to finance. Since the liberalisation of the financial regime introduced in 2001, all indicators have strongly improved. The competition between the local financial institutions has increased and led to the widening of their offer to SMEs. SMEs, which represent the overwhelming majority of enterprises in Cyprus, has been profiting of the liberalisation of the banking sector. The situation on access to finance seems to be still very difficult in **Poland**, where bank credit is defined in the national report as an "inaccessible practice" for SMEs.

The use of **venture capital** and similar non-traditional ways of financing is still far from being a common feature in candidate countries. With the exception of the situation in Latvia, only little progress has been made in this area during the last year. The most interesting experience on Business Angels was found in **Slovenia**, which obtained promising results but is still hampered by the lack of preparation by entrepreneurs for this kind of tools.

## **8. Strengthen the technological capacity of small enterprises**

Charter objectives: *We will strengthen existing programmes aimed at promoting technology dissemination towards small enterprises as well as the capacity of small business to identify, select and adapt technologies.*

*We will foster technology co-operation and sharing among different company sizes and particularly between European small enterprises, develop more effective research programmes focussed on the commercial application of knowledge and technology, and develop and adapt quality and certification systems to small enterprises. It is important to ensure that a Community patent is available and easily accessible to small enterprises.*

*We will foster the involvement of small enterprises in inter-firm co-operation, at local, national, European and international levels as well as the co-operation between small enterprises and higher education and research institutions.*

*Actions at national and regional levels aimed at developing inter-firm clusters and networks should therefore be supported, pan-European co-operation between small enterprises using information technologies enhanced, best practice in co-operative agreements spread, and small enterprises co-operation supported to improve their capabilities to enter pan-European markets and to extend their activities in third country markets.*

Improving the technological capacity of small businesses and promoting technology transfer from research institutes to SMEs has become an integral part of the government policies to strengthen the overall competitiveness of the economy in the majority of the candidate countries. Several innovation centres as well as a number of science and technology parks dealing mainly with technology transfer from research institutions to SMEs are running in these countries.

In **Estonia**, the Competence Centres programme focuses on the stimulation of the R&D co-operation between research institutions and enterprises and also acts as a tool to promote the dissemination of technology towards small enterprises.

In the framework of the Bilateral Technical Co-operation between **Bulgaria** and Germany, a project to enhance the business relations between the R&D departments of the universities and the entrepreneurs was launched in 2002. The project aims at creating an information system for supporting SMEs through technology transfer from Bulgarian universities.

The Kordin Business Incubation Centre (KBIC) in **Malta** targets technology and innovative oriented start-up companies and has been set up purposely to nurture and accelerate the development of such enterprises. It offers a comprehensive programme with a portfolio of services which include: business support services and business planning support and implementation, networking, access to finance, secretarial and shared services, high-end facility infrastructure and an environment which is conducive to business growth.

In **Estonia**, the Inno Awareness project is targeted to raise different actors' awareness of the innovation system as well as public awareness about the essence of innovation.

Actions to foster the involvement of small enterprises in **inter-firm co-operation and clustering** have been pursued mainly at national level but there are also a few examples of extending the initiatives beyond national borders. In this area, **Slovenia** is a frontrunner, as highlighted also in last year's report.

The project on Clustering and Upgrading Romanian Automotive Suppliers, CURAS, has been established under the Co-operation Agreement between **Romanian** and Flemish Government. It aims at upgrading the quality level and promoting the efficient use of SMEs resources in the automotive sector. The project is expected to enhance clustering of the local suppliers dealing with the automotive sector and to consolidate their position as suppliers at the national and later possibly on the international level.

In **the Czech Republic**, the Association for the Reconstruction and Development of Moravia and Silesia in cooperation with the government-run agency established a Moravian-Bohemian mechanical engineering cluster in June 2003. In the scope of this project, databases of companies were created, containing ranges of products and services, a professional association of companies was founded, the introductory marketing operations in the Czech Republic and abroad were launched, and a labour market survey was conducted for the requirements of companies in the cluster. CzechInvest is also cooperating on a strategy for the development of a biotechnological cluster (in cooperation with Baxter), an aviation industry cluster (with Honeywell), and a wood-working industry cluster (with Mayr Melnhoff). Experience gained from the support of these pilot projects will be used to define the policy of support for the development of clusters in the country.

## **9. Successful e-business models and top-class small business support**

Charter objectives: *The Commission and Member States should encourage small enterprises to apply best practice and adopt successful business models that enable them to truly flourish in the new economy.*

*We will co-ordinate Member States and EU activity to create information and business support systems, networks and services which are easy to access and understand, and relevant to the needs of business; ensure EU-wide access to guidance and support from*

*mentors and business angels, including through websites, and exploit the European Observatory on SMEs.*

In most countries, the development of e-business models is integrated in the general framework of e-Government action plans. One of the key priorities in the plans is to enhance small businesses use of the internet and to make them aware of new possibilities to do business. In all countries, initiatives have been taken to provide information and training to SMEs on e-business.

In 2002, the **Lithuanian** Development Agency launched the Electronic Business Promotion Project within which SMEs were taught how they could develop an e-commerce strategy, what implications the online marketing or communication techniques have on the businesses, and how to deal with legal and financial issues related to e-commerce.

The Chamber of Commerce and Industry of **Slovenia** together with companies and institutions implements a project called e-SLOG. Its main purpose is acquaintance and practical training of Slovene companies for e-business on the basis of joint recommendations that result from international standards.

In **Slovakia**, the Ministry of Economy is developing a support scheme for SMEs to help them to put the e-signature into practice as from 2003.

All countries have started to develop online business support services and to take into account requirements for doing e-business. In **Lithuania**, the Northtown Technology Park developed a pilot project "Virtual Office" which aims at creating a new form of business incubation by providing office services and virtual working facilities mainly to small and medium-sized enterprises, particularly start-up entrepreneurs. In 2002, the **Lithuanian** Small Business Agency created a new tool, a virtual database "Internet Supply Exchange" ([www.svv.lt/birza](http://www.svv.lt/birza)), the main focus of which is to enhance the co-operation between large companies and SMEs by providing information about the customers and sellers, the goods and services.

In **Poland**, private companies have taken initiative to establish e-platforms specifically targeted for small companies and gathering information on buyers and suppliers. The "Trade Point-Sofia" (<http://tp.bia-bg.com>), a **Bulgarian** one-stop-shop online business information service, provides free trade-related information about Bulgarian companies and institutions and gives access to the Virtual Trade Fair. The information portal Aktiva ([www.aktiva.ee](http://www.aktiva.ee)) in **Estonia** is set up by the government for entrepreneurs to distribute different types of information concerning business opportunities. The portal provides a variety of services including mini websites, an "ask the specialist" section, and forums.

#### **10. Develop stronger, more effective representation of small enterprises' interests at Union and national level**

Charter objectives: *We will complete a review of how the interests of small businesses are represented at EU and national level, including through the social dialogue.*

The **revision of existing legal acts** and initiatives to improve the business environment in co-operation with business organisations has been initiated by some countries. In **Lithuania**, the Business Development Council is responsible, amongst others, to formulate proposals to the Government regarding improvement of some legal acts. In **Bulgaria**, the Advisory Council to the chairman of the Agency for Small and Medium-sized Enterprises suggest amendments to legislation with a view of improving the business environment. In **Turkey**, the SME technical

committee has recently started functioning with a view to remove barriers and develop a more favourable environment for SMEs. In **Hungary**, Inter-ministerial working committees with the participation of the private sector are set up with the aim to improve the business environment.

Most countries have established **advisory councils for policy issues** and better regulation. Moreover, in many countries business organisations have participated in the conception and preparation of the Structural Funds programmes. This exercise proved to be very useful for improving the co-operation between business and national authorities. Some countries have reported new initiatives:

In the **Czech Republic**, the conclusions of the annual National Conference of Small and Medium-sized enterprises on current issues between government and businesses are sent to all concerned Ministers with the request to state how these conclusions could be implemented within the competence of the Ministry addressed. In **Estonia** a new co-operation memorandum between the government, the Estonian Chamber of Commerce and Industry and the Employers' Confederation was adopted aiming to increase the participation of the business community in the policy making processes and in the development of a favourable business environment. **Cyprus** intends to found an independent organisation for SMEs that would be involved in the formulation of policies, schemes and projects related to SME development.

In **Lithuania**, the Business Employers' Confederation initiated in 2003 round table discussions in which its members and management staff met with representatives of state institutions to discuss urgent problems, provide arguments and to listen to different opinions of all participating parties. **Hungary** launched a new body, the National Reconciliation Council, in 2002. The Council with members of the main associations representing SMEs intends to improve the involvement of business representatives in the policy and law making process.

National authorities often face several horizontal **national SME organisations that compete to represent the interests** of the business community. In addition, other SME organisations might only represent specific sectors and regions. In some countries umbrella employer's organisations have been created representing all (major) business organisation of the country (**Latvia, Slovakia, Hungary, Turkey and Cyprus**). **Latvia** established in 2003 the Latvian Council of Cooperation of SME and Craftsmanship. This Council, consisting of twenty six organisations representing Latvian SME federations from different sectors of the economy, represents a consolidated SME institution that serve as a representative SME partner with the government.

No further progress can be reported as regards development on bipartite **social dialogue**. In many countries the employer's side is represented by the industrial federations. **Latvia** has launched a Phare Twinning project "Promotion of bipartite social dialogue" to strengthen the capacity of social partners.

### **European Commission's action in favour of small enterprises in candidate countries**

Over the last decade the Commission has developed broad co-operation with candidate countries, in particular in Central and Eastern Europe, which has been beneficial for SMEs. Support has been given to: (i) improving policies, rules and legislation; (ii) improving the business environment by investing in both physical and knowledge infrastructure; (iii) strengthening business associations and (iv) some limited direct support to enterprises. The

**Phare** programme provides financial resources for the ten central and eastern European countries. **Malta, Cyprus and Turkey** benefit from similar pre-accession co-operation instruments. Phare has contributed to improving the business environment by co-financing investments in infrastructure and in knowledge. The latter mainly by facilitating SME access to research and new technologies, and also by providing vocational training. Support has been given to strengthen business organisations through the Phare-funded "Business Support Programme" aimed at strengthening the infrastructure as well as improving business organisations' knowledge of the *acquis*. Calls for proposals were launched in 2000 and in 2002.

Enterprises can benefit through various co-financing schemes, such as the Phare Economic and Social Cohesion programmes. They may include co-financing of advisory services to SMEs on a variety of issues (management, marketing, product development, product quality and respect of standards). Another example is the provision of grants for investments in combination with bank loans, mainly as part of sectoral restructuring plans or regional development plans.

In order to reduce the lack of bank credits to the private sector in the candidate countries due to the structural weaknesses in the banking sector, the European Commission, together with other international financial intermediaries (EIB, EBRD, CEB/KfW<sup>14</sup>) have made efforts to increase the lending capacity of banks through credit lines, technical assistance and risk-sharing instruments (SME Finance Facility).

The financial instruments of the Multiannual Programme for Enterprises and Entrepreneurship, managed by the EIF,<sup>15</sup> are also open to the participation of candidate countries since February 2003. These instruments complement the privatisation of the banking sector in the candidate countries, where 67% of banks co-operate closely with EU partner banks that have invested capital, introduced modern bank technology and trained their staff.

In the Sixth Framework Programme for research, technological development and demonstration activities, the participation of acceding and candidate countries is particularly encouraged. Participants from these countries, including especially SMEs, SME groupings and SMEs associations, are treated equally with participants from member states by the rules of participation in FP6. There are different routes for the participation of SMEs in FP6, the main route being that of the priority thematic areas (at least 15% of the budget to SMEs, i.e. at least 1.7 billion €), but also through the "horizontal research activities involving SMEs" (co-operative research and collective research).

The European training programme, Leonardo da Vinci, is fully open to the ten candidate countries from Eastern Europe as well as to Cyprus and Malta since 1998. The programme supports the transnational mobility of people undergoing or responsible for vocational training (placements of students in undertakings or exchanges of human resources responsible and/or trainers). It also co-finances transnational pilot projects aiming to the development of training solutions and to the general improvement of training in Europe. In 2003, six multi-annual pilot projects supporting training in and for SMEs and proposed by institutions from candidate countries were selected and received a total Community co-financing of € 1.938.456.

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<sup>14</sup> European Investment Bank, European Bank for Reconstruction and Development, Council of Europe Development Bank/Kreditanstalt für Wiederaufbau.

<sup>15</sup> European Investment Fund

In 2003 the future Member States in co-operation with the Commission's services prepared and completed the operational programmes for the intervention of structural funds in the acceding countries. A significant part of these programmes will be dedicated to the support of small and medium-sized enterprises. The support will include better access to finance (grants, loans, guarantee schemes), as well as enhanced co-operation between enterprises themselves and with research centres. Moreover, small enterprises will benefit from the substantial improvement of the business-related infrastructure that will be achieved by the structural funds interventions. The starting date for the eligibility under the structural funds programmes is 1 January 2004.

In the area of state aid rules, the Commission has already approved an amendment to the block exemption regulation on aid to SMEs<sup>16</sup> to include aid for research and development (R&D) activities carried out by SMEs<sup>17</sup>. As a result, provided all the conditions of Regulation No. 70 are fulfilled, Member States will be entitled to grant such aid directly without having to notify it to the Commission and wait for its authorisation. This simplified procedure will facilitate and accelerate the granting of such aid to SMEs.

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<sup>16</sup> Commission Regulation (EC) No 70/2001 of 12.01.2001 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises, OJ L 10, 13.01.2001, p. 33-42

<sup>17</sup> Press Release IP/03/1788, 19.12.2003, and OJ C 190, 12.8.2003, p. 2.

### PART III: THE ACCEDING AND CANDIDATE COUNTRIES' PRIORITIES FOR ACTION

In general terms, according to the answers given to the questionnaire, governments believe that their initiatives can be most effective in two fields of action: the streamlining of administrative procedures and the stimulation of entrepreneurial spirit through education and training. The field of "better regulation" is where the governments consider that their action can have the highest structural impact on the business environment<sup>18</sup>. On the other hand, governments consider that their contributions to the process of improving access to finance for small enterprises are less effective. In this field of action the financial institutions are likely to be the most important players. The need to develop stronger and more effective representation of small enterprises' interests is low ranked. This confirms the general impression that there is still a lot to do to raise the awareness of the importance of involving the business community in the legislative and policy making process. At the bottom of the governments' list of priorities is the facilitation of online access for SMEs.

Governments were also asked to name the areas in which they have their best practices. Five countries ranked education for entrepreneurship at the first place<sup>19</sup>, and availability of skills was also highly ranked by almost every country. Two countries<sup>20</sup> put access to finance and favourable taxation as the area in which they do better. The "anti-bureaucracy areas", easier start-ups and better regulation, are also highly ranked<sup>21</sup>. Only the two areas linked to e-business, improving on-line access and developing e-business success models, were not ranked as number one by any country.

Representatives of small businesses seem, in contrast with their respective governments, to think there is need for more public action to improve access to finance. Small enterprises are also asking for cheaper and faster start-ups and better legislation and regulation. It seems therefore as if the request for the streamlining of administrative and regulatory burdens remains strong. The need to improve on-line access and the identification of successful e-business models is, according to the answers to the questionnaire, less important for the business community.

The final criterion was looking forward in order to find out in which area most policy action is foreseen in the coming twelve months. It seems from the answers that most action will be focused on taxation and financial matters and education and training for entrepreneurship. Some countries will however focus their actions on cheaper and faster start up, better legislation and regulation, more out of the single market and develop stronger, more effective representation of small enterprises interests<sup>22</sup>.

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<sup>18</sup> Bulgaria, the Czech Republic, Hungary and Romania ranked this area at the first place under this criterion.

<sup>19</sup> Czech Republic, Hungary, Poland, Slovakia and Slovenia.

<sup>20</sup> Estonia and Turkey.

<sup>21</sup> It was at first place for Cyprus, Latvia and Romania.

<sup>22</sup> The following priorities were made: **Czech Republic, Hungary, Slovakia and Slovenia**: taxation and access to finance; **Bulgaria**: better legislation and regulation; **Cyprus**: availability of skills, the single market, strengthening the technological capacity of enterprises as well as better representation of small enterprises; **Estonia**: availability of skills; **Latvia**: more out of the single market; **Lithuania**: availability of skills as well as strengthening the technological capacity of enterprises; **Malta**: education for entrepreneurship; **Poland**: cheaper and faster start-ups as well as better legislation and regulation; **Romania**: cheaper and faster start-ups; **Turkey**: taxation and access to finance, as well as better representation of small enterprises.

## **Benchmarks for future actions**

The countries were also invited to identify benchmarks for their action. This part of the questionnaire for the Charter monitoring was optional. Four countries provided input<sup>23</sup>. Benchmarking represents a useful tool in enterprises policy making. Further emphasis will be given to this activity in the future, especially after the accession of the ten new member states to the EU when these countries when their participation in EU methodology on enterprise policy will be complete.

## **PART IV: WHERE WE ARE AND WHAT SHOULD BE DONE NEXT: CONCLUSIONS AND RECOMMENDATIONS**

Private entrepreneurial activity is the source of prosperity in Europe, and small business is the field in which prosperity grows. The enlarged European Union will have about 25 million businesses, of which the overwhelming majority are small. They are the backbone of EU economy. That is why we need to « think small first », inside the public administration but also within the financial institutions, the educational bodies and all other actors involved in the enterprise policy. All efforts must be done to help and encourage small business and entrepreneurship. It is also vital not to try to tell entrepreneurs what to do, but to let their creative and innovative capacity find the right solutions, for the sake of common wealth and prosperity.

The European Charter for Small Enterprises is an important tool of EU policy for small businesses. Since its adoption in 2000, it has been a driver for the policy improvement in the Member States. But it is in the acceding and candidate countries where its influence over the political process has been the most relevant. These countries needed a framework within which to develop their enterprise policy, and found it in the Charter.

The European Union has set itself the ambitious goal to become the most competitive part of the world. This will only be possible if further important efforts are made. This is true for all EU member States but in particular for the new Member States.

### **Education and training for entrepreneurship (*Area 1 of the Charter*)**

This area presents a rich variety of practices in acceding and candidate countries. Entrepreneurship is now widely recognised as an important issue to be taught in all the acceding and candidate countries, both through the traditional approach and the introduction of e-learning. However a strong need for further improvement and consolidation remains. Practices should be included within a **coherent structure**, which is provided by the education system. Action plans could be developed at national level to ensure that entrepreneurship is taught to a maximum number of pupils, taking into consideration the gender dimension. Participation in the “Education and Training 2010” process will also help these countries in promoting entrepreneurship education and training. Education and training for

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**Estonia** indicates benchmarks to strengthen the technological capacity of the small enterprises, availability of skills and access to ITC. It also proposed two benchmarks which concern the whole Charter areas, related to the gross birth rate of enterprises and the number of active companies. **Lithuania** defines an ambitious and comprehensive set of objectives covering seven Charter areas. A similar approach is proposed by **Romania**. **Turkey** proposes a benchmark in the area for technological capacity of small businesses. **Latvia's** strategy to develop SMEs contains interesting objectives such as to increase the number of enterprises per 1000 inhabitants from 18.3 to 42 over the next ten years. The target is to increase every year the number of new enterprises of 10-15%.



entrepreneurship is one of the 13 objectives aiming at improving quality, access and openness of education and training systems in Europe.

[http://www.europa.eu.int/comm/education/index\\_en.html](http://www.europa.eu.int/comm/education/index_en.html)) Initiatives aiming at promoting the development of an entrepreneurial spirit in pupils are still rare in **primary schools**, although a number of examples of good practice can be found in this area. This type of teaching is more frequent in **secondary schools**, but **initial vocational training** systems of secondary level in most countries do not look enough towards self-employment and entrepreneurship. Entrepreneurship training at **university level** is currently mostly directed at students following economics and business courses.

Schemes based on “**learning by doing**” exist, including in primary schools, and prove to be effective. They should be more widely used and introduced in those countries where they are not yet practiced.

*Acceding and candidate countries should continue to encourage the incorporation of entrepreneurship into the basic curriculum. They should also continue to encourage universities to further step up their efforts to provide for specialised courses in entrepreneurship. Also the promotion of entrepreneurship outside of formal school activity remains important. At all levels in formal or informal school activities the gender dimension should be taken into account in the different curricula.*

### **Cheaper and faster start-up (Area 2 of the Charter)**

Governments’ action has improved the situation in this area. Some countries have levels of performance that are even better than the average time and costs in EU Member States. In other cases there is still room for improvement, but even the countries with the lower records have improved their situation in the last few years.

Figures on the birth of new enterprises are rather high in the acceding and candidate countries. This is a rather natural effect in presence of higher economic growth rates compared to the EU.

On-line registration procedures are not yet a reality. Efforts in this area can be made rather easily. Many countries have plans in this direction and they should be implemented following the schedule. Countries which have not yet developed such plans should do it.

A practice that could indeed be recommended is the “one-stop-shop” system. These bodies should be created not only to provide information to new or existing entrepreneurs. They should work as administrative bodies, whereby entrepreneurs can solve all the procedures linked to the creation and the running of their enterprises.

*Acceding and candidate countries should continue to exploit information technology, including the introduction of online registration and the interconnection of relevant authorities.*

### **Better legislation and regulation (Area 3 of the Charter)**

Reform remains a high priority in the area of better legislation and regulation. The acceding and candidate countries have introduced modern rules on bankruptcy. Important measures have been taken to reduce delays for registration of new companies and to reduce tax burden. Efforts have also been made to ameliorate the conditions for co-operation between the research institutes and the business community. A country has also taken steps to reduce the

procedure for obtaining land and permit. Some countries have launched systems for regular evaluation of the impact of legislation. More could be done to include the business community in the law-making process.

***Acceding and candidate countries should continue their efforts to improve the legislative environment for business. They should further consider the introduction of exemptions for small businesses from certain legal obligations which may weigh heavily on small companies in particular. The business impact assessment should be strengthened and further efforts should be made to involve the business community in the legislative process.***

#### **Availability of skills (Area 4 of the Charter)**

Smaller enterprises still do not consider in-house training as a priority in their work-plans. There is therefore still a cultural problem on the entrepreneurs' side. In addition, costs of training remain an obstacle. SMEs seem not to take advantage of e-learning which is proving to be particularly well adapted for them as a flexible cost-effective solution (e.g. up to 60% of the training needs of key players in the ICT sector is now provided by e-learning).

In several countries there is a lack of skilled workers, able to satisfy the needs of potentially high-growth enterprises.

Countries have taken initiative to help small enterprises in this area. Measures are innovative and effective. Almost everywhere the institutions responsible for these initiatives are national public agencies for SME development.

***Acceding and candidate countries should continue to promote training subsidies, e-learning techniques, clustering and awareness raising activities.***

#### **Improving online access (Area 5 of the Charter)**

In all acceding and candidate countries public authorities and institutions responsible for SME development acknowledge the importance of enhancing the electronic communication with the small business sector. The development of online services has progressed in the framework of e-Government actions plans which aim at enhancing on line communication between the public administrations and citizens. Efforts to move from first generation Internet services to fully interactive services are progressing and should be pursued. A concerted effort by governments and the national regulatory authorities to implement the EU framework on electronic communications will help the growth and competitive pricing of these services. Further attention should be paid to the demand side, i.e. small businesses' needs and problems in the use of internet. The relatively low internet penetration rate among small enterprises remains the main problem. For many small enterprises the cost of internet services and hardware investments are too high. Many especially older generation entrepreneurs also lack the necessary skills and information on the advantages of using on line services. In some cases the lack of human resources hinders an efficient use of internet. Furthermore, many entrepreneurs are lacking confidence in conducting electronic transactions and point to the need to improve the security of the on line transactions.

***Acceding and candidate countries should continue efforts to further develop online services and to target them in a way to better meet the needs of entrepreneurs.***

### **More out of the Single Market (*Area 6 of the Charter*)**

Accession negotiations on the free movement of goods were provisionally closed with the 10 acceding countries between December 1999 and May 2001 (formal closure took place at the conclusion of the total accession negotiations in December 2002). They were also closed provisionally with Bulgaria in June 2002 and with Romania in June 2003. Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial products (PECAs) are now operational with 7 acceding countries. The advice presented in last year's report remains valid.

***To fully exploit the opportunities of the internal market, the candidate countries must respect the commitments made in the negotiation process for accession.***

### **Access to finance (*Area 7 of the Charter*)**

The state and its institutions have a proactive role to play in the field of SME financing. This requires funding at the national and local levels, and continual assessment of its impact. Strengthening the national financial market and making them more open to competition, stimulating private and other sources of investment in the SME sector (banks, private venture capital funds, foreign funding) should be a priority. In particular, the entry in the financial market of foreign financial institutions has brought increased competition, lower interest rates and better products for enterprises in the countries where this has happened. A national financial institution may help in the search for partners for banks who want to finance SME projects in greater numbers, especially first time start-ups and micro-enterprises.

SMEs in candidate countries have to comply with EU technical standards and other requirements (health & safety, environment, etc.). Many of the enterprises have still to make the necessary investment decisions, which include renovation of buildings, purchase of equipment and training for employees. Their access to medium and long term loans, which so far are still in short supply, should be improved.

The guarantee sector is sometimes still fragmented and inefficient. National authorities should increase their efforts to create a nation-wide guarantee system based on best practices from the EU.

***Acceding and candidate countries should take further action to improve the financial situation for small businesses. It remains a high priority to create a sound and enterprise-friendly finance sector. The needs of new and small enterprises should be given more priority. Acceding and candidate countries should make efforts to promote the use of non-traditional financial instruments such as venture capital, seed capital, and business angels.***

### **Strengthening the technological capacity of small enterprises (*Area 8 of the Charter*)**

There are several programmes running in all the candidate countries aimed at strengthening and promoting technology dissemination towards enterprises. However, more attention should be focused on the problems encountered by the small businesses in this field. Lack of general understanding of the innovation process and the importance of innovation are frequently mentioned as main reasons for a low use of innovative technologies and processes in small enterprises. In some countries, awareness raising programmes targeted to enterprises are being designed to redress this problem. Furthermore, in many countries, the lack of financing for innovation related investment is cited as a major barrier to strengthening the technological capacity of small enterprises.

The effective implementation of EU policies on competition in electronic communications will stimulate the development of affordable broadband services for small enterprises. This in turn will remove another barrier to the development of their technological capacity. National innovation policies are increasingly highlighting the need to enhance the inter-firm co-operation and clustering. In practice, however, the level of co-operation between enterprises as well as between enterprises and research institutes remains low. One of the main reasons for this is the lack of awareness among entrepreneurs on the opportunities offered by such co-operation and a poor capacity of building networks.

***Acceding countries and candidate countries should make further efforts to promote innovation within small enterprises. National innovation policies should enhance the potential for inter-firm co-operation and clustering.***

#### **Successful e-business models and top-class small business support (Area 9 of the Charter)**

In all countries, small businesses are increasingly connected to the Internet and start to use it as a tool to find information and to communicate with customers and public administration. However, very few manufacturing small firms are involved in electronic commerce activities. Major barriers to the use of Internet for electronic business are the security of transactions, the costs of services and equipment and the lack of ICT skills of staff (*see the conclusions on area 5 above*).

More emphasis could be put on usage of ICT by SMEs, and on benefits they could obtain from that usage, in improving their business processes and working environments, and in applying and sharing best practices. Clustering of SMEs in spearhead sectors should also be encouraged with the goal of increasing their existing strengths in a wider market. All countries are developing information and business support systems, networks and services which increasingly take into account the changes introduced by global e-business activities. Better co-ordination of the services available and more efficient information on these services targeted to small enterprises is necessary. Furthermore, overcoming the hurdle of too costly services should be a priority.

***Acceding and candidate countries should promote efforts to better co-ordinate the services available and to spread information on what is accessible. They should make efforts to decrease the costs for these services.***

#### **Listen to small business (Area 10 of the Charter)**

All countries have yet to consolidate a culture of dialogue between business actors and the administration. Setting up a system for an efficient and fruitful dialogue between the business community and public authorities takes time and therefore it is important not only to carry on with the work but to enhance the exchange of good practices and to aim at finding common solutions. Since the last Charter implementation report some improvement has occurred and a number of interesting initiatives aimed at strengthening the SME interest representation have been taken. Nevertheless, Europe must listen better to small businesses' concerns and think about ways to ensure that small business concerns are given more consideration in policy making processes (*see also conclusions for area 3*).

Support to the small enterprises requires prior consultation with their representative organisations. The involvement of small business representations is in particular important for the effective use of structural funds for SMEs. The voice of entrepreneurs and business associations should be listened to more carefully and small businesses' concerns taken into

account more efficiently. The role of public-private partnerships, participation of partners in project selection committees, monitoring committees and in the evaluation of the programmes is of crucial importance. The management and co-ordination between national authorities on one hand and the regional authorities and businesses on the other will be one of the challenges for the upcoming reporting period.

Acceding and candidate countries should continue to make efforts to involve the business community in the policy-making process. The role of social partners in policy development should be recognised and promoted.