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

**Action Plan: The European agenda for Entrepreneurship**

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## 1. EUROPE'S ENTREPRENEURIAL CHALLENGE

**Entrepreneurship** is a major driver of innovation, competitiveness and growth. Due to their strong presence in key sectors such as services and knowledge-based activities, smaller enterprises and entrepreneurs today play a central role in the EU economy. A positive and robust correlation between entrepreneurship and economic performance has been found in terms of growth, firm survival, innovation, employment creation, technological change, productivity increases and exports.<sup>1</sup> But entrepreneurship brings more than that to our societies. It is also a vehicle for personal development and can harness social cohesion when the opportunity of creating one's own business is offered to everybody, regardless of background or location.<sup>2</sup>

The **European Union** (EU) is committed to boosting entrepreneurship as part of its strategy<sup>3</sup> to transform its economy and build its future economic and competitive strength. The Council called for action in favour of small enterprises and entrepreneurship, notably by adopting the **European Charter for Small Enterprises**<sup>4</sup> in 2000.

Yet despite action taken since then, the EU has so far not succeeded in narrowing the **gap in GDP per capita** with the US; in fact, the **productivity gap** is widening. Forward-looking studies indicate that, if Europe allows current economic trends to persist, its percentage share of world production will decline, even as absolute production increases, in particular as the emerging Asian economies catch up.<sup>5</sup> Europe needs more entrepreneurship to strengthen its economic position.

The EU is not fully exploiting its **entrepreneurial potential**. It is failing to encourage enough people to become an entrepreneur. According to the Eurobarometer although 47% of Europeans say they prefer self-employment, only 17% actually realise their ambitions. Regarding new entrepreneurial initiative, only 4% of Europeans state to be engaged in creating a business or to be an entrepreneur since less than three years against 11% in the US.<sup>6</sup> And whereas 29% of Europe's SMEs declared growth as their main ambition,<sup>7</sup> too few actually generate substantial growth. Europe, unlike the US, suffers from low expansion rates after start-up.<sup>8</sup> And all of Europe's largest firms at the end of the last decade were already large in 1960.<sup>9</sup> Whereas US entrepreneurs appear to test the market and, if successful, expand

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<sup>1</sup> [‘Entrepreneurship: A survey of the Literature’](#), David B. Audretsch, October 2002.

<sup>2</sup> See also [‘Joint Report on Social Inclusion’](#) Council of the European Union, 15223/01, 12.12.2001.

<sup>3</sup> The [EU strategy](#) for structural reform of the economy was set at the Lisbon European Council in March 2000 and confirmed by the Council at several European Council meetings until now.

<sup>4</sup> The [‘Charter for Small Enterprises’](#), adopted on 13.06.00 by the General Affairs Council, was endorsed at the Feira European Council on 19-20 June 2000.

<sup>5</sup> Commission Staff Working Document [‘European Competitiveness Report 2003’](#), SEC (2003) 1299, 12.11.2003 and [‘Le commerce mondial au XXI siècle’](#), Institut français des relations internationales, October 2002.

<sup>6</sup> Flash Eurobarometer 146 ‘Entrepreneurship’, October 2003

<sup>7</sup> [‘SMEs in focus—Main results from the 2002 Observatory of European SMEs’](#) European Commission.

<sup>8</sup> ‘The role of policy and institutions for productivity and firm dynamics: Evidence from micro and industry data’, working paper No 329, Stefano Scarpetta et. al., ECO/WKP (2002)15, 23.04.2002.

<sup>9</sup> ‘White Paper, Embracing innovation: entrepreneurship and American economic growth’, National Commission on Entrepreneurship, 2001.

rapidly, many business ideas in Europe never come to market, as their viability is questioned before they can be tested in the market place. Indeed, the Eurobarometer showed that 44% of Europeans agreed that '*one should not start a business when there was a risk of failure*' against 29% in the US.

An **ageing population** is likely to aggravate the entrepreneurial gap,<sup>10</sup> since the age group that is most active in setting up businesses (between 25-34 years)<sup>11</sup> will shrink in the coming decades. Also, an estimated one third of EU entrepreneurs, mainly those running family enterprises, will withdraw within the next ten years, which affects some 610 000 firms and 2.4 million jobs every year. As less and less transfers are taking place within the family, more family enterprises will need to be transferred to employees or third parties. Yet many Europeans prefer starting a firm rather than taking over one. Finding successors is thus becoming increasingly difficult.<sup>12</sup>

To release its full entrepreneurial potential, the EU must take serious steps to make Europe more **attractive** for business activity. But this alone is not enough to fuel the entrepreneurial drive: a more entrepreneurial mindset is needed. This means actively promoting **entrepreneurial values** and addressing the fear of **risk-taking** among the widest possible audience of potential entrepreneurs.

To help achieve this, the EU can exploit examples of **good performance** from within its own borders, drawing on substantial regional diversity in wealth and business environment. The enlargement will not only enhance the range of economic performance, but also broaden the spectrum of entrepreneurial traditions and increase opportunities for exchange in an enlarged Europe.

To make progress on the entrepreneurship agenda, the Commission published the **Green Paper 'Entrepreneurship in Europe'**<sup>13</sup> to involve the largest possible audience of stakeholders in setting the **future policy agenda**. This consultation provided an example of the importance that the Commission attaches to upholding the dialogue with SMEs and their representatives.

Based on extensive research data, analysis, surveys and policy experiences, the Green Paper raised ten questions regarding **two fundamental issues for Europe**: '*How to produce more entrepreneurs*' and '*How to get more firms to grow*'? As a follow-up to the Green Paper, the Council asked the Commission, at the Brussels European Council in March 2003, to present an **Entrepreneurship Action Plan** at the 2004 Spring European Council.

This Action Plan provides a **strategic framework for boosting entrepreneurship**, based on the public consultation that followed the publication of the Green Paper. This consultation generally supported the Commission's ongoing activities but called for more effort in certain areas. Hence the Action Plan complements ongoing work,

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<sup>10</sup> Europe's demographic situation will change dramatically. Instead of one person of 65 and older for each four in the group 18-64, this proportion will change in 2040 to roughly one to two. The age group 18-35 will shrink from more than a quarter to less than 20%, [Eurostat projections](#).

<sup>11</sup> '[Global Entrepreneurship Monitor \(GEM\) 2002 Summary Report](#)', Reynolds, Bygrave, Autio and Hay.

<sup>12</sup> '[Final report of the expert group on the transfer of SMEs](#)', European Commission, May 2002.

<sup>13</sup> Green Paper '[Entrepreneurship in Europe](#)', European Commission, COM (2003) 27 final, 21.01.2003.

notably under the Multiannual Programme for Enterprise and Entrepreneurship,<sup>14</sup> adopted by Council Decision 2000/819/EC without changing the objectives and the areas of action described in this Decision, through focused actions.

## 2. A EUROPE-WIDE DEBATE ON BOOSTING ENTREPRENEURSHIP

The **public debate** triggered by the Green Paper on Entrepreneurship stirred a great deal of interest across Europe and beyond. Stakeholders willingly shared their expertise, gleaned through their daily work with businesses or through research. The Green Paper was discussed at many events and 240 written responses were submitted by both individuals and organisations, which represented a large number of stakeholders, including national, regional and local public authorities, entrepreneurs, business organisations, support providers, universities and think tanks.<sup>15</sup>

While confirming the main challenges in the Green Paper, respondents highlighted a wide array of **areas for action**, making it clear that there is *no silver bullet* for creating a more entrepreneurial Europe. Europe's untapped potential appears to derive from a complex set of mutually interacting framework conditions, attitudes and skills. An overview of the main trends in responses received is provided below.

The prevailing attitudes towards entrepreneurship and the current balance of the **risks and rewards** appear to make many Europeans less inclined to become entrepreneurs. There also are fewer potential successors to take over the increasing number of businesses from entrepreneurs reaching retirement age. Entrepreneurship education was seen as an important way to create more entrepreneurial mindsets among young people. To alleviate the burden of risk, the severe consequences of failure and the need to accept a lower degree of social security should be addressed. More effort was requested to facilitate **business transfers**, specifically for family enterprises.

**Finance** is seen an increasingly pressing issue, due to the rising rating culture and proposed new capital adequacy rules for banks (Basel II).<sup>16</sup> **Taxation** of retained profits or private investment was seen as an obstacle to building equity and stronger balance sheets, which are needed not only to unlock the growth potential of firms, but also to obtain cheaper finance.

To boost **performance**, respondents mentioned that entrepreneurs should have access to quality and targeted support, mentoring and training. Clusters could provide an impetus to growth, Europe-wide trade and internationalisation, while support to encourage spin-offs and a more effective exchange between research and businesses could help foster innovation.

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<sup>14</sup> [‘Multiannual Programme for Enterprise and Entrepreneurship, and in particular for Small and Medium-Sized Enterprises \(SMEs\) \(2001-2005\)’](#), Council Decision (2000/819/EC) of 20.12.2000, OJ L 333, 29/12/2000 p. 0084 - 0091.

<sup>15</sup> All contributions received in electronic form and a report summarising the main results can be consulted via the website [http://europa.eu.int/comm/enterprise/entrepreneurship/green\\_paper/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/green_paper/index.htm).

<sup>16</sup> Review of capital requirements for banks and investment firms, further information in [‘Commission Services Third Consultation Paper’](#), working document, 01.07.2003.

Frequently mentioned were **administrative and regulatory burdens**, especially complying with tax and employment requirements, which is complex, time-consuming and costly. To create a better administrative and regulatory environment, policy-makers should maintain a **dialogue with SMEs** and their representatives. Furthermore, on the basis of respondents' reactions it could be established that regarding SMEs' access to public contracts there is still room for improvement and that challenges for the **Internal Market** and the structure of the **State aid regime** still exist.

Many respondents subscribed to the Green Paper's choice of a **co-ordinated approach**. Respondents asked to reinforce the open method of co-ordination<sup>17</sup> by a more systematic follow-up of the recommendations given and their implementation by the Member States. To take account of the differing challenges and needs across the EU, co-ordination should not only involve national governments, but also more often the regions, which play a vital role in providing infrastructure, networks and support tailored to the specific needs of entrepreneurs within their regions. Co-ordination is also necessary among all policy-makers working in different areas that affect entrepreneurship, such as research, innovation, taxation or employment.

### 3. FIVE STRATEGIC POLICY AREAS

On the basis of the public consultation, the Action Plan aims to encourage more people to start businesses and to help entrepreneurs thrive by helping them to fully realise their ambitions and by providing an enabling business climate. To further the entrepreneurship agenda, the Commission will act in **five strategic policy areas**<sup>18</sup> that the respondents to the Green Paper identified as being crucial for boosting the current entrepreneurial dynamism in the EU.

- Fuelling entrepreneurial mindsets
- Encouraging more people to become entrepreneurs
- Gearing entrepreneurs for growth and competitiveness
- Improving the flow of finance
- Creating a more SME-friendly regulatory and administrative framework

To advance the entrepreneurship agenda, the EU is faced with a double challenge: **Co-ordination and focus** are needed to create synergy and allow real progress. Yet policy should take account of the differing needs of entrepreneurs, who run businesses ranging from university spin-outs to family-owned SMEs to social enterprises. And countries and regions each have a unique mix of strength and weaknesses affecting their entrepreneurial culture and business environment.

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<sup>17</sup> Under this method, the Commission provides a platform to the Member States to set indicators, targets and benchmarks and to collect good practices in policy areas of common interest to allow them to improve their own policies.

<sup>18</sup> Without prejudice to the objectives and areas of action as set in the Multiannual Programme, Council Decision 2000/819/EC.

To achieve the best results, the Commission cannot and should not act alone. Success depends critically on active involvement of Member States and business organisations. To properly respond to the differing entrepreneurial challenges, the Commission therefore calls upon the **Member States and business organisations** to take the necessary action in the five strategic areas within their competence, at the best suited, national or regional level, thereby addressing their specific needs.

In support of **Member States'** national and regional strategies, the Commission will, under the open method of co-ordination, assist policy-makers to benchmark performance and to exchange policy practices in relevant areas for action.

The commitment of the **business community** is a prerequisite for successful entrepreneurship policy. By way of example, considering the needs of SMEs in policy-making can only work with the active involvement of businesses and their representatives, while business organisations can play an intermediary role in bank/business relations. Entrepreneurs learn best from each other (as mentors or in networks), so their role in promotional and educational activities is of the utmost importance in creating entrepreneurial mindsets.

The Action Plan gives priority to a focused set of **key actions**<sup>19</sup>, to be launched in 2004 and 2005, which are addressed to both the Commission and, under the open method of co-ordination, national and regional policy-makers. New actions to be launched as from 2006 will be defined on the basis of their ability to add value and the emphasis given in the public debate; a list of proposals is appended in Annex I.

### 3.1. Fuelling entrepreneurial mindsets

The public consultation emphasised the need for better appreciation of entrepreneurs and greater awareness of a career as an entrepreneur. The Commission will, together with Member States under the open method of co-ordination, **promote entrepreneurship**, presenting role models and highlighting the responsible behaviour of many entrepreneurs who respect both today's and the future needs of our societies. To allow everyone to seize opportunities that match their skills and ambitions, promotional activities should present different ways of being an entrepreneur (e.g. expansion-driven, craft, part-time or co-operative entrepreneur) and focus on different target groups.

The Commission already supports the organisation of entrepreneurship events in a number of EU cities.<sup>20</sup> To foster entrepreneurial attitudes and skills among young people, the Commission will continue to promote **entrepreneurship education**.

Entrepreneurship education in universities should be available for students and researchers from all fields, notably in technical universities. Matching scientific potential with entrepreneurial skills will contribute to better commercialisation of research results through spin-offs and more start-ups in knowledge-based sectors.<sup>21</sup>

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<sup>19</sup> Without prejudice to the objectives and areas of action as set in the Multiannual Programme, Council Decision 2000/819/EC.

<sup>20</sup> The Commission's PAXIS network and Eurocities initiated a pilot project to organise the European Day of the Entrepreneur ([www.entrepreneurday.org](http://www.entrepreneurday.org)).

<sup>21</sup> The Commission will announce further initiatives on entrepreneurial innovation later in 2004.

### **Key action: Fostering entrepreneurial mindsets among young people**

Under the open method of co-ordination, the Commission and external experts reviewed the policy approaches to entrepreneurship education in the EU.<sup>22</sup> Promising results showed that entrepreneurship is gaining importance in education programmes and that many policy initiatives are underway. Work will now concentrate on exchanging experience on valuable policy tools and on ensuring high quality entrepreneurship education for all pupils throughout the EU.

In 2004 the Commission will organise a benchmarking exercise under the open method of co-ordination around the use of mini-companies (student enterprises producing and selling real products or services in a protected environment). In 2005 the Commission, together with a group of experts will present success and risk factors, policy targets, recommendations and promotion material (success stories, examples of good practice) based on case studies and evaluations.

To ensure that all pupils leaving the education system have had access to entrepreneurship courses, the Commission calls upon the Member States to integrate entrepreneurship education into all schools' curricula and provide schools with proper support to allow them to put in place effective and high quality education schemes. National and regional authorities can arrange awareness campaigns, offer training material, organise training modules for teachers and, together with business organisations, involve entrepreneurs in teaching programmes.

The results of the Commission's work in entrepreneurship education, in terms of objectives and areas where more support is needed, will be taken on board when preparing and implementing EU training, education and youth programmes.

### **3.2. Encouraging more people to become entrepreneurs**

Notwithstanding wide agreement that risk is intrinsically linked to entrepreneurship, to encourage more people to become entrepreneurs, respondents to the Green Paper called not only for the possibility to register a business quickly and cheaply, but also for a fairer **balance between the risk taken and the potential rewards**.

In recent years, significant work has been done at EU level and within the Member States to facilitate the administration of business start-ups.<sup>23</sup> To alleviate the burden of risk, the Commission will, together with the Member States under the open method of co-ordination, continue to tackle the negative effects of **business failure** and will start examining the options for entrepreneurs to ensure against personal risks in **social security** schemes.

Becoming an entrepreneur with a reduced risk of failure is possible, by taking over an established firm rather than building an enterprise from scratch. Research showed that in Austria 96% of **business transfers** survive the first five years after the transfer in comparison with 75% of start-ups.<sup>24</sup> After its efforts to help the Member

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<sup>22</sup> [‘Best Procedure project on Education and training for entrepreneurship’](#), European Commission, November 2002 and ‘Making progress in promoting entrepreneurial attitudes and skills through Primary and Secondary education’ (forthcoming).

<sup>23</sup> [‘Benchmarking the administration of business start-ups’](#), European Commission, January 2002.

<sup>24</sup> ‘Business transfers and successions in Austria’, Austrian Institute for Small Business Research, 2002.



States implement the 1994 Recommendation on facilitating business transfers of SMEs,<sup>25</sup> the Commission will increasingly focus on promoting awareness of the possibility of becoming an entrepreneur in this way.

In view of **changing demands within society**, because of the ageing of the population and consumer expectations regarding the behaviour of firms, new demands are arising in areas such as health care, mobility or the environment. As these sectors are close to or within the public domain, the public sector can be client or competitor. Social economy enterprises<sup>26</sup> already provide examples of delivering services in sectors alternative to or complementing the public sector. The Commission will, together with the Member States under the open method of co-ordination, address barriers to the development of both commercially-driven and non-profit enterprises in these sectors. In preparation for future action, the Commission is currently analysing the role of social enterprises.

#### **Key action: Reducing the stigma of failure**

Failed entrepreneurs are confronted with the stigma of failure, for example through a reluctance to place orders or requests for extra financial guarantees. Better understanding of business failure, including distinguishing between honest and dishonest bankruptcies, is needed in order to tackle the stigma of failure. A benchmarking exercise in 2003, involving the Commission and external experts, provided targets, indicators and recommendations to limit the severe legal and social consequences of failure.<sup>27</sup>

In the progress reports on the Action Plan, the Commission will ask Member States to report on action taken or planned to comply with the recommendations. The Commission then will revisit this work if needed.

To promote a better understanding of failure and dissociate the concept of 'bankruptcy' from that of 'bad' behaviour, the Commission will, together with Member States' experts, draw up in 2004 information on the principles of bankruptcy, early warning signs of financial difficulties, reasons for failure, barriers to starting afresh and portraits of failed and restarted entrepreneurs. This information, to be used in promotional campaigns or teaching courses, should result in wider acceptance of failure and help reduce reluctance to deal with failed entrepreneurs.

To help entrepreneurs in financial problems overcome their fear of disclosing problems and seek help in time, the Commission will, together with the Member States under the open method of co-ordination, focus on facilitating exchange of experience on awareness and use of preventive measures. By 2005, the Commission will have drawn up, together with an expert group, self-evaluation tests for

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<sup>25</sup> In follow-up to the '[Commission Recommendation of 07.12.94 on the transfer of SMEs](#)', 94/1069/EC, OJ L 385, p. 14-17, 31.12.1994, the Commission presented in 2002 and 2003 [reports](#) on experts' views on the measures needed to improve the environment for business transfers and to speed up the Member States' implementation of the Recommendation.

<sup>26</sup> Social economy enterprises include co-operatives, mutuals, associations and foundations and act in circumstances that 'investor-driven' firms would find less lucrative.

<sup>27</sup> '[Study: Bankruptcy and a fresh start](#)', July 2002 and '[Final report of the expert group on the Best Project on Restructuring, bankruptcy and a fresh start](#)', September 2003, European Commission.

entrepreneurs to assess their financial condition, including information on existing support and procedures aimed at rescue from failure.

**Key action: Facilitating business transfers**

The radical increase in expected business transfers in the coming years will particularly affect the numerous family businesses, which form a key part of the EU business community. The EU should avoid a situation where such enterprises close not because of a lack of competitiveness, but merely because of obstacles in the tax and legal environment or the lack of a successor.

The Commission will continue to help national and regional policy-makers to facilitate business transfers, mainly with a view to ensuring the continuity of the many viable family enterprises in the EU. The Commission will keep spurring the Member States to implement the Recommendation on Business Transfers and will step up efforts to raise awareness among prospective entrepreneurs for business transfers. This may include, for example, providing assistance to national and regional policy-makers in promoting marketplaces for buyers and sellers of businesses. More specific actions will be announced in the forthcoming Communication on Business Transfers in 2004.

**Key action: Reviewing social security schemes for entrepreneurs**

The Commission will present by 2005 an overview of social security schemes for the self-employed and business owners, including their spouses and other dependants, and the effects of transition from one statute to another. This will include health insurance, income guarantees in case of inability to work or ceased activities, pension rights (compared to employees' schemes), take-up of voluntary schemes, undue losses for new entrepreneurs of rights acquired in another career and specific schemes for starting entrepreneurs. This will allow it to quantify the overall downside risk associated with entrepreneurship and determine more precisely the influence of social security on preferences for entrepreneurship.

Based on this, the Commission will ask the Member States in 2005 to define the areas in which they intend to take action. The Commission will then organise an exchange of experience involving external experts about how best to make progress. This work will result in identification of good practice cases to help the Member States in adapting their schemes to the extent needed.

**3.3. Gearing entrepreneurs for growth and competitiveness**

Prompted by requests from respondents to the Green Paper for high quality and client-oriented support services, the Commission will keep promoting access to top-class support and management training for entrepreneurs from all backgrounds, including groups with specific needs such as **women and entrepreneurs from ethnic minorities**. The Commission will also promote access to support for entrepreneurs from all backgrounds and in regions with low entrepreneurial

performance through the Structural Funds.<sup>28</sup>

According to the respondents, entrepreneurial growth can be triggered by actively supporting SMEs in their efforts to **internationalise**. Internationalisation does not only give access to a larger marketplace, operating in different markets can help in gaining competitive advantage over firms based in one country only.

Support should be available for SMEs to make the most of the opportunities in the **knowledge-based economy**. Apart from more effective transfer of knowledge between research and business communities, the availability of skilled staff in a modern work organisation and solid protection of intellectual property, more attention should be paid to ‘value’ innovations (e.g. a new business model, marketing strategy or design), which are increasingly important, particularly for smaller firms.<sup>29</sup>

The Commission will foster **networks, partnership events and clusters** to assist entrepreneurs in building strategic partnerships, getting better access to knowledge and forging business links within and beyond the EU. The Commission will reinforce the role of the European support networks ‘Euro Info Centres (EICs)’ and the ‘Innovation Relay Centres (IRCs)’ by involving them in promoting business co-operation and ensuring streamlined delivery of all EU-wide support services, not only by these networks, but also by the Business Innovation Centres (BICs).

Further to the Council’s commitment to boost investment in research and technological development (R&D) and a public debate in 2002, the Commission presented in 2003 an Action Plan to increase R&D investment to 3% of GDP by 2010.<sup>30</sup> In addition, the 6th Framework Programme for RTD provides funds to SMEs, through reserving 15% of the budget to SMEs and offering specific activities for SMES.<sup>31</sup>

The Commission recently extended the scope of the SME Block exemption regulation to exempt from notification aid for R&D granted to SMEs. Regarding innovation, the Commission will review the specific needs of various players, in particular SMEs, in adapting to change and incorporating knowledge in production, products and services. Given its importance, the Commission will publish an Action Plan entirely dedicated to Innovation in 2004. In this context, the Commission will examine evidence of market failures that inhibit innovation, depending on the type of actor, activities and localisation, including international comparisons within and

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<sup>28</sup> The Commission’s work to improve support services includes Commission Staff Working Paper ‘[Creating Top-class Business Support Services](#)’, SEC (2001) 1937, 28.11.2001, ‘[Benchmarking of Business Incubators](#)’, February 2002, ‘[Good practices in the Promotion of Female Entrepreneurship](#)’, December 2002, the [European network to promote Women’s EntrepreneurShip \(WES\)](#), the ‘[European conference on ethnic minority entrepreneurs](#)’, June 2003 and the [Charter implementation reports](#). The Community Initiative ‘[EQUAL](#)’ provides funds to support entrepreneurs from disadvantaged groups and to remove barriers for social enterprises and is a source of good practice measures to support entrepreneurs from all backgrounds with low entrepreneurial performance.

<sup>29</sup> Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions ‘[Innovation Policy Updating the Union’s approach in the context of the Lisbon strategy](#)’, COM (2003) 112 final, 11.03.2003.

<sup>30</sup> Barcelona European Council of March 2002, [Communication from the Commission ‘More research for Europe Towards 3% of GDP’](#), COM (2002) 499 final, 11.09.2002 and ‘[Communication from the Commission Investing in research: An action plan for Europe](#)’, COM (2003) 226 final, 04.06.2003.

<sup>31</sup> Further information on Community R&D programmes can be found on [www.cordis.lu](http://www.cordis.lu).

outside the EU and the need to find appropriate remedies. The Commission will also continue promoting innovation through exchanging experience on regional innovation policies, technology transfer mechanisms and promoting e-business activities.<sup>32</sup>

As raised by the Green Paper on Entrepreneurship and confirmed in the public debate, too few **fast-growing enterprises**, or *gazelles*, which are the key drivers of innovation and entrepreneurial dynamism, emerge in Europe. Entrepreneurial growth rarely happens accidentally: an explicit growth orientation, first and foremost a mindset, is needed. Evidence shows that entrepreneurs seek inspiration from successful role models.<sup>33</sup> The Commission will seek good policy practices for spreading role models and providing suitable support to potential gazelles.

**Key action: Providing tailor-made support for women and ethnic minorities**

The specific needs of female entrepreneurs and ethnic minorities are currently not being satisfied by support providers. Building on the work underway to promote female entrepreneurship, as from 2004 the Commission will assist the national and regional authorities to address those areas where the needs of female entrepreneurs are still insufficiently met, notably access to finance and entrepreneurial networks.

On the basis of experience with exchanging good practice through studies and networks among policy-makers, the Commission will apply a similar methodology for addressing the needs of ethnic minority entrepreneurs. In 2004 and 2005, the Commission will identify and evaluate policy measures with a view to identifying good practices to assist ethnic minority entrepreneurs. Simultaneously, the Commission will encourage networks among policy-makers and seek the active involvement of representative bodies of ethnic minorities for building a better dialogue at EU, national and regional level.

**Key action: Supporting businesses in developing inter-enterprise relations**

The Commission will support matchmaking events in EU regions, allowing entrepreneurs to meet strategic partners (entrepreneurs, researchers, financiers, advisors, mentors, business partners and policy-makers) who can help boost their performance. The Commission can rely on a wide network of potential partners, through the business organisations, in several Commission databases and the EIC, IRC and BIC networks. By mid 2004, the EIC, IRC and BIC networks will have the administrative, support and IT tools in place for supporting the events in which they take part in a co-ordinated way. This experience will be evaluated during 2005 with a view to defining a strategy for the next years.

After participating in matchmaking events, SMEs can rely on the European business support networks, through their widespread network of offices, for further

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<sup>32</sup> [Network of Innovating Regions in Europe \(IRE\)](#), [‘Improving Institutions for Technology Transfer to Enterprises’](#), the [‘PAXIS Pilot Action of Excellence on Innovative Start-ups’](#) and the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions [‘Adapting e-business policies in a changing environment: The lessons of the GoDigital initiative and the challenges ahead’](#), COM (2003) 148, 27.03.2003.

<sup>33</sup> See also ‘Bottlenecks and catalysts of entrepreneurial growth’, Professor Erkkö Autio (forthcoming).

information and advice about doing business in the Internal Market, a specific country or a particular region.

Clusters can help SMEs create critical mass, pool resources, allow them to find business partners or provide access to strategic information. Building on its work reviewing Member States' cluster policies<sup>34</sup> and facilitating exchange of experience on clustering at regional level under the 'Innovating Regions in Europe' programme,<sup>35</sup> the Commission will in 2005, with a group of cluster managers, define and test a model for forging strategic links among clusters within the EU.

### 3.4. Improving the flow of finance

**Access to finance** is crucial for firms in various development phases. Besides existing difficulties reported in the public consultation, notably as regards building up equity, firms need to anticipate changing financial requirements due to increased use of rating systems and the proposed revision of banks' capital requirements ('Basel II'), as a result of which loan pricing will more closely reflect the risk associated with a client.

The Commission currently helps to improve the financial environment for enterprises, especially SMEs, through its **Financial Instruments**<sup>36</sup> and by bringing together SMEs and financial players to allow the exchange of good practice and make for a better mutual understanding among SMEs and the financial community.<sup>37</sup>

To help firms anticipate **changes in the financial environment**, the Commission will promote, with national and regional policy-makers, the availability of support for responding to more demanding risk assessments. They will work to make more guarantees and loans available at reasonable cost, particularly for micro-enterprises. Removing loan portfolios from banks' balance sheets by selling these to institutional investors - *securitisation* - can also increase the lending capacity of banks to SMEs.

To improve the capital structure of enterprises and move towards **stronger balance sheets**, fiscal neutrality for the different financing options should be sought. To help increase equity and stimulate more enterprise growth, the Commission will intensify its actions to improve the availability of **venture capital, business angel finance and investments by private individuals (micro-angels)**. The Commission also provides criteria to assess Member States' measures supporting risk capital funding under State aid rules.<sup>38</sup>

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<sup>34</sup> In 2003, the Commission organised a seminar and a series of expert meetings, the results of which are made available in an '[Expert group report on clusters and networks](http://www.innovating-regions.org/)'.

<sup>35</sup> <http://www.innovating-regions.org/>.

<sup>36</sup> The [Financial Instruments](#) bridge gaps in financial markets focusing on high-tech starters, SME guarantees and seed capital. These cover, through the Multiannual Programme for Enterprise and Entrepreneurship, some € 322 million euros and are managed by the European Investment Fund.

<sup>37</sup> For example the [Round Tables of bankers and SMEs](#) or the discussions involving financial institutions and business organisations on establishing a code of conduct for banks on relations with SME clients.

<sup>38</sup> Commission Communication on '[State aid and risk capital](#)', OJ C235 21.08.2001, p. 3-11, and Communication from the Commission to the Council and the European Parliament on '[Implementation of the Risk Capital Action Plan \(RCAP\)](#)', COM (2003) 654 final, 04.11.2003.

### **Key action: Creating more equity and stronger balance sheets in firms**

The Commission will use its financial instruments for SMEs to facilitate entrepreneurial growth by stimulating the supply of both debt and equity finance from 2004. Subject to the evaluation of the financial instruments, revised and streamlined financial instruments will be launched in 2006. Besides offering guarantees and promoting securitisation, they plan also focus on equity for research-based and innovative SMEs.

In view of the expiry of the Communication on State aid and risk capital in 2006, the Commission will also re-examine in 2004 and 2005 the role of State aid in remedying possible market failures in the provision of funding for SMEs, particularly the young and growth-oriented ones.

The Commission will analyse elements in national tax structures that favour debt finance as opposed to equity finance (notably retained earnings, informal investors). The Commission will start this analysis and set up a working group involving Member States' experts in 2004. Based on the outcome, the Commission will call upon Member States that apply disadvantageous tax treatment of equity to take action to ensure fiscal neutrality. Recommendations and existing good practices will be presented in 2005.

### **3.5. Creating a more SME-friendly regulatory and administrative framework**

According to the consultation, a real reduction and simplification of **administrative and regulatory burdens** is needed in relevant areas for businesses, such as taxation, employment or environment. Since a certain degree of regulation and administration is necessary to regulate markets or to protect the public interest, national and regional policy-makers should also provide for support for SMEs to cope with these.

In 2002 the Commission launched an ambitious programme to improve **European Governance**, covering better law-making, impact assessment and stakeholder consultation<sup>39</sup> and will now concentrate on its implementation.

The **Internal Market** has made life of businesses, particularly SMEs, much easier. But the Internal Market is not complete. There are still obstacles which stand in the way. The Internal Market Strategy 2003-2006<sup>40</sup> addresses relevant issues for SMEs, including removal of barriers for services, reduction of the impact of tax obstacles

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<sup>39</sup> Communications from the Commission '[European Governance: Better Lawmaking](#)', COM (2002) 275 final, 05.06.2002, '[Impact Assessment](#)', COM (2002) 276 final, 05.06.2002, '[Action plan: Simplifying and improving the regulatory environment](#)', COM (2002) 278 final 05.06.2002, Communication from the Commission '[Towards a reinforced culture of consultation and dialogue - General principles and minimum standards for consultation of interested parties by the Commission](#)', COM (2002) 704 final, 11.12.2002, Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions '[Updating and simplifying the Community acquis](#)', COM (2003) 71 final, 11.02.2003.

<sup>40</sup> Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions '[Internal Market Strategy Priorities 2003-2006](#)', COM (2003) 238 final, 07.05.2003.

and contributing to expanding procurement opportunities through a better use of the Member States procurement network. The Commission will also continue to promote the involvement of SMEs in **standardisation**.<sup>41</sup>

The Commission will continue in 2004 to seek simplification in **State aid rules**. In particular, it will continue developing an instrument to identify aid that is unlikely to produce significant effects on competition. Such an instrument would reduce the scrutiny of the Commission for aid and provide greater margin of manoeuvre for the Member States to grant small amounts of aid unlikely to lead to distortions. SMEs should proportionally benefit from such measures.

The Commission will encourage more effective **consultation of SMEs** to allow them to give their opinions on new initiatives at an early stage of the decision-making process and about the accuracy of existing regulations and practices. To ensure that such consultation covers *all* public activities, internal co-ordination within public administrations is needed.

#### **Key action: Listening to SMEs**

To give SMEs a stronger voice in EU policy-making, the Commission will improve the assessment of the effects of EU proposals on SMEs within the context of the recently introduced Business Impact Assessment. In addition to the already ongoing involvement of SMEs in specific Commission policy initiatives, the Commission will through the SME Envoy<sup>42</sup> intensify the dialogue between all Commission services and business organisations through more regular meetings.

The Commission will also improve mechanisms to take account of SMEs' experiences with existing legislation, policy and programmes. Under the Commission's 'Interactive Policy Making' initiative, the EIC network records feedback on internal market obstacles experienced by SMEs. More intense promotion, a systematic follow-up on the reported problems and a wider range of areas on which feedback can be given will increase consideration of SMEs' views.

Apart from organising a more effective dialogue with SMEs, this work needs to show evidence that the issues raised by SMEs are really taken on board. At the end of 2004, the Commission will have operational structures for organising the dialogue and assessing progress; by 2005 the Commission will report on the involvement of SMEs and their representatives in the consultation process and the extent to which their views are taken into account.

The Commission has started, together with Member States' experts, a benchmarking project on the involvement of SMEs in national policy-making. This action will examine successful methodologies already applied in the Member States to organise consultation of SMEs, embracing all services whose work affects SMEs. On this basis, best practices and policy recommendations will be presented in 2005.

#### **Key action: Reducing the complexity of complying with tax laws**

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<sup>41</sup> The Commission promotes the participation of SMEs in standardisation through [NORMAPME](#).

<sup>42</sup> The SME Envoy seeks to step up exchanges with SMEs and their representative bodies and to ensure a proper consideration of SME needs within all EU policies, programmes and legislation.

Complying with different national tax laws and regulations is an obstacle to cross-border activities, particularly for SMEs. If such firms were able to apply the familiar rules and regulations of their 'home' state when calculating their taxable profits or when complying with value added tax (VAT) obligations, expanding across borders would be easier.

To simplify and reduce tax compliance procedures related to direct taxation, the Commission intends to launch a pilot scheme whereby SMEs can apply 'Home State Taxation'. Under this scheme participating Member States would agree to mutually recognise the different national methods of calculating taxable profits. In 2004, the Commission will address, together with interested parties and Member States, the remaining technical issues and develop the detailed arrangements of a pilot scheme. This should lead to considerable savings and efficiency gains for qualifying SMEs.

Based on the outcome of the discussions on the technical issues, the Commission will present its conclusions on future 'Home State Taxation' schemes later in 2004. Based on these, the Commission will periodically monitor progress of the implementation of such schemes, which is the Member States' competence.

For several categories of business to consumer transactions, application of VAT at the place of consumption currently means traders have to be identified and make returns and payments in every Member State where they carry out taxable transactions. This is burdensome for traders within the Internal Market.

Based on the outcome of a European study on VAT obligations and a public consultation in 2003,<sup>43</sup> the Commission intends to propose in 2004 a 'one-stop-shop' system whereby companies registered in more than one Member State could fulfil all their EU-wide VAT obligations in their country of establishment.<sup>44</sup> Such a system would, building on the experience already gained in the single EU VAT portal for third country e-commerce traders, substantially reduce the administrative burden of VAT as it would enable firms to deal with one single tax authority, in their own language, and to benefit from a single set of compliance obligations.

#### 4. THE COMMISSION'S NEXT STEPS TO REALISE THE ENTREPRENEURSHIP AGENDA

To implement the entrepreneurship agenda, the **Commission** will act where it can best achieve results at EU level and where it can give valuable support to the Member States' national and regional strategies under the open method of co-ordination.

The Commission intends to carry out this work through the policies and programmes within the Community's competence. All new actions proposed in this Action Plan, directly related to advancing the entrepreneurship agenda within the objectives described in article 2 of the Council Decision 2000/819/EC and areas of action described in annex I of the decision, and notably under 'promoting entrepreneurship, in particular the key actions, are intended to be carried out through the Multiannual

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<sup>43</sup> [http://europa.eu.int/comm/taxation\\_customs/taxation/consultations/obligations\\_tva\\_en.htm](http://europa.eu.int/comm/taxation_customs/taxation/consultations/obligations_tva_en.htm).

<sup>44</sup> In line with the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee '*Review and update of VAT strategy priorities*', COM (2003) 614, 20.10.2003.



Programme for Enterprise and Entrepreneurship, which runs until 2005.<sup>45</sup> The Commission will submit, in its annual work programmes for 2004 and 2005 to implement this programme, concrete and detailed proposals for activities and the required financial resources deemed necessary to implement the key actions in this Action Plan. These proposals will be adopted in accordance with the Programme's objectives and rules of procedures as laid down in the aforementioned Council Decision.

The Commission's proposal for a next Multiannual Programme, to be presented in 2004, will be based not only on its own experience and independent evaluations, but also on the public debate that followed the Green Paper and this Action Plan. A review of the areas where new actions are needed will be made in 2005. Concrete activities to implement these as from 2006 will be proposed in accordance with this Programme's goals and rules of procedure.

The Commission will also pay due attention to advancing the entrepreneurship agenda within all other **policy areas relevant for entrepreneurs**, notably R&D and innovation, European governance, the EU sustainability agenda, the functioning of the Internal Market, the Employment Guidelines, taxation and competition policy. The Commission will increase the entrepreneurship orientation in its **support programmes**<sup>46</sup> and make access to them more business-friendly.

## 5. CONCRETE RESULTS FOR EUROPE'S ENTREPRENEURS

The Action Plan sets out generic **objectives** to be achieved by EU and Member States' policy-makers in the five strategic areas. Targets, indicators and timetables for making progress will be defined under the key actions to be carried out.

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| <ol style="list-style-type: none"><li>(1) More people to be informed about entrepreneurship and have the opportunity to acquire entrepreneurial skills through education and promotion activities;</li><li>(2) A fair environment for risk-taking and no unreasonable barriers for new entrepreneurs who start or take over a firm;</li><li>(3) Ensuring top-class support, specifically for cross-border trade and innovation, for entrepreneurs from all backgrounds and sectors;</li><li>(4) Sufficient finance and guarantees to finance all viable entrepreneurial ventures, also under the 'Basel II' capital adequacy framework and greater neutrality in the tax treatment of different financing options;</li><li>(5) A substantial reduction of regulation and administrative procedures and better consideration of SME needs in policy-making.</li></ol> |
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The actions taken in the context of the Action Plan need to show results in terms of their impact on **entrepreneurial performance** in the EU:

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<sup>45</sup> Except actions related to taxation, which will be carried out under Articles 93 and 211 of the [Treaty Establishing the European Community, OJ 325/33, 24.12.2002](#).

<sup>46</sup> [Structural Funds](#), notably the [EQUAL Programme](#), the [Framework Programmes for RTD](#), [Asia Invest](#), [AL Invest](#), [EU Japan Centre](#) and [Training, Education and Youth Programmes](#).

**More entrepreneurial mindsets:** More people expressing a preference for entrepreneurship; more business start-ups, including from disadvantaged groups or regions, more new entrepreneurs taking over existing businesses and more fresh starts made after a failure.

**Better business performance translating into more competitiveness and growth:** Stronger balance sheets, more private sector innovation, more SMEs trading in the Internal Market, more job creation and more fast-growing enterprises.

**A better business climate:** Less time and cost needed to comply with regulation and administration.

**Progress at EU level** on the Action Plan's objectives and the targets set within key actions, and also their impact on performance will be periodically assessed. Because of the key role of **Member States** in achieving progress, the Commission will also assess their actions taken in the five strategic areas. Hereby, it must be remembered that reducing barriers and delivering public support services is in the hands of policy-makers, so the first results can be expected relatively quickly. More entrepreneurial attitudes and skills depend on the take-up of policy by citizens, which can only bear fruit in the longer term.

**Reports** on the Action Plan will be integrated into the reporting mechanism for implementing the European Charter for Small Enterprises. From 2005 onwards, the Commission will thus draw up a report on progress made towards the objectives set within the present Action Plan and the key actions, both at EU level and within the Member States, and on the Charter action lines.

## **ANNEX I - PROPOSALS FOR KEY ACTIONS FOR 2006 AND BEYOND**

### **Conducting entrepreneurship campaigns**

To create more positive attitudes towards entrepreneurship in society at large, the Commission will support the organisation of awareness campaigns. Campaigns can present role models, success stories and portraits of failures in the media. Such campaigns will highlight the positive contribution of entrepreneurship to society's needs (corporate social responsibility or CSR). Campaigns are best organised at regional and national level, with the Commission providing a European label, organising supportive events and improving links among the different campaigns organised throughout the EU in order to boost the visibility and co-ordination of regional and national activities. This work will build on successful practices identified in the pilot action on organising Entrepreneurship Days under the PAXIS programme.

### **Fostering the creation of more fast-growing enterprises (gazelles)**

To stimulate more gazelles, the Commission aims to increase understanding of how more of these enterprises could emerge in a European context. It will encourage more research by bringing together business schools with a view to analysing the success of existing gazelles and the barriers preventing potential gazelles from turning into real ones. This work should lead not only to more focus on gazelles in analysis and research, but also to integrating the findings in teaching modules in business schools to encourage their use in business practice. The Commission will, under the open method of co-ordination, exchange experience on Member States' policies to help pre-gazelles to grow. This will cover proven practices to help entrepreneurs identify and exploit opportunities for rapid expansion, including mentoring schemes, entrepreneurial learning networks and support schemes for pre-gazelles, such as specific business incubators or accelerators and support for early and rapid internationalisation.

### **Promoting entrepreneurship in social sectors**

Based on an analysis of the specific needs and constraints of non-profit and commercial enterprises providing social (such as health care, education, and welfare services) and environmental services, the Commission will benchmark conditions in the Member States for providing these services and present recommendations and guidance on improving the conditions under which enterprises operate in these sectors (in terms of promotion and legislation) within the framework of their public service obligations and quality requirements specific to the services provided. Subject to the outcome of the study, further action may comprise EU-wide promotion of better conditions for enterprises delivering social and environmental services, policy conclusions or even legal instruments (e.g. a Recommendation or voluntary Regulation).

## **Enabling micro-enterprises to recruit by reducing the complexity of regulations**

The ability of micro-enterprises to recruit and manage their staff is affected by the degree of complexity of staff rules and regulations.<sup>47</sup> For micro-enterprises with little or no experience in dealing with these issues, this may imply heavy constraints in terms of time and costs. Building on the experience by the National Action Plans for employment<sup>48</sup> and the Commission's ongoing work on the requirements for hiring the first employee, the Commission will, together with external experts, further compare national practices and identify ways to facilitate recruitment by micro-enterprises across the EU on the requirements for hiring the first employee. Other relevant regulatory issues for micro-enterprises will be defined and addressed later.

## **Facilitating SMEs' access to public markets**

To improve SMEs' access to public procurement, the Commission will encourage Member States to collect and exchange good practices applied by contracting authorities that aim at increasing the participation of SMEs to public contracts. At EU level, the recently agreed public procurement directives not only reduce the number of applicable directives for public contracts, but also provide for simplification and modernisation of the procurement regime itself. The Commission will provide guidance regarding the interpretation of these directives and their implementation into national legislation by Member States. This will enable contracting authorities to use the adopted facilities based on these directives to the fullest. In addition, the Commission will issue an Action Plan on electronic procurement to address issues resulting from the implementation of the new provisions on the use of electronic means in public procurement. The EIC Network can assist SMEs by providing information and raising the understanding and capacity of SMEs to secure public contracts.

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<sup>47</sup> Guideline 2 'Job creation and entrepreneurship' of the ['European guidelines for employment policies of the Member States' -Council Decision \(2003/578/EC\) of 22.07.2003, OJ L 197 of 05.08.2003 p. 13-21-](#) stresses the need to simplify and reduce administrative burdens for hiring staff.

<sup>48</sup> Every Member States draws up a [National Action Plan](#), which describes how the Employment Guidelines are put into national practice.