



NewsEurideas

January 2012 Issue

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SMEs: the key to Europe's growth plan?

The business generated by SMEs makes them a pillar of the European market. We rely on their activity much more than in other regions of the world so their value has to be recognized in any piece of legislation tabled by the EU which might impact on them directly or otherwise. In this issue we intend to highlight the role that SMEs play in the EU's strategy for growth and innovation and to go over some of the programmes that are aimed at SMEs. In this regard we also have some expert testimonials, both from the European Commission and from representatives of SMEs, about the strengths and the weaknesses of these programmes.

Thus, Mr Patrick de Smedt, Deputy Head of Unit at DG Enterprise and Industry, talked about the EU's SME strategy and about some of the instruments in place that assure that their interests are represented in the legislative process. Also, Mr Andrea Benassi, the Secretary General of UEAPME, a employer's organisation that represents the interests of European crafts, trades and SMEs at EU level, shared his

views about the mechanisms set-up by the EU to improve the position of SMEs in the European market. Finally we have an interview from Sebastiano Toffaletti, the Director of NORMAPME, about the role of standardisation regulations and their effects on SMEs.

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The role of SMEs in Europe's economy

SMEs are considered to be the engine of Europe's economy and also a possible way out of the crises it finds itself in. In this article we will uncover some of the key features of SMEs, their role in Europe's economy and some possible points of interest for new entrepreneurs that want to benefit from the SME programmes put in place by the EU.

The basics – the definition debate

While you may think that the definition of an SME is innate and fixed that is not necessarily the case. An SME is defined by the European Commission as being a company with less than 250 employees and is not part of a larger grouping which could provide stronger economic backing. Plus, a company has to have an annual turnover of no more than €50 million or an annual balance sheet equal to or less than €43 million to be included in the SME category. Also, there are three types of SMEs: micro-enterprises that have fewer than 10 employees; small enterprises that have between 10 and 49 employees; and, finally, medium-sized enterprises that have between 50 and 249 employees.

The debate over this definition has come about due to the desire of a large number of companies to benefit from EU structural funds and the intense lobbying efforts of these actors. The EU programmes especially favour funding for companies that fall into the SME category. For example, a previous draft of the EU guidance rules on regional development funding specified that these funds should be allocated "primarily for SMEs", but due to lobbying the word "primarily" was dropped. So it seems that the debate over the definition has started well before the Commission's official debate scheduled to open next year. For now the definition represents a political compromise, but there are efforts being made to reach a further agreement that will increase the upper limit of SME employees to 400. Moreover, there are small but important details that put tax and regulatory issues into question.

What powers do SMEs have?

Considering the fact that SMEs account for over 98% of European businesses and they provide two thirds of the total private employment and around 80% of new jobs created over the past

five years it is only logical that they should have a strong voice in EU discussions. It was also true that SMEs had a hard time getting their view across in policy-making processes since they lacked resources, but now things have improved thanks to the safeguards put in place by the EU. These are reflected in the Small Business Act for Europe (SBA) that outlines the policy framework for SMEs. This framework is designed according to the "Think Small First principle" which requires that every legislative act take SMEs' interests into consideration from the first steps of policy making and thus improves SMEs' participation in the EU 7th Framework Programme for Research. It is fair to say that SMEs' stakeholders are being consulted from the very beginning and, in addition, their interests are also represented by the European Commission's SME Envoy and national Envoys.

What are the advantages of starting a SME?

- Bankruptcy is not necessarily an obstacle anymore because in most European countries restarters are now treated on a level playing field with new startups, including EU support programs;
- Access to finance is made easier - an increasing supply of microcredit, easier access to loans, financial help from the European Investment Bank, efforts made to improve the efficiency of the markets for equity investment, access to mezzanine finance, regulations to improve cash flow, better access to research funding, and simplification of state aid rules;
- Young people who want to start a business can apply to the Erasmus for Young Entrepreneurs programme that provides training (see <http://www.erasmus-entrepreneurs.eu>) ;
- Access to markets - SMEs can take advantage of the EU's internal market; many of them still do not venture outside national borders even though it can bring many opportunities. Currently, the EU is taking different steps in order to address this issue.

To sum up, the EU recognizes the importance of SMEs as being a way to promote innovation and job creation. Their small size and flexible structure makes them fundamental to the European economy and at the same time vulnerable due to lack of financial backing and access to capital. These are some of the reasons why the EU is paying special attention to accommodating SMEs and why they have so much potential.

Interview with Patrick De Smedt from DG ENTR



Mr Patrick De Smedt is Deputy Head of Unit at the European Commission in charge of policy aspects for the Enterprise Europe Network. He has been involved in the creation and development of the Enterprise Europe network as Policy Officer since its start in 2008. Mr de Smedt agreed to an interview about the EU's strategy and programmes for SMEs.

Recently the Commission tabled a new support programme in order to boost the competitiveness of SMEs, called COSME. How is this programme different from previous funding instruments?

The COSME programme, running from 2014 until 2020 and with a budget of €2.5 billion, will mainly ensure the continuity of the successful features undertaken by the Entrepreneurship and Innovation Programme. COSME will focus on Financial Instruments, support for internationalisation of SMEs via the Enterprise Europe Network and helping citizens to become self-employed. The programme is expected to contribute a yearly increase of €1.1 billion to EU GDP and additional lending or investment of € 3.5 billion per year for SMEs.

Has the “Think Small First” principle been effective so far in supporting SMEs?

The implementation of the “Think Small First” principle remains central to the SBA, meaning continuous simplification of the regulatory and administrative environment. For example, becoming an entrepreneur must be simple and cheap. As an example, the SBA Review sets a new, more ambitious target: Member States are asked to aim to reduce the time and cost needed to create a new enterprise to 3 days and €100 by the end of 2012.

It is important that policy proposals take into account their impact on SMEs. In the European Commission all proposals need to be accompanied by a thorough impact assessment, including a specific “SME Test”. We are also doing “fitness checks” of existing EU legislation. However, the regulatory burden for SMEs stems mainly from national, regional or local regulations. Therefore, we have invited national authorities to systematically apply an “SME test” when proposing new regulations.

How did the EU change its strategy towards SMEs in the light of the economic crises?

Due to the crisis, and despite reinforced policy efforts, access to finance conditions has worsened over recent years. However, in the same period, other conditions have improved for SMEs in SBA areas such as: (1) SMEs taking advantage of the EU single market, (2) the responsiveness of public administration to the needs of SMEs and (3) promotion of entrepreneurship. The progress observed in most SBA areas is partly owed to the efforts by MS, and the Commission, to create a more hospitable environment for SMEs. In 2010-2011, 588 new SME friendly policy measures were identified in the 27 EU Member States.

To make access to finance easier for Europe's 23 million SMEs, the Commission presented its Action Plan on the 7th of December 2011. It outlines the various policies that the Commission is pursuing which aim to provide a significant contribution to growth.

A mix of financial instruments is currently available to SMEs within the CIP, with a budget of €1.1 billion, and should enable financial institutions to provide about €30 billion of new financing for more than 315,000 SMEs. In 2008-2011, the EIB provided around €40 billion of lending for SMEs, which benefitted more than 210,000 SMEs.

In the field of Cohesion Policy the Commission has already adopted measures to provide investment for SMEs in 15 Member States through financial instruments designed by structural funds. Assistance to enterprises provided through equity investments, guarantees and loans is estimated to amount to at least €3 billion in the current financial period. Finally, in order to provide better access to loan finance a specific Risk Sharing Instrument (RSI) is being created under the EU Seventh Framework Programme for Research (FP7) as of 2012. The RSI will provide partial guarantees to financial intermediaries encouraging them to provide lending between €25 000 and €7.5 million to SMEs undertaking research, development or innovation activities.

Together with this Action Plan, the Commission is presenting a new EU venture capital framework creating a genuine internal market for VC funds. The Commission invites the Parliament and the Council to adopt this legislative proposal by June 2012.

The Action Plan, the accompanying Staff Working Document and the press release can be found on: http://ec.europa.eu/enterprise/policies/finance/index_en.htm

Did the review of the Single Business Act (SBA) early this year bring major changes?

With the review of the SBA in February 2011, the Commission and the Member States have acknowledged that strong governance is key to a successful implementation of the SBA. This is why the Commission has put a Network of National SME Envoys in place to promote SME's interests throughout all government bodies.

Also, reflecting the latest economic developments, more still needs to be done for SMEs namely in improved access to finance to invest and grow, smart regulation to enable SMEs to concentrate on core business, making full use of the Internal Market and helping SMEs to face globalisation and climate change.

As explained above the, the Commission proposed to sustain and increase the part of financial instruments for bank loan guarantees and venture capital and Member States will enhance the use EU funding operated via the EIF and EIB, but also better target financing tools at a national level.

To allow SMEs to take full advantage of the opportunities offered by public procurement, the Commission is currently revising the relevant directives. Member States will be able to make better use of lots, favour consortia and subcontracting with the aim to reach an ambitious target for SMEs' share.

To find out more about EU's policies and programmes regarding SMEs please visit: http://ec.europa.eu/enterprise/policies/sme/index_en.htm



Think Small First

Interview with Andrea Benassi - Secretary General of UEAPME

Mr Andrea Benassi is the Secretary General of UEAPME, the employers' organisation that represents European crafts, trades and SMEs at EU level. He agreed to share his views on the strengths and weaknesses of some of the EU's programmes related to SMEs such as the Action Plan and Horizon 2020.



What is the mission of UEAPME?

Put simply, our mission is to organise, represent and defend the interests of European craft, small and medium-sized enterprises in the EU arena. We are one of the four European Social Partners, and we act on behalf of crafts and SMEs in discussions with the EU institutions. Our members are mainly either national cross-sector SME federations, or European and international organisations representing SMEs in a specific trade sector. At the moment, UEAPME counts more than 80 member organisations spanning across all Member States of the EU and beyond, representing 12 million enterprises and nearly 55 million employees.

Do you think that the mechanisms set up by the EU to keep SMEs involved in the decision-making process are effective?

The current situation is certainly better than some years ago. Now the “Think Small First” principle promoted by the Small Business Act, the increasing use of impact assessments and the creation of the network of national SME Envoys are certainly important steps towards a better involvement of SMEs in the EU decision-making process. However, despite the progress made, there is clearly room for improvement. What we would like to see is for instance a closer dialogue with the network of national SME Envoys. At EU level, this could take the form of a renewed “business dialogue” involving the rotating EU Presidencies, the European Commission, the network of national SME Envoys and the main business organisations. This body should meet regularly and at the highest political level.

What are your views on the effectiveness of the newly launched EU Action Plan to improve access to finance for SMEs?

We believe that the European Commission has rightly focused on all the obstacles facing SMEs in accessing finance, from venture capital to “classic” loans. On venture capital, the new proposal launched together with the action plan covers the right problems, but will not change the status quo unless Member States step up to the plate. National taxation systems are the main obstacle to the provision and the uptake of venture capital and equity, as the interests paid on loans can be written off in companies’ balance sheets, while dividends must be paid out of taxed income. Member States are well aware of this, yet so far they have refused to reform their tax systems to bring equity on a par with loans. We hope to be proven wrong, but our expectations on them acting now are unfortunately very low.

Loan financing, on the other hand, is and will remain the main source of funding for European SMEs. In this respect, the Commission has recently put forward a very ample and commendable set of measures to promote access to loans, debt financing and guarantees. However, these positive

developments risk being obliterated by the implementation in the EU of the “Basel III” rules on capital requirements. The current risk weights for SME loans in combination with higher capital requirements will increase financing costs and collateral requests for enterprises with a normal rating, not to mention the fact that funding for riskier activities will become even harder to obtain. That is why an immediate revision of risk weights is needed.

Do you think the Horizon 2020 programme will improve the position of SMEs in Europe’s economy? Does it have any weaknesses?

The ‘Horizon 2020’ programme is heads and shoulders above its predecessors when it comes to its priorities. It rightly starts from the needs of our society and of the markets, covering all steps in the innovation cycle, from feasibility studies on small entrepreneurs’ ideas to access to technology, from the research phase to results demonstration and finally market application. This was a long-standing request of UEAPME, and we are glad to see that the Commission has taken it on board. However, how this approach will be funded remains to be seen. What is clear at the moment is that “old school” pure R&D will receive a substantial funding increase, while funds for SMEs have grown less than the overall envelope. There is clearly room for improvement on this aspect. Moreover, it is not clear how the European Commission will fund innovation projects at EU level that do not fall into one of the programme’s headings, as well as how much funding will be actually reserved to SMEs to ensure that the programme’s ambitious goals can be put into practice.

For more information please visit:
<http://ueapme.com>



How to support innovation and growth through SMEs in Europe?

Europe has become disproportionately dependant on SMEs in comparison to the US. Taking this into consideration, as well as the fact that the economic crises has thrown the euro zone into turmoil, what are the pillars of support that SMEs can rely on in order to prosper in the European market.

Firstly, who needs to implement support programmes for SMEs and at what level? Arguments can be made in support of the idea that aiding SMEs has to be done on a one to one basis which means that help should be provided in accordance to the specific needs of each enterprise. However, can the EU handle such a strain? Some are pessimistic about this issue, especially when it comes to deciding on how to coordinate all these programmes. A case can be made in favour of the idea that support for SMEs has to come from national, regional and local levels that must coordinate with the EU and tailor their programs, following the example given by the European institutions. Thus, most of the implementation procedures should be dealt with by the Member States that have to take point in backing SMEs’ development.

Secondly, the EU still has to take the lead in coordinating programmes that should sustain the internal market. In this respect, let's shift the focus to a project whose main goal is to increase the participation of SMEs in EU research programmes. The MAPEER SME (Making Progress and Economic enhancement a Reality for SMEs) project is backing initiatives that create the appropriate environment in which Research, Development and Innovation (R&D&I) is encouraged and promoted in European SMEs. The main goals of this project are to:

- Aid SMEs to overcome barriers in order to gain access to the “research and innovation loop”,
- Establish an R&D&I funding plan,
- Take account of the needs and expectations of SMEs,
- Initiate structured policy dialogue between stakeholders at EU, national and regional levels,
- Establish means to provide advice to all the stakeholders.

Another interesting MAPER SME initiative is the creation of a European SME Experts' Panel with the sole objective of strengthening synergies between EU policies that affect SMEs such as: research and technological development, innovation, enterprise and industry, regional education and culture policies. This platform will gain in value due to the insight of relevant experts, stakeholders and SMEs that provide recommendations to improve research activities within SMEs. Therefore, the main activities of this body are to provide advice and formulate new tools to foster research by SMEs. The fact that the membership is free of charge and open to all interested parties facilitates networking between SMEs and promotes transparency.

Finally, in this context, it is worth mentioning the Horizon 2020 programme, the €80 billion investment package for research and innovation funding which runs from 2014 to 2020. This initiative proposes to ensure strong participation by SMEs by taking an integrated approach. This means that approximately 15% of the total combined budget for all societal challenges, including enabling and industrial technologies, will go to SMEs. Also, Horizon 2020 brings forward new mechanisms and some fundamental changes to the strategy in regard to financial support for SMEs. The following are some of the main characteristics of the new programme: it's based on a demand driven logic; follows a bottom-up approach; launches the COSME project (Programme for the Competitiveness of Enterprises and SMEs); and facilitates access to risk finance. Furthermore, the benefits of the framework already in place won't be lost in the tide of changes to come.

To sum up, the main mechanisms to determine growth and innovation in Europe already exist or are about to be implemented. Thus, the main issues become coordination of these activities, to avoid duplications of efforts and to maximise the impact. In this regard, SMEs and Member States intervene to make sure everybody makes the most of the opportunities that are presented to them.

By Cosmina Marian

For more information on these programmes please visit:

<http://mapeer-sme.eu>

http://ec.europa.eu/research/horizon2020/index_en.cfm?pg=home

<http://www.innovationeu.org>



Interview with Sebastiano Toffaletti

Director of NORMAPME



NORMAPME is an international non-profit association created in 1996 with the support of the European Commission, under the full name of the “European Office of Crafts, Trades and Small and Medium sized Enterprises for Standardisation”. NORMAPME is exclusively devoted to the interests of Small and Medium sized Enterprises in the European standardisation system. Sebastiano Toffaletti, the Director of NORMAPME, agreed to an interview with us about the role of standardisation and its impact on SMEs and on the market in general. He has a background in engineering and has worked in representing the interests of SMEs in standardisation for 6 years.

Why is it important for SMEs to be informed and encouraged to participate in the standardisation process? And how do you encourage them to get involved?

SMEs account for 99% of all European companies, but their participation in the standardisation process is still largely insufficient. We believe standardisation is very important and useful for all – therefore the views of all stakeholders should be taken into account.

Encouraging SMEs to get involved in the process is our main goal – we select and send SME experts to the technical committees of European and international standards organisations to represent the interests of SMEs in the standards drafting process. These experts are supported by pan-European mirror committees to which we invite all affected SMEs and SME associations to participate.

Is standardisation still too complex and does it represent an obstacle for SMEs?

Standardisation can have clear benefits for SMEs, like being able to access new markets and complying with the existing regulations. However, when standards are drafted without taking into account the needs of SMEs, they may also represent an obstacle.

In the end it often comes down to the costs: First of all, in order to apply a standard, an SME needs to buy it (standards are not free of charge). Then, an SME needs to understand it, which is an issue because standards are often written in a very complicated way, and reading them takes up human resources (often external consultants are needed). And last but not least, there are the costs of conformity assessment (testing the compliance with the standard by external bodies), which often create additional burdens to SMEs.

Can you tell us how standards affect particular sectors?

A good example is the European Standard on Doors and Gates (EN 13241-1). It affects small garage door producers as well as big ones, but not in the same way: EN 13241-1 is an “umbrella standard” which refers to 19 other standards. So in order to understand it, one has to buy them all (around 1 500 €) and has to take a lot of time to read through them. A rough estimation is that for buying the standard, understanding it and getting conformity assessment, an SME spends around 10 000 €.

This means that SMEs, as they have typically a small series production, have a much higher cost for compliance per piece than big producers. In other words, a “not SME friendly” standard can benefit very large companies, sometimes manufacturing even outside Europe, and disadvantage those highly specialised small businesses that produce tailor-made craft products.

The European Commission and NORMAPME signed a Framework Partnership Agreement that lays down the groundwork for collaboration. What are the aims of the latest grant applications accepted under this Agreement?

A new contract with the European Commission was signed for the period August 2011 until July 2012. The aim is to increase the number of SME experts in the relevant technical committees (currently we have 52) and to increase our contact to SMEs and SME associations. Among other things, NORMAPME will also participate in the SMEST II – project, which aims at helping national standards organisations (NSOs) to promote the involvement of SMEs and SME associations in standardisation.

AGENDA



SYMBOLISTES BELGES

Georges Minne – Xavier Mellery – Fernand Khnopff – Emile Fabry – Charles Doudelet – Jean Delville – Marcel-Louis Bagniet

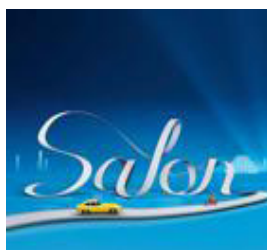
Q U A D R I

Ben Durand

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courriel: quadri.gallery@skynet.be

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1 ▶ January 11 - February 11, Belgium Symbolism

Georges Minne – Xavier Mellery – Fernand Khnopff – Emile Fabry – Charles Doudelet – Jean Delville – Marcel-Louis Bagniet. This is a special collection of symbolist work which depicts the world in an idealistic and fantastic way through the use of symbols.

<http://www.galeriequadri.be/expositions.html>

2 ▶ January 12-22, European Motor Show Brussels 2012

An exposition that features cleaner mobility: sustainable and environmentally friendly mobility solutions including electric cars and scooters and a test track for electric vehicles and more.

<http://autosalon.be/en/salon/visiteur/>

3 ▶ January 17-28, Winter Jazz Festival

Brussels' winter jazz festival is back for a fifth edition, when top Belgian and European talents will liven up the Flagey quarter from January 17 to 28, 2012. Belgium's great jazz guitarist Philip Catherine will open festivities at the Marni theatre, alongside pianist Nicola Andrioli, while no less than 20 musicians from seven European countries will close the event at Flagey.

<http://www.flagey.be/en>

4 ▶ January 21-29, Brussels Antiques & Fine Arts Fair 2012

More than 130 Belgian and foreign exhibitors from the art world come to Tour & Taxis for the 57th Antique Fair. Visitors and buyers will find ancient Roman statues, Greek busts, Buddha heads, old and modern paintings, contemporary works and animal sculptures, classic and design furniture, publications and art objects from Europe, the Middle East, Asia, Africa and the distant Pacific.

<http://www.brussels.be/artdet.cfm?id=4843&agendaid=1198>

5 ▶ January 24, 9:00 - 16: 30, Conference The Economic Crisis, Education and the Labour Market

How can young people be better integrated into the labour market? How can we meet the challenges of lifelong learning? How can the skills of older workers be improved and their potential better harnessed? These are some of the questions we want to look at during the conference.

<http://www.european-agenda.com/events/32394.php>

6 ▶ Brusselicious 2012

BRUSSELICIOUS... This is the name for a series of events on the theme that is being celebrated in Brussels throughout 2012: gastronomy.

http://visitbrussels.be/bitc/BE_en/brusselicious.do