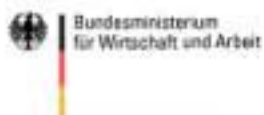
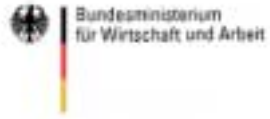


Towards An Enterprising Europe

A paper by the French, German and UK
Governments

26 January 2004





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26 January 2004

Dear Commissioner Liikanen,

Dear Commissioner Solbes Mira,

The promotion of enterprise is a vital element in the strategy for achieving the Lisbon goals, and for delivering both higher employment and productivity growth over the longer term. We therefore strongly welcome the Commission's focus in this area, including its recent work to prepare a new Action Plan to help guide national and European policy-making, and to facilitate the sharing of best practice among the Member States.

France, Germany and the UK have recently worked together to improve our understanding of the barriers to enterprise in our economies and to identify the range of actions needed to unblock Europe's entrepreneurial potential. The attached paper sets out our conclusions, which focus on the need to reduce

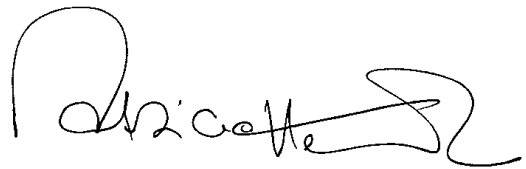
regulatory barriers to enterprise, to overcome social and cultural barriers, and to improve access to finance for new businesses and for all businesses seeking to develop and grow. It proposes a range of actions for consideration and implementation at the national and Community levels. We very much hope that these findings can be reflected in ongoing Commission work in this area.

We are circulating this letter and enclosed paper to ECOFIN and Competitiveness Council colleagues.

Yours sincerely,



Gordon Brown



Patricia Hewitt



Hans Eichel



Wolfgang Clement



Francis Mer



Renaud Dutreil

TOWARDS AN ENTERPRISING EUROPE

A paper by the French, German and UK Governments

Introduction

The promotion of enterprise is a vital element of delivering the Lisbon goal of becoming the most competitive and dynamic knowledge based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion.

Enterprise and entrepreneurship play an important role in improving the efficient allocation of capital and through starting and growing businesses, create employment. Entrepreneurship therefore contributes to economic prosperity and social cohesion. The creation of new businesses increases the competitive pressure on firms, generates new ideas and innovative approaches and can lead to greater choice and value for consumers. Encouraging enterprise, (including the creation and development of social enterprises) is also an important way of creating wealth and employment in disadvantaged communities and under-represented groups, improving productivity performance throughout the economy.

High levels of market entry enable the economy to adapt to technological change and exploit new opportunities. The increased competitive pressure this brings encourages existing firms to restructure and improve their operations, or exit the market, thereby improving resource allocation.

For much of the last century economic forces and government policies were largely geared towards large-scale production. Less value was sometimes attributed to small business, which was regarded as inefficient and of little importance in driving growth and prosperity. However, in today's global business environment, enterprise and entrepreneurship – the ability of an economy to mobilize resources in order to capitalise on new market opportunities and innovative ideas – are key elements of a successful dynamic economy.

Large scale firms account for 80 per cent of research and development and innovation in Europe. They will continue to play the key role in this respect and

their effort should therefore be encouraged. SMEs are also of great importance to the EU economy, among other things because they create jobs¹.

Although difficult to quantify, indicators suggest that EU enterprise performance has improved over time.

However, the EU still lags behind the US in many measures of entrepreneurial activity. The Eurobarometer survey offers some useful indicators of attitudes to and levels of enterprise in the EU and makes comparisons with the US. It found that on average many more people in the US would prefer to be self-employed, and have considered starting their own business than in the EU. The percentage of the labour force involved in new businesses is nearly three times greater in the US than the EU². Lack of financial support and administrative complexity were regarded as specific barriers to starting a business in both the US and EU³. Europeans also appear to be more risk averse with 46 per cent suggesting that one shouldn't start a business if there is a risk it might fail compared to just 25 per cent in the US⁴.

This suggests that there is still much to do in the EU to realise the full potential that enterprise can deliver. There still remains a substantial gap in entrepreneurial performance with the US, but the range of performance throughout regions and Member States suggests that there is also much we can learn from one another in order to deliver the Lisbon objectives.

¹ There are now nearly 20 million SMEs in the EU, including individual entrepreneurs, providing two thirds of all private non-primary sector employment. SMEs employ 12.5 million and 9.7 million people in the UK and France respectively and generate 51 per cent of private sector turnover. (UK figures: *The Way Forward: Small business and Government*, Small Business Service, Dec 2002. France figures: INSEE-DECAS, *base de données fiscales SUSE*).

² 67 per cent of people in the US would prefer to be self-employed as compared to an average of only 45 per cent in the EU. However, attitudes across the EU ranged from 26 per cent to 71 per cent. 34 per cent of people in the US have also considered starting their own business, compared with 22 per cent in the EU. The percentage of people involved in new businesses is 4.5 per cent (ranging from 2-6 per cent) in the EU compared to 13 per cent in the US. Gallup, *Flash Eurobarometer 134, November 2002*.

³ 76 per cent of respondents in the US and EU considered access to finance a specific difficulty (ranging from 57- 89 per cent in the EU. Administrative complexity was considered greater in the EU (69 per cent) than in the US (60 per cent) but the disparities across the EU were large, ranging from 56 per cent to 86 per cent. *Flash Eurobarometer 134*.

⁴ Ranging from 27 per cent to 57 per cent across the EU. *Flash Eurobarometer 134*.

Barriers to enterprise

There may be a variety of barriers to enterprise, depending on the industry sector, region and type of enterprise. However the Commission's Entrepreneurship Green Paper⁵ identified a number of common barriers which act to limit enterprise across the EU, including:

- €# regulatory barriers, such as administrative barriers to entry;
- €# cultural and social barriers, such as the 'fear of failure' and a lack of entrepreneurial knowledge and skills; and
- €# insufficient access to risk capital, both seed / early stage and longer term financing.

Building on these barriers, this paper identifies priorities for action at Community and national levels for promoting enterprise in Europe. In defining priorities, it is important to consider the different challenges and range of enterprise performance across different regions and Member States. It is therefore vital to allow for flexibility for Member States to follow policies, including new innovative approaches that are most appropriate for their own particular circumstances.

Priorities for action

Given the degree of diversity amongst national economies, Member States will in many cases be best placed to engineer the changes needed to promote enterprise on the ground. However, there is a case for EU level action, particularly to tackle cross-border barriers to growth in entrepreneurial activity, and to facilitate the exchange of experiences and best practice between Member States. The forthcoming Entrepreneurship Action Plan offers a timely opportunity for defining priority areas for the Commission in this domain.

The regulatory and legislative environment

The regulatory framework. Enterprise needs to be underpinned by a modern, effective regulatory framework. Regulation may be useful to protect consumer

⁵ *Entrepreneurship in Europe*, European Commission, 2003.

safety and confidence, to address market failures, and to improve opportunities for entrepreneurship – for instance through tackling barriers to entry into markets. However, inappropriate, uncertain or excessively burdensome regulation can act to deter enterprise and to inhibit the development and growth of new business ideas. Regulatory costs often bear particularly heavily on smaller enterprises, who lack the administrative capacity to cope and who, especially when growing fast, most need flexibility. Approximately half of all new regulations that impact upon businesses in the UK originate from the EU. Action is required from Member States and at the Community level to modernise the regulatory framework so that it provides the best possible opportunities for entrepreneurship and competitiveness, and, in the light of current demographic trends, facilitates business transfer.

- ⚡ *Member States should commit to improving their own regulatory environments, including through impact assessments where appropriate. This will help promote efficient and proportionate regulation which provides the best opportunities for entrepreneurship.*
- ⚡ *To help implement the Community's Better Regulation Action Plan, Member States and the European Parliament should commit not to consider any proposals for European legislation which are not accompanied by adequate impact assessments.*
- ⚡ *An integrated test of the impact of all major legislative proposals on European competitiveness should be developed, to ensure that the effects on European enterprises are fully understood and to guarantee that the effects are achieved with the least possible burden on enterprises and employees. The Competitiveness Council should use this in fulfilling its horizontal remit and proposals should only be accepted by Member States and the Parliament if their overall impact, especially on the competitiveness of businesses, is positive.*
- ⚡ *New European legislation should make full use of outcomes-based approaches such as the New Approach, which can deliver results while minimising the burden on entrepreneurs, and of review clauses which can lock-in evaluation.*
- ⚡ *To apply the same quality controls to existing legislation, the Council and Commission should set a clear timetable for improving the existing regulatory framework, so that it better facilitates entrepreneurship and competitiveness. To assist in this, better indicators of regulatory quality*

should be developed and a fast-track mechanism adopted by the end of 2004 to ensure that simplified proposals can be considered more quickly.

€# *To prevent entrepreneurs from being excluded from markets, competition policy should include a strategic, market-focused dimension which can tackle unnecessary barriers to entry in a flexible and proactive way. The Commission should set out what more it can do in this role and report at the European Council in June.*

State Aid. The modernisation of the state aids framework is necessary to obtain a more efficient and simplified instrument both for controlling state aid effects on competition and enhancing expenditure in a way that will lead to better productivity outcomes. In particular, we must look at how public spending can be most effectively directed to combat market failures and have a greater impact in supporting start-ups and high growth companies, whilst retaining sufficient restraint on the levels of aid granted by Member States so that the proposals on reorientation and reduction of state aid arising from the Stockholm Council are not undermined.

€# *The Commission should review the state aids framework to ensure that guidelines on state aid and risk capital are properly targeted at the key market failures that inhibit enterprise.*

€# *Governments need flexibility to develop the nature of their interventions as the EU SME venture capital market evolves. The state aid approach in this area needs to be focused on principles and outcomes. It is important that the prescribed mechanisms and amounts in the risk capital framework continue to be used as 'safe harbour' devices and not as absolute constraints.*

€# *The Commission should examine whether there is a further role for state aid in addressing the barriers faced by start ups and high-growth firms: in particular, whether the risk capital guidelines should be extended to cover forms of finance other than equity, and whether specific guidance is needed to address other forms of support such as incubators for new businesses. This examination must come into effect as soon as possible, and in any case by the beginning of 2005. The Commission should provide a provisional schedule.*

Access to European markets. Smaller enterprises account for the majority of European businesses but are less likely to engage in cross-border markets than

large businesses. It is important for the flexibility and efficiency of the European economy that they are able to freely engage in markets outside of those within their own Member State. Access to European public sector procurement is as important as access to private markets, and is an area where the EU can make an important contribution. Although more small businesses are able to consider the advantages that access to European markets can bring, especially because of the internet, they can face particular barriers. Access to advice and information is particularly important, as is the availability of external sources of finance in smoothing cash flow problems.

€# *In implementing the 2003-2006 priorities for the internal market strategy, Member States should pay particular attention to SME access to public procurement. Forthcoming directives will provide an opportunity to simplify national rules and standardise procedures in order to better inform small businesses on market opportunities. The Commission should assist Member States to share best practice approaches and monitor progress.*

€# *The Commission should facilitate commercial cooperation between SMEs, particularly SMEs in new Member States.*

€# *The Commission should explore the contribution of smaller businesses to trade between Member States within the single market. It should identify, by the end of 2004, the problems facing small businesses when engaging in cross-border trade and bring forward a strategy for enhancing this element of the operation of the single market.*

Creating an entrepreneurial society

Disadvantaged areas and groups. As well as being a key driver of productivity growth, successful enterprises form part of the bedrock of local communities, contributing to economic prosperity and social cohesion. Small businesses are a potentially powerful force in creating a virtuous cycle of prosperity in disadvantaged areas, generating employment and providing role-models. However, entrepreneurial activity in disadvantaged areas can face higher barriers to success than elsewhere. Access to finance and advice may be more limited, the necessary skills might be less prevalent, and the culture might be less entrepreneurial with fewer businesses to provide role models.

€# *The Commission and Member States should consider the particular problems that restrict the potential for business formation and growth in*

disadvantaged communities. Existing policies, and those under consideration, should be assessed for their relevance to disadvantaged communities.

€# *Member States should also consider how to address problems specific to businesses operating in deprived areas, such as high levels of crime against business (such as theft and vandalism) and lack of suitable premises. These issues create a perception that businesses should avoid setting up in deprived areas. The national business environment should be set up to encourage actions, at a local and sub-regional level to address these factors.*

Skills levels. The lack of appropriate skills and knowledge can act to stifle enterprise. It can also raise cultural and social barriers that prevent the growth of an enterprise culture throughout the EU. SMEs can find it difficult to recruit and retain highly skilled staff. This is due to the inclination of employees to favour larger businesses or professions, and the perceived uncertainty and risk involved in working for a new innovative firm. SMEs may also be less likely to invest in training than larger firms. Education and training must form a key part of action taken to raise levels of entrepreneurial activity across the Union. EU citizens must have the skills necessary to set up and run a business.

€# *Member States must encourage small businesses to understand the importance and effectiveness of training on improved firm performance. They should make it easy for small businesses to access training, providing information and advice if it is not already easily available.*

€# *The Commission should encourage Member States to share best practice in addressing under-investment in skills and the barriers to training faced by smaller enterprises. The EU should encourage government interventions that address this under-investment and encourage the development of skills in areas where there are gaps.*

€# *The formal education systems within Member States, at all levels, including and especially universities, should encourage young people to learn about enterprise and business. As a first step, the Member States could report on the current situation during the first semester of 2004.*

Dialogue with SMEs. Businesses can feel distanced from decision-makers both in Member States, and especially in the EU. Because of the complexity of government and European policies, businesses, particularly smaller enterprises,

find that the time and administration involved in understanding whether policies affect them and then how to comply takes valuable resources away from actually running the business. Nevertheless, policy makers need to understand the perspective of enterprises, and to ‘think small first’ when formulating policies that impact upon business.

€# *The Commission should strengthen the dialogue between small enterprises and decision-makers at all levels of the European policy process. Member States should share best practise for involving small businesses in decision-making at the national level.*

€# *The Commission should enhance the role of the SME Envoy in advising on all aspects of Commission policy proposals that might impact upon small enterprise. The SME Envoy should be supported and advised by European entrepreneurs who will provide their views on issues of concern to European enterprises.*

A society that values entrepreneurship. In comparison with other developed countries a lower proportion of the EU’s population is engaged in entrepreneurial activity. There is evidence⁶ that cultural characteristics have an impact on a nation’s total entrepreneurial activity. Some of these factors, such as ‘fear of failure’ may be deep rooted, others such as preference to work in large organisations and professions, rather than start a business, can be instilled in people throughout their lives by the values inherent in society. The EU needs to address the cultural factors that promote, or inhibit, the development of an enterprise society in which small firms are able to thrive and achieve their potential.

€# *Member States should encourage entrepreneurship at different levels of the education system.*

€# *Member States should raise the profile of successful entrepreneurs within the European economy by celebrating their success and encouraging others to learn lessons about the secrets of entrepreneurship.*

€# *The Commission should build awareness of the benefits of enterprise to European society and economic flexibility through EU wide activities such as ‘enterprise week’.*

⁶ For example, see *Global Entrepreneurship Monitor 2002*.

Access to finance

Access to finance is important for all firms in achieving their business objectives, particularly for start-ups and businesses that seek to invest and grow. While capital markets tend to work efficiently for larger firms, which are also more likely to fund investment and growth from internally-retained profits, newer and smaller growth businesses often depend upon external sources of finance and can face barriers in the market that prevent them from raising even relatively modest sums of risk capital. This is particularly true for innovative high-technology small firms and for businesses operating in disadvantaged areas. Governments have a role in offering the support to small firms that markets fail to provide. Intervention should, wherever possible, work with markets to improve the availability of, and demand for, external sources of finance to ensure that it enhances rather than distorts businesses' decision-making. In particular, intervention should be focussed on encouraging effective risk capital investment strategies by enhancing the rewards from entrepreneurial investment rather than concentrating exclusively on providing down-side mitigation in the form of loss sharing.

- €# *The Commission, through the Action Plan expected in February 2004, should encourage Member States to share best practice approaches in addressing barriers to equity finance and the use of debt guarantee schemes. The EU should encourage government interventions that leverage private sector finance into areas that are not well served by capital markets. The state aid rules should support innovative new, market led interventions in supplying finance to early stage companies where there is a clear market failure. Assistance could include guarantees for risk capital investors and support for Small Business Investment Company programmes, on the model of US policy.*
- €# *The Commission should provide current and new Member States with a common platform for the exchange of experience in managing structural funds, particularly when dealing with small businesses.*
- €# *EIB and EIF funding should be targeted to address specific market failures. In particular, funding should be directed towards small businesses, innovative firms, under-represented and disadvantaged groups and social enterprises. The EIB Group should review the added value of its existing instruments as well as looking to develop a more innovative and flexible approach through its global loans instrument and the EIF's venture capital and guarantee instruments. For example, the*

EIF should look further at the suggestions in the Bannock report for DGEnt on innovative financing for SMEs across Europe. EIF contributions to mechanisms that increase the leverage of venture capital and seed funding should be encouraged. The EIB is invited to report on these issues at the Governors Council of June 2004.

€# *The Commission should examine this year the potential for providing greater European assistance to business angels to help them become established in areas where networks do not exist and where the supply of angel finance is low.*

€# *Following the progress made by the Risk Capital Action Plan:*

- *the Commission should continue to monitor the development of European risk capital markets and assess the impacts of the measures implemented under the RCAP, and*
- *Member States should work, through the Financial Services Committee to continue to develop a deeper, more liquid, integrated risk capital market, thereby reducing the costs of capital for small businesses. Work should focus on identifying the remaining market and regulatory barriers and inefficiencies, through benchmarking best practices, in terms of giving public support to industry, and evaluating innovative funding vehicles across Europe.*

€# *The Commission should undertake immediately analysis to assess the possible impact of the Basel II capital requirements on the sustainability of funding of small enterprises by the banking sector, either through private equity investments (venture capital) or their direct and indirect lending activity (through LBO). The conclusions of this analysis should be reported to the ECOFIN Council in the first semester of 2004, and then taken into account in the Basel II directive proposal, expected in summer 2004.*

Conclusion

If the challenging goals set at Lisbon are to be met, it is vital that Europe takes decisive action to tackle the barriers currently constraining enterprise in the EU. An environment conducive to business creation and growth, and the promotion of an entrepreneurial culture are essential for creating jobs and increasing productivity in the EU.

ANNEX: The UK, French and German experiences

The UK experience

The UK's aim is for more people to consider going into business, and for more of those who do to succeed. Broadly, the Government's approach is to create a stable economic and regulatory environment, encourage the development of an entrepreneurial culture throughout society, and address market failures that inhibit enterprise.

Business environment

The **business environment** in the UK has undergone changes over the last 6 years to be more supportive of enterprise. Business survival rates have improved because of greater **macroeconomic stability**. 8 per cent more businesses survive for a period of three years or more today than ten years ago.

The **business tax system** is structured to support small businesses. Corporation tax for small firms has been cut and the Capital Gains Tax regime is structured to encourage investment activity. 40 per cent capital allowances for small firm investment in plant and machinery have been introduced to benefit business cash flow and encourage investment.

All public policies that could have an impact or impose a cost upon business have to undergo a '**Regulatory Impact Assessment**'. The **competition regime** has undergone recent reforms to become more independent from Government and comply with global best practice.

Culture and regeneration

The proportion of working-age adults engaged in starting or running a new firm in the UK is only moderate by European standards. Young British people seem to aspire to professional roles rather than entrepreneurial roles. The UK wants to create an **enterprising culture** throughout society, with more people considering going into business. From 2005-06 all children will experience at least 5 days enterprise education in their school career. The UK particularly focuses on encouraging enterprise in **deprived areas**. There are specialist business support programmes for underrepresented groups, particularly ethnic

minorities and women, and community development finance initiatives to promote the availability of finance, from microcredit to venture capital.

Access to finance

The UK works with markets to address barriers facing firms that are seeking to **access external finance**. These barriers generally arise from information asymmetries between investor or lender and investee or borrower.

For companies seeking debt finance, the Government's Small Firms Loan Guarantee scheme addresses credit rationing in the debt market by underwriting 75 per cent of the value of loans up to £250,000 where firms would otherwise be granted a loan but for a lack of security.

The 'equity gap' is partially addressed through personal tax incentives for individual investors to invest: Venture Capital Trusts are mediated funds that invest in small firms and the Enterprise Investment Scheme encourages individuals to invest directly in SMEs. The Government has also supported a number of fund based interventions:

- €# **Regional Venture Capital Funds** will make available up to £270 million across England (including a Government contribution of £80 million) for investment in small businesses with growth potential;
- €# the **Bridges Community Development Venture Fund** supports investment in deprived areas; and
- €# subject to state aid clearance, the Government will launch **Enterprise Capital Funds (ECFs)**, a variant of the American Small Business Investment Company scheme. ECFs will be private sector, commercially-managed entities that invest a mix of public and private sector capital in small high-growth businesses in funding rounds of up to £2 million, but will not expose public sector capital to any greater risk than private sector capital. ECFs will focus public support on enhancing the potential rewards of 'equity gap' investing, ensuring minimal distortions on investment strategies, and bringing a market led focus to the intervention.

Business advice and support

There is a market failure in the availability of **business advice and training**. Firms that take advice grow faster and are more likely to survive, but many do

not recognise the value of seeking external help. There are 45 Business Link offices throughout England that are part-funded by government and privately run. These will be backed-up by a new comprehensive online service. This will include an online training directory for small firms, including online courses. These services will be promoted through commercial banks to their customers.

The UK tries to ensure the right balance between policies delivered at national and sub-national levels. Regional Development Agencies are key strategic drivers of economic development, enterprise, regeneration and competitiveness in the English regions and UK is piloting delivery of increasing numbers of services, including Business Links, through local mechanisms.

The French experience

As in the UK, the French aim is for more people to consider going into business and for more of these new businesses to be a success. The Government's principal challenge is to succeed in increasing the number of new businesses created.

To this end, in July this year, Parliament adopted a new law for encouraging economic initiative and valuing entrepreneurship and the entrepreneur's role: « *Loi pour l'Initiative Economique* ». The main aims of this new legislation are:

- €# to increase the rate of business creation: in 2002 around 170,000 new businesses were created. The new goal is to reach 200,000 new firms per year, generating 320,000 new jobs the first year and 540,000 over the next five years;
- €# to speed up the development of existing firms by facilitating access to finance and by mobilising national savings (the level of which is particularly high in France); and
- €# facilitating purchase and transfer of businesses. This issue is a particular concern in the French economy since around 500,000 entrepreneurs are due to retire within the next ten years.

To achieve these aims, the « *Loi pour l'Initiative Economique* », prepared by Small Business Minister, Renaud Dutreil, and adopted in August 2003, introduces five categories of measures:

€# Measures to **simplify the business creation environment**, reducing the risks and costs associated with starting a business:

€# reducing the time needed to register a new business, including through electronic registration;

€# limiting the cost and the capital needed to complete mandatory procedures;

€# putting an end to the minimum paid up capital requirement (previously a minimum of 7,500 euros was required), which was a barrier to the creation of new Private Limited companies;

€# reducing social taxes; and

€# allowing entrepreneurs a delay of 5 years for the payment of their first year of social taxes.

€# Measures to **encourage employees to create their own businesses**:

€# by reducing the burden of social taxes; and

€# by creating a specific « vacation » for new entrepreneurs.

€# Measures to **improve access to finance**:

€# creating Local Investment Funds whose major target is local SMEs and new businesses;

€# introducing tax incentives for investment in SMEs;

€# allowing selected business support services direct access to bank loans and to provide credit to target groups (e.g. unemployed people or disadvantaged groups); and

€# in line with the recommendations of the Commission report "Microcredit for small businesses and business creation: Bridging a market gap" (2003), cutting the usury rate for facilitating access to finance for small enterprises and developing micro credit.

€# Measures to **reduce the personal risks of entrepreneurship**:

- €# maintaining the social benefits for unemployed people who create firms;

- €# in case of bankruptcy, the entrepreneur no longer will lose his home.

- €# Measures to **facilitate the purchase and transfer of businesses**:

- €# introducing tax cuts and other supportive measures to ease the transfer process.

In addition, a new **devolution policy** in favor of regional authorities is being put in place. A draft law is currently under discussion in Parliament which will transfer to regional authorities the present national powers relating to economic development policy so as to better meet the needs of SMEs.

Finally, in line with the Small Enterprise European Charter recommendations, the *Observatoire des pratiques pédagogiques* will reinforce its benchmarking actions in order to determine how best to developing entrepreneurship in the French education system.

The German experience

There are approximately 3.3 million small and medium-sized enterprises in Germany. The great importance of SMEs in Germany is illustrated by the fact that nearly 70 per cent of all employees and about 80 per cent of all apprentices are employed and trained by SMEs.

As in the UK and in France, the German aim is to achieve more growth and employment by facilitating the start-up process and the conditions of existing enterprises. The German SME initiative that started in January 2003 tends to promote entrepreneurship by:

- €# Taking **legal measures**:

- €# as the income tax will fall in 2004 and 2005 for individual enterprises, 80 per cent of the SMEs in Germany will be markedly discharged;

- €# due to the amendment of the **Crafts Code** the start-up of a business and hand-over in the craft industry will become much easier. This will

provide a significant stimulus for employment and training in the important craft industry;

€# business start-ups will be relieved from fees to the chambers of industry and commerce as well as the chambers of handicrafts for the first four years;

€# the social security for the self-employed will be improved; and

€# and the registration of new firms will be accelerated.

€# As in the UK and in France, the German initiative also tends to improve the **business environment**:

€# by providing more information and consultation for business start-ups;

€# by facilitating the transfer of businesses to the next generation;

€# by encouraging entrepreneurship of underrepresented groups, particularly women and ethnic minorities; and

€# by promoting vocational training and retraining qualified, skilled staff for SMEs.

€# The provision of sufficient **financial measures** is another core element of the German SME initiative:

€# the changed conditions for businesses and banks (“Basel II”) require more innovative financing instruments like equity financing or instruments similar to equity financing. On this basis, the federal SME bank (“KfW-Mittelstandsbank”) is developing a new product of “mezzanine capital”, which combines loan capital and near-equity subordinated capital;

€# in order to strengthen equity capital investments in SMEs, two pilot projects were developed by the KfW to provide best practices for market-oriented initiatives in the future; and

€# finally, the German initiative has earmarked € 500 million for the next 5 years for a fund of funds in order to facilitate start-ups and second-round financing of young innovative SMEs.

€# As in the UK and France, Germany focuses on the **reduction of bureaucracy**.

The initiative to reduce bureaucracy that started in spring 2003 aims to strengthen civil society, reduce the burden on SMEs, support growth and employment, consolidate public budgets, and modernise the federal administration. It focuses on the administrative burden, particularly on SMEs.

The overall approach chosen by the Federal Government is based on the following principles:

- €# concentration on a few crucial areas of activity;
- €# targeted and noticeable reduction of the burden on citizens and businesses;
- €# use of the latest technology to simplify operating procedures.

The initiative currently comprises over 50 projects of all federal ministries. It shows that important efforts have been made to reduce bureaucracy and the administrative burden imposed on businesses, especially smaller ones.