

## *Annexes to policy recommendations*



European Business  
Support *Network*

*Your local link to global markets*

## Background of the Policy Recommendations:

### 1. General EU support of SMEs

In October 2011, the European Commission presented its 2010 small and medium-sized enterprises (SMEs) report “Are EU SMEs recovering from the crisis?” - including surveys on each EU Member State (the SBA Fact Sheets). The report confirms that SMEs remain the EU’s economic backbone. In 2010, there were almost 20.8 million SMEs in the EU non-financial business economy of which 19.2 million were micro-firms with less than 10 employees. Altogether SMEs provided more than two-thirds (87.5 million) of all employment opportunities in the private sector in the EU and 58.4% of the total gross value-added, compared to the 43,000 large businesses representing only the 0.2% of the EU enterprises.

This report also points out the main problems of SMEs. These main problems are also mentioned in the report “The single market through the lens of the people” in which 20 main concerns of citizens and business are identified. The main issues, which are also main issues for the SMEs in projects NSSC and BS, are:

- **Access to funding/finance**  
The nature of lending has significantly changed as a result of the global financial crisis. More information/data/research on supply-and-demand indicators for

access to funding is needed to target appropriate solutions. The SBA fact sheets (SBA: Small Business Act) confirm that conditions for SMEs in most EU countries improved over the period 2005-2011. Progress was most marked with a view to improving access to the single market, increasing the responsiveness of public administrations and the promotion of entrepreneurship. The only SBA area where conditions worsened was “access to finance”. This deterioration took place despite considerable efforts on the policy front in 2010. Of the 588 policy measures implemented by the 27 Member States in 2010 (and until the first quarter of 2011) in various policy areas listed in the fact sheets, 99 alone focused on improving access to finance. Together with promoting entrepreneurship and innovation, these areas accounted for almost 50% of all measures (285). The situation in access to finance demonstrates most clearly that despite the initiatives taken so far, there is still much left that policy makers can and must do at the national level to help SMEs working their way out of the crisis. Implementing a code of conduct on lending to SMEs to improve transparency and the relationship between banks and SMEs could be one of the right steps.

Regarding this issue, in January 2012 the DG Enterprise and Industry published a revised overview of the main funding opportunities available to European SMEs incl. grants, loans and guarantees. Further information under: [http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item\\_id=5778&lang=en](http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=5778&lang=en). This is a good example about a guideline that could be prepared at national and local level for the SMEs.

- **Regulatory burden**

Diminishing burden of regulation will improve productivity and participation, while better scrutiny of regulations will ensure unnecessary burdens. Information is equally important, as SMEs want clarity and simplicity and need to know what is involved in the implementation of regulations. Government would do well to draw on private sector expertise to help devise strategies and tactics that aim to benefit SMEs, while reducing waste, red tape, and regulatory inefficiencies.

- **Business transfer**

Every year in the EU an estimated 450,000 businesses, providing 2 million jobs, are transferred to

a new owner. To secure these jobs and enable the transferred businesses to flourish and grow, European Member States need to make it easier and less costly to transfer ownership of businesses and develop more effective support services.

- **A second chance for entrepreneurs**

Only 50% of businesses survive the first five years after their creation. Of all business closures bankruptcy represents approximately 15% and of these only 4 to 6% are fraudulent bankruptcies. Honest formerly bankrupt entrepreneurs should have a fair chance for a re-start: with their experience and commitment they are an important source of new jobs and companies. The EU Member States need to ensure a legal framework that gives re-starters the same chances as for first-time entrepreneurs as well as adequate business support services.

- **SME's need to improve basic management practices**

Research reveals that there is scope for governments, industry associations, and intermediate organisations to assist SMEs improve how they manage their business, including their financial management practices.

## 2. Support of SME's in (public) tendering

### Barriers To SME Participation

- **Businesses being discouraged from participating in foreign (public) tenders.**

Public contracts define the arrangements for public expenditure on buildings, goods and services and relate to the purchase of all manner of goods and services, from computer systems, wastewater treatment systems and shipbuilding to consultancy. It is estimated that all the public contracts awarded in the EU represent, together, some 17% of GDP. The open and transparent rules for public contracts imposed by the EU reinforce competition, provide better protection against corruption and allow taxpayers to benefit from more effective services and better value for money.

Recent research highlights several concerns on how public sector tendering is perceived by the SME sector. Even in light of the government directives and supports for SME participation, SMEs still believe that.

The tendering process lacks transparency;  
Contracts are the preserve of larger organisations or incumbents;  
Tendering preconditions exclude small or early stage companies.

SMEs believe that while government policy may promote greater SME participation, rarely does this translate into contracts being awarded to competent SMEs; because of a perception by public procurers that dealing with SMEs is riskier. Newer companies are further put off by pre-qualification requirements such as, for example, three years of audited accounts. The EU Commission is launching a reform of the legislation on public procurement. This is one of the 12 priority actions of the Single Market Act. The Commission assessed the impact and effectiveness of EU legislation on public procurement and held a consultation process on the basis of a Green Paper on the modernisation of EU public procurement policy. The information gathered will serve as a basis in preparing the Commission's legislative proposals before the end of this year.

Also, to improve the situation the Commission has published a European Code of Best Practices, facilitating access by SMEs to public procurement contracts ([http://ec.europa.eu/internal\\_market/publicprocurement/docs/sme\\_code\\_of\\_best\\_practices\\_en.pdf](http://ec.europa.eu/internal_market/publicprocurement/docs/sme_code_of_best_practices_en.pdf)).

- ***Awareness of public sector opportunities***

Most SMEs have traditionally focussed on the private sector and have little awareness or understanding of public procurement. Many SMEs are only vaguely aware of websites such as [www.e-tenders.gov.ie](http://www.e-tenders.gov.ie), where opportunities are advertised.

Many SMEs only become aware of a public sector opportunity once a tender has been advertised. At this point the clock is ticking, with a limited period for the SME to respond in terms of an Expression of Interest (EOI) or a Response to Tender (RFT).

- ***Market intelligence***

It is costly and time consuming to establish relationships with public sector organisations and once an opportunity is advertised, they are obliged to rebuff any informal contact. SMEs are therefore at a disadvantage in responding to opportunities that may have evolved over time with input from other suppliers. It is hugely advantageous to establish contact with public bodies and invest in understanding their needs before the official tender process commences in that a better proposal can be prepared.

- ***Public procurement experience***

Public bodies are legally obliged to be transparent and fair with each prospective supplier during a procurement process. Consequently the process is highly structured with defined timeframes, communications pathways and documentation standards. Those SMEs unused to this structured environment have to learn the public procurement process and draft a tender response at the same time, a major challenge when timeframes are constrained.

- ***Building a consortium***

Many SMEs choose not to engage in the tendering process because they can only provide one part of the solution. By building a consortium with other suppliers, SMEs can potentially respond to a more varied range of opportunities by drawing on the strengths of others. It does however take time to establish relationships with prospective partners and this can be onerous for resource constrained SMEs.

- ***Administrative burden***

Public procurement is inherently more bureaucratic than private procurement. For the SME, it requires considerable focus to build a consortium (if needs be), design a solution, clarify issues with the public body, and draft a response. SMEs rarely have sufficient administrative capacity to prepare a quality tender response.

- ***Pre-commercial procurement***

By acting as technologically demanding first buyers, public procurers can drive innovation from the demand side. In addition to improving the quality and effectiveness of public services, this can help create opportunities for European companies to take international leadership in new markets. Further information can be found under [http://ec.europa.eu/information\\_society/tl/research/priv\\_invest/pcp/index\\_en.htm](http://ec.europa.eu/information_society/tl/research/priv_invest/pcp/index_en.htm).

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The Interreg IVB  
North Sea Region  
Programme



**Baltic Sea Region**  
Programme 2007-2013



Part-financed by the European Union  
(European Regional Development Fund  
and European Neighbourhood and  
Partnership Instrument)