

**Welfare and social stability in Europe through
strong and dynamic Crafts and SMEs**

**UEAPME Memorandum for the
up-coming elections of the European Parliament 2014**

Welfare and social stability in Europe through strong and dynamic Crafts and SMEs

The 20.7 million SMEs in Europe count for 99.8% of all enterprises, 2/3 of employment and close to 60% of the added value created in the European Union. These enterprises play a decisive role in Europe's economy and society and are drivers of innovation and also ensure social and regional stability.

Only with a prosper SME sector, which has been hit hard by the current crisis, will Europe be able to tackle the most important challenges ahead like restoring economic growth, fighting (youth) unemployment, reforming the social model and creating welfare for the future.

The ability of Crafts and SMEs to play its positive role for Europe's economy and society depends largely on the overall economic environment in which they operate, on their possibility to access the necessary means to act successfully and effectively, on a regulatory environment which is adapted to their reality and - last but not least - on the availability of sufficient support services and efficient intermediaries.

Crafts and SMEs will only be able to exploit their potential to strengthen Europe if the right policy decisions are taken and implemented at all levels:

- The overall economic environment in the European Union has to be improved by completion of the re-regulation of the financial markets, a better policy-mix between consolidation, the needed structural reforms and growth enhancing measures, fair competition between all market players and an attractive business environment for entrepreneurs, which attracts investment and creates employment.
- Crafts and SMEs must have access to their necessary means, which includes access to finance, access to new technologies and innovation support services, access to qualified workforces and training measures as well as access to the standardisation process and to efficient public services of high quality. The provision of these means has to respect the heterogeneity of the SMEs and they have to be made available at the right level to reach all SMEs, especially micro enterprises and one person companies.
- A consequent application of the "Think Small First Principle" has to ensure that unnecessary administrative burdens are avoided, that legislation is adapted to the reality of SMEs and is proportional, that support measures are designed to meet the needs of SMEs and that SME interests are systematically taken into account, if policies which affect SMEs are decided.
- The existing European directives have to be implemented fully and the common rules have to be enforced by the European Commission, national authorities and courts, in order to ensure fair competition.
- Crafts and SMEs need political support for the establishment and development of intermediary organisations and support entities, which are especially needed in all difficult phases of a business life-cycle. Furthermore, business organisations have been strengthened by involving them in the design of legislation and support programmes.

1. FOREWORD

UEAPME, the European Association of Crafts and Small and Medium-sized Enterprises, represents the interest of about 12 million companies from all over Europe towards the European Institutions and other European stakeholders. Furthermore, UEAPME is a recognised employer organisation and takes part in the European Social Dialogue. More than 19 out of 21 million SMEs in Europe are small and traditional companies with less than 10 employees, like my own company in Goteborg, or one person companies and it is these companies that form the heart of Europe's economy and are decisive for our welfare and social stability.



UEAPME President
Gunilla Almgren

With this Memorandum ahead of the up-coming elections of the European Parliament we would like to show the important role these 20 million Crafts and SMEs play for the European economy but also for the society at large. We are convinced that in the future, Europe will only secure social stability and an acceptable level of welfare for its citizens, if Crafts and SMEs can prosper, which means that they are able to invest and innovate; or in short, if our companies can grow and increase employment. The current debt crisis has clearly proven that future prosperity has to come from the private sector, that is from the Crafts and SMEs which form 99.8% of all companies in Europe.

If one keeps in mind that about 70% of all rules a company acting in the European Internal Market has to apply are influenced by legislative decisions at European level, it becomes more than obvious that Members of the European Parliament have an important impact on the daily life of companies, even on those which are only locally active. Therefore, I would invite all future Members of the European Parliament to pay attention to the reality and the needs of these 21 million companies, which are urgently needed to ensure welfare and social stability. Better treatment of SME loans within the Basel III Agreement, a strong SME Instrument in the framework of the next Research and Innovation Programme Horizon 2020, the exemption of small retailers from the requirement to take back electronic waste, are just a few examples from the current legislative period, where the European Parliament significantly improved rules to support SMEs and to avoid unnecessary burdens.

Crafts and SMEs rely on Members of Parliament who understand the role but also the specific situation and needs of small enterprises and I would like to invite you to work together with UEAPME and our member organisations all over Europe to achieve higher welfare and to secure social stability in Europe by supporting a competitive, sustainable and social reliable private business sector.

Brussels, 23 September 2013

Gunilla Almgren
President of UEAPME

2. THE ROLE OF CRAFTS AND SMEs IN EUROPE'S ECONOMY AND SOCIETY

Of the 20 million enterprises in the European Union today, 99.8% are SMEs. There are only 43,700 enterprises with more than 250 employees, but more than 19 million enterprises employ less than 10 people – the so-called micro-enterprises. The average European enterprise provides employment for six people, including the owner-manager, and SMEs count for 2/3 of private employment and close to 60% of the added value in Europe's economy. In the last decade, SMEs created 80% of the new jobs¹.

Facts and Figures:

	Micro	Small	Medium	SMEs	Large	Total
Number of enterprises	19,143.521	1,357.533	226.573	20,727.627	43.654	20,771.281
%	92,2	6,5	1,1	99,8	0,2	100
Employment	38,395.819	26,771.287	22,310.205	87,477.311	42,318.854	129,796.165
%	29,6	20,6	17,2	67,4	32,6	100
Gross value added (billions)	1307	1144	1136	3588	2592	6179
%	21,2	18,5	18,4	58,1	41,9	100

Source: [EC - Annual Report on European SMEs 2012](#)²

The current crisis has once again demonstrated that SMEs act as an important buffer in economic downturns and are much more reluctant to dismiss employees in difficult times. The number of large enterprises that reported a decrease in employment was twice as high as for small enterprises and three times higher than for micro enterprises, which makes SMEs an important stabiliser throughout business cycles. Crafts and SMEs also play a central role in providing vocational education and training on the job, both highly relevant for the transition from education to employment and to ensure a qualified workforce, especially in times of high youth unemployment. Furthermore, SMEs are crucial for the integration of migrants into the official labour market, who often start off as self-employed, as small entrepreneurs or as employees in SMEs.

In addition, SMEs play a key role as innovators in Europe's economy, even if most SMEs are not performing R&D activities, as traditionally defined. Indeed, SMEs perform innovation by relying on qualified entrepreneurs and employees and on cooperation with suppliers and customers, and their competitiveness depends on their capability to improve their products, services and distribution models. SMEs have the potential to contribute to the future greening of Europe's economy, by integrating resource efficient strategies and developing ecological and energy efficient products and services offering thereby new potentials for employment. At the same time, many small and traditional Crafts and SMEs, which are at the centre of our economy, are challenged by structural changes and may encounter difficulties in following technical developments, especially as they often have to deal with restricted resources and regularly experience difficulties in accessing finance and participating in internationalisation.

Furthermore, Crafts and SMEs play a crucial role for economic and social stability at local and regional level, where SMEs are the "basic fibre" by providing goods and services for the daily life. SMEs are also at the centre of the so-called European Social Model. Owner-managers of these enterprises are, in general, more interested in the long-term development of their company and the local economy, while shareholders and

¹ http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/do-smes-create-more-and-better-jobs_en.pdf

² http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf

management are primarily concerned with short-term profit and boosting turnover. In general, SMEs are more responsible towards their employees and more integrated into local society. They play an important role in stabilising society and have a bridge-building function between workers and capital/equity owners.

Finally, Crafts and SMEs have always been pacemakers for cultural developments in Europe and play an important role in driving sustainable changes and preserving heritage, values and know-how.

In the last years, politicians at all levels have increasingly recognised the important role of SMEs in Europe's society and understood more and more that SMEs have different needs compared to large enterprises and that the regulatory environment for SMEs has to reflect these differences. However, new approaches like the "Think Small First Principles" and the pledges made in the Small Business Act have not yet become fully real for Crafts and SMEs in Europe

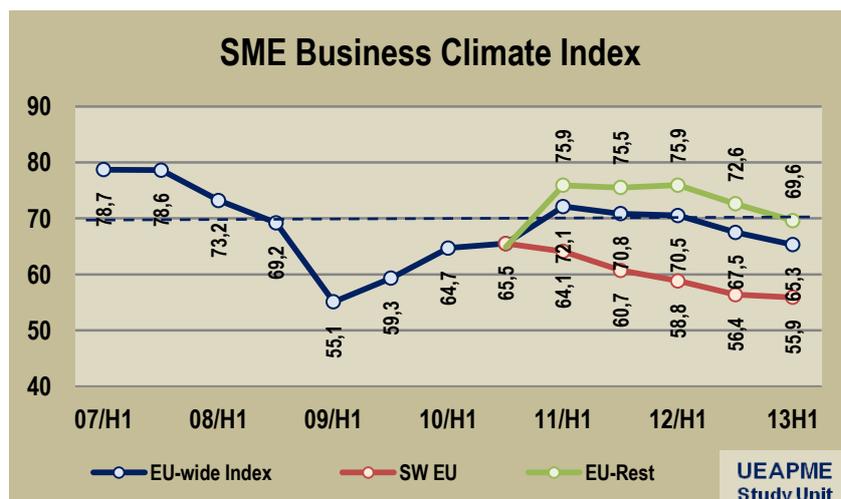
3. CRAFTS AND SMEs CAN TACKLE THE MAIN CHALLENGES FOR EUROPE

There is no doubt that the main part of the new legislative period for the European Commission and the European Parliament will be dominated by bringing Europe's economy out of the current crisis and by tackling the societal challenges related to the crisis. At the same time, the European Institutions must continue their work to make Europe more competitive in a global context and to respond to the demographic and climate change challenges as set-out in its EU 2020 Strategy.

The European Union will only be able to improve the citizens' current level of welfare, if it fixes the problems which have caused the current crisis and if it overcomes the negative consequences of the crisis for our economy and society. In order to achieve this aim the following challenges have to be tackled:

- rebalancing of the excessive indebtedness of which many public, but also private, households and the financial system currently suffer;
- restoring economic growth by ensuring that private investments in the real economy become attractive and competitive again; this is a pre-condition for creating jobs and sustainable increases in income;
- completing the re-regulation of financial markets and fighting the existing financial fragmentation of the Internal Market to ensure a sufficient amount of savings by the society as a whole and to channel these savings into productive investments in the real economy, which is a pre-condition for increasing the growth potential of Europe's economy;
- improving Europe's global competitiveness to ensure stable external accounts without losing welfare for the society;
- new policies to keep or re-establish a strong industrial sector, which is an important factor for competitiveness, economic stability and sustainability;
- new approaches to provide all persons with a chance to acquire competences and to enter the labour market and to allow them to participate productively in economic and social life, which is specifically challenging for young people and women;
- reforms of the European social protection systems to guarantee financial sustainability without endangering social inclusion in order to ensure social and political stability in Europe.

All these policies will not only have an important impact on Crafts and SMEs in Europe; it will also only be possible to achieve these aims with prosperous SMEs, which have been hit hard by the current double-dip recession. It will very much depend on the overall development of small enterprises, if Europe will be able to achieve higher growth and employment. Europe will only stay competitive if it deploys the innovation capacity of the SMEs and the business opportunities offered by the low-carbon economy. Finally, Europe will only achieve social stability by using the potential of Crafts and SMEs for vocational training and labour market integration and providing the right legal framework and support measures to this aim.



SW EU refers to: Portugal, Italy, Ireland, Greece and Spain

Source: [UEAPME EU Craft and SME Barometer](#)

The UEAPME EU SME Business Climate Index³⁾ shows that there are huge imbalances between the programme countries and the rest of the EU, as well as that SMEs all over Europe have suffered from the decrease of internal demand as a result of the sovereign debt-crisis. As a consequence of this bleak outlook SMEs reduced investment and employment.

4. EMPOWERING CRAFTS AND SMEs TO MEET THE CHALLENGES AHEAD

The ability of Crafts and SMEs to play its positive role for Europe’s economy and society depends largely on the overall economic environment in which they operate, on their possibility to access the necessary means to act successfully and effectively, on a regulatory environment which is adapted to their reality and - last but not least - on the availability of sufficient support services and efficient intermediaries.

Furthermore, a well-functioning Internal Market needs common and coherent rules at European level. That is why about 70% of all European decisions affecting the daily life of enterprises are influenced by European legislations and programmes, which also makes them highly relevant for all companies, even for the smallest at local level.

Therefore, it depends to a large extent on the right policy decisions at all levels, if Crafts and SMEs are able to exploit their potential to strengthen Europe’s economy, especially at local and regional level and to contribute to social and political stability.

³⁾ The EU SME Business Climate Index is the average of companies expecting a positive or stable development in future. An index of 70 can be seen as neutral stand.

4.1. IMPROVING THE OVERALL ECONOMIC ENVIRONMENT IN THE EUROPEAN UNION

There is no doubt that SMEs can only prosper in a stable and growing overall economic environment.

In order to bring Europe out of the current recession UEAPME demands:

- that the on-going work on re-regulating the financial markets has to be completed as soon as possible. The aim of the reforms must be stable financial service providers, incentives to invest – also long-term – in the real economy and to re-establish the confidence of investors and savers into the financial institutions;
- a better balanced policy-mix, which includes fiscal consolidation, the needed structural reforms on product, service and labour markets, but also growth-enhancing measures to re-start Europe's economy;
- fair competition as a corner stone of market economies has to be ensured. This includes a level playing field as regards international competition by avoiding social and environmental dumping but also a better protection of intellectual property rights and the safety of products. Fair competition must also be guaranteed in the relation between private companies and the public sector, between private companies and farmers and by fighting undeclared work.
- an attractive environment for entrepreneurs to create a dynamic and growing Crafts and SME sector and a SME policy which attracts investments and which enables the creation of new employment.

4.2. ENSURING THE ACCESS OF CRAFTS AND SMEs TO THE NECESSARY MEANS

Crafts and SMEs are confronted with huge problems and market failures when accessing necessary means for running their business. These deficits include access to external finance and the availability of new technologies. Furthermore, small companies are less able to protect their investment in qualification, and competences acquired at work are often not validated by markets. Finally, small companies depend more than larger ones on the availability of high quality public services at reasonable prices.

In order to ensure the access of Crafts and SMEs to the means they need, UEAPME demands:

- The conditions to allow SMEs to access finance have to improve along different lines: banking regulations should incentivise lending to SMEs and should not create any barriers for locally active, decentralised and non-commercial banking structures. Furthermore, tax systems should not penalise equity finance of enterprises, neither for business owners nor for external investors. Guarantees for loans, mezzanine instruments and securitisation are the most efficient ways for public support of SME finance and should be provided across Europe and at all levels.
- SMEs often have difficulties to access research and new technologies, both essential to exploit their potential for innovation. Therefore, well designed intermediaries with or without public support have to be available to bridge the gap between companies and the research community. Furthermore, public support is needed to allow smaller enterprises to participate in the standardisation processes and to access existing standards. Both aspects are essential for the competitiveness of SMEs compared to large enterprises, which tend to dominate standard setting and distribution.
- Crafts and SMEs need access to a qualified workforce, continuous training and adequate lifelong learning offers, as well as to instruments which validate informally and non-formally acquired competences. Guidance for all is needed to combat unemployment, maintain workers' employability and facilitate Crafts and SMEs' adaptation to fierce competition and trades evolution. Furthermore, suitable

training offers for SMEs should be available in order to match the demand for new skills coming from new technologies such as ICT and environmental technologies and from new production processes.

- More than large enterprises, SMEs depend on the availability of high-quality public services from network industries, e.g. energy supply, education and qualification systems as well as public and social administrations. However, public authorities are not only responsible for the availability of the needed services, but also have to ensure that the services are provided efficiently and at competitive costs and prices.
- The 20 million SMEs in Europe are very heterogeneous, with different needs to be provided at different levels. Therefore, European, national and regional levels have to ensure that different types of SMEs have access to their needs at the right level and that the services are designed by involving SMEs and their organisations.

4.3. THE REGULATORY ENVIRONMENT HAS TO BE ADAPTED TO THE REALITY OF SMALL ENTERPRISES

Crafts and SMEs can only use their full potential for growth and job creation if unnecessary administrative burdens are avoided and the remaining barriers to markets are removed. Therefore, the finalisation of the Internal Market and the better regulation agenda play a crucial role for the development of SMEs. Both have to respect the specific situation and needs of Crafts and SMEs. The European Small Business Act already provides guidelines for an effective policy in line with the reality of small enterprises, notably the Think Small First Principle, but there are still huge deficits as regards its implementation. Furthermore, correct implementation of European directives and regulations and their effective enforcements are necessary to avoid additional barriers and distortion of competition.

A key contribution for achieving an SME-friendly environment is a change in the perception of the role of entrepreneurs and risk-taking: entrepreneurship and the associated willingness to take risk should be applauded by political leaders and the media, and supported by administrations. In addition, Europe needs a more entrepreneurial society, where entrepreneurial spirit is also shown and encouraged in the education system, in public administrations and by employees.

In order to achieve a regulatory environment better adapted to the reality of SMEs, UEAPME demands:

- Legislation and the design of support programmes at all levels must respect the “Think Small First principle” to have positive effects on small enterprises. This simply means that rules must recognise the reality of the majority of businesses which have to apply them. This includes independent impact assessments for SMEs, systematic consultation of representative Craft and SME associations, the “only once” principle and the introduction of common commencement dates. Finally, it includes the involvement of SME representative organisations during the whole decision making process.
- In order to achieve a better respect of the “Think Small First principle”, all European Institutions have to ensure that the needs of small enterprises are taken into consideration in a systematic and formalised way. This means, institutional reforms have to ensure that these “Think Small First principles” and the spirit of entrepreneurship are systematically considered in the decision making processes by all institutions.
- The proportionality principle has to be applied whenever legislation affects SMEs. This principle implies taking a more risk-based approach in accordance with the level of risks and their potential impact to

ensure that regulatory burdens are in line with the potential risk targeted, which depends also of the company size.

- Programmes and services targeted towards Crafts and SMEs to support their compliance with new and existing rules have to be designed in a way, which makes them accessible for SMEs and especially for micro-enterprises and one person companies. This has to include the provision of assistance where necessary.
- Prior to any new legislative initiative, existing European directives have to be implemented fully (without gold plating) and European regulations have to be applied correctly, in order to ensure a level playing field for all companies and to avoid additional barriers for the internal market. Therefore, the European Commission together with the European Court of Justice and the national courts have to enforce common rules effectively to avoid distortion of competition.
- The principle of subsidiarity has to be respected in order to avoid unnecessary burdens for Crafts and SMEs operating at local level in a local environment and to ensure that matters are being treated at the right regulatory level, which should be the closest possible to the companies in question.

4.4. PROVIDING CRAFTS AND SMEs WITH THE NEEDED INTERMEDIARY ORGANISATIONS AND SUPPORT ENTITIES

Experiences and many good practices in Europe show that SMEs, but especially micro enterprises and crafts, can better develop if they are assisted by efficient intermediary organisations and support entities. This is even more true in all difficult phases of a business life-cycle, i.e. start-up, innovation, internationalisation and business transfer. It is important to help them to overcome administrative and procedural burdens, e.g. environmental regulation and to give them a voice in the political debate.

In order to provide Crafts and SMEs with the needed intermediary organisations and support entities, UEAPME demands:

- policy support for the establishment and development of intermediary business organisations and support entities in line with the national traditions and structures and with specific focus on the more than 92 % of micro-enterprises;
- that policy should support and/or entitle business organisations to engage in vocational training, apprenticeship models and other forms of work-based training.
- an effective participation and involvement of business organisation in the governance of these organisations, if intermediary organisations and support entities are not run by business organisations or chambers;
- a strengthening of business organisations and chambers by involving them in the design and the implementation of legislation and support programmes and by consulting them systematically on all policy decisions affecting SMEs.

For further information on this position paper, please contact:

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