



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 1 February 2013

5862/13

**IND 21
COMPET 58
MI 59
EDUC 25
TELECOM 14**

NOTE

From: Presidency
To: Permanent Representatives Committee - Part I/Council

No. Cion prop.: 5292/13 IND 4 COMPET 18 MI 16 EDUC 7 TELECOM 3

Subject: Preparation of the Council ("Competitiveness") of 18-19 February 2013
Action Plan for Entrepreneurship
– Presentation by the Commission
– Exchange of views

Delegations will find attached a discussion note and a set of questions on the Entrepreneurship 2020 Action Plan. The present text reflects the outcome of discussions by the Working Party on 31 January 2013.

Competitiveness Council
19 February 2013
Discussion Note – Entrepreneurship 2020 Action Plan

Background

At the Informal Competitiveness Council on 19 July 2012, discussions focused on various aspects of entrepreneurship, including the difference that entrepreneurship education can make for young people and for society as a whole, the role of women as a source of unexploited economic growth, and the importance of a second chance for honest failed entrepreneurs. This note informs on the present state of play in relation to entrepreneurship policy in the EU.

It is vital that Europe has more entrepreneurs to bring us back to growth. Entrepreneurship is a powerful driver of economic growth: it creates new companies and jobs. Entrepreneurship makes economies more competitive and innovative. Without the jobs from new firms, net employment growth would be negative: new companies, especially SMEs, create over 4 million new jobs every year in Europe. In fact, 85% of new jobs in Europe are created by SMEs.

Yet since 2000, the share of Europeans preferring entrepreneurship to being an employee has dropped: while in 2009 for 45% of Europeans entrepreneurship was their first choice, now this percentage is down to 37%¹. By contrast in the USA and China this proportion is much higher: 51% and 56% respectively. Moreover, when new enterprises are founded, they grow more slowly in the EU than in the USA or emerging countries, and fewer of them join the ranks of the world's largest firms².

¹ EU Commission Flash EB No 354 "Entrepreneurship"

² Strikingly, Europe's corporate giants include only 12 companies born in the second half of the twentieth century, against 51 in the US and 46 in emerging countries; of these, only three were created after 1975 in Europe, compared with 26 in the US and 21 in emerging markets. T. Philippon, N. Veron, Bruegel Policy Brief 2008/1.

The Commission adopted, on 09 January 2013, the Entrepreneurship 2020 Action Plan to boost entrepreneurship throughout Europe. A public consultation was held on possible proposals for inclusion in the Action Plan over the summer/early autumn 2012. Overwhelmingly positive responses were received, both from individual entrepreneurs and citizens, as well as from business support organisations.

Key Proposals of the Action Plan

The Action Plan brings together proposals for action at European, national, and regional levels to jointly unleash Europe's entrepreneurial potential. It is an undertaking on which the European Commission and the Members States' national, regional and local administrations have to embark together and for the long haul to bring about a lasting change.

The Entrepreneurship Action Plan is a blueprint for decisive action to unleash Europe's entrepreneurial potential, to remove existing obstacles and to revolutionise the culture of entrepreneurship in Europe. Investment in changing the public perception of entrepreneurs, in entrepreneurship education and support groups that are underrepresented among entrepreneurs, is essential if we want to create enduring change. Only if a large number of Europeans recognise an entrepreneurial career as a rewarding and attractive option will entrepreneurial activity in Europe thrive in the long term.

The Entrepreneurship 2020 Action Plan is built on **three main pillars**:

Pillar I - Entrepreneurial **education and training** to support growth and business creation, to give our young the necessary entrepreneurial knowledge and skills and educate the future generations of entrepreneurs;

Europe-wide introduction of entrepreneurial education: Investing in entrepreneurship education is one of the highest return investments Europe can make: research shows that pupils and students that participated in entrepreneurship education are 3 to 6 times more likely to start a business at some point later in life than those who do not receive entrepreneurship education.

Furthermore entrepreneurship education significantly increases the employability of young people, whether or not they choose to start their own businesses. In the same vein, the role of higher education in entrepreneurship goes far beyond the delivery of knowledge to participating in business ecosystems, partnerships and industrial alliances. With high-tech and high-growth enterprises increasingly becoming a focus of entrepreneurship-related public policies, higher education institutions are an active component of Member States' and EU's innovation policies.

Pillar II - Creating an **environment where entrepreneurs can flourish and grow**; where the public administration 'effectively helps entrepreneurs or minimises obstacles to business'.

This Pillar covers six areas:

- **Access to finance**

Access to finance constitutes one of the most significant constraints on growth and entrepreneurship in Europe. Entrepreneurs have particular difficulties in raising finance in the early stages of their businesses, especially in the current crisis. Therefore an expansion and strengthening of financial instruments for entrepreneurs is a key building block of support for entrepreneurs.

- **Support for entrepreneurs during the business lifecycle**

About 50% of new businesses fail during their first five years as businesses often lack an appropriate ecosystem to help them to grow. Given their limited resources and experience, small and newly created businesses suffer more from high compliance costs arising from complex tax legislation and cumbersome tax reporting procedures than large corporations do. In addition, in most of the EU, the legal frameworks for social security of self-employed persons differ substantially from that for the employed.

- **Unleashing new business opportunities in the digital age**

Web entrepreneurs constitute a specific category of entrepreneurs who create new digital services and products that use the web as an essential component. Web start-ups tend to grow faster than other businesses and scale exponentially, but they also tend to fail faster, which translates into higher rewards but also higher risks. Web start-ups are cheaper to set-up and the entry barriers are low, making them an attractive vehicle to start an entrepreneurial career. For these reasons web entrepreneurs require tailored support measures to structurally strengthen the web start-up ecosystem.

Investing in digital technologies is no longer a choice: companies can nowadays only be competitive when they embrace the digital world. Digital entrepreneurs are those entrepreneurs that fully exploit digital products and services, including "cloud computing", to reinvent their business models and sharpen their competitiveness. The EU initiatives "Smart use of information technologies and the integration of SMEs in global industrial value chains", and e-Skills will promote the uptake of digital technologies and connect SMEs to the digital world.

- **Bankruptcy procedures and a second chance for honest entrepreneurs**

Evidence shows that by far the majority (96%) of bankruptcies are due to a string of late payments or other objective problems – they are, in other words 'honest failures', without any fraud by the entrepreneur. Yet research shows that 'second starters' are more successful and survive longer than average start-ups; they grow faster and employ more workers. Thus, a failure in entrepreneurship should not result in a 'life sentence' prohibiting any future entrepreneurial activity but should be seen as an opportunity for learning and improving.

- **Transfers of business**

Every year approximately 450,000 firms with 2 million employees are transferred to new owners across Europe. Yet it can be so difficult to make a business transfer that an estimated 150,000 companies with 600,000 jobs may be lost each year. The main hindrances are regulatory or tax burdens, lack of awareness of necessary preparations and of transparent markets for such transactions, and the long time periods needed to comply with formalities. Would-be entrepreneurs should know that the acquisition of a 'going concern' may be an attractive alternative to starting a new business. Transfers should be made easier for both the entrepreneur who wishes to pass on his or her business and the acquirer.

- **Administrative simplification**

Entrepreneurs should be the 'normal customer' for whom administrations benchmark their procedural requirements and yet nearly three-quarters of Europeans consider it too difficult to start their own business because of administrative complexities. Many more complain about heavy regulatory burdens imposed on the running of a business. Reducing regulatory burden thus remains at the top of the Commission's political agenda.

Pillar III - Promoting **role models and reaching out to specific groups** whose entrepreneurial potential is not being tapped to its fullest extent or who are not reached by traditional outreach for business.

Besides bringing about new perceptions about entrepreneurship, publicly celebrating success, bringing the contributions of entrepreneurs to European prosperity to the fore and showcasing the rewards of an entrepreneurial career through the examples of successful entrepreneurs, this Pillar aims at **realising untapped entrepreneurial potential** by reaching out to and including specific groups into entrepreneurship support and development - **women, seniors, migrants, unemployed and young people**. These groups are currently underrepresented among entrepreneurs or face specific challenges accessing support for their businesses. For example women constitute one third of all entrepreneurs but 52% of the total EU population, migrants are according to the OECD more entrepreneurial than natives and for unemployed people entrepreneurship can be an alternative to a salaried job.

Structural, cultural, educational and other reasons have impeded their increased entrepreneurial engagement. Given the current crisis, Europe cannot afford to forego any entrepreneurial talent. Therefore, it is imperative to integrate these groups much more into existing support schemes or – where appropriate – create specific schemes.

Examples of Commission actions to boost entrepreneurship by the mentioned groups are:

- Establishment of an on-line, Europe-wide educational, mentoring, advisory and business networking platform for women entrepreneurs.
- Development of schemes to help senior entrepreneurs and executives share their experiences and good practices with young entrepreneurs.

- Provide technical assistance through the European Social Fund, among others, on setting up support schemes for young business starters and social entrepreneurs.
- Launch of a microfinance facility within the Programme for Social Change and Innovation in 2014 for vulnerable groups including persons who have lost or are at the risk of losing their jobs.

The Action Plan and its key actions will be tracked by the Commission through the competitiveness and industrial policy and the Small Business Act governance mechanisms. The network of National SME Envoys shall and the EU SME Envoy will play a key role in ensuring progress on the proposed measures. Member States will be invited to report on progress on the key actions of the Action plan at national level in the context of their National Reform Programmes in the framework of the European Semester.

Questions for discussion:

1. How will the Entrepreneurship 2020 Action Plan influence entrepreneurship policy development in Member States (national strategies and reforms) and how will it interact with other EU programmes?
2. What pillar contains the most important areas of action for the entrepreneurial culture and entrepreneurs in your country?
3. Are there specific initiatives within Member States, aimed at increasing and promoting entrepreneurship, that have shown positive results?