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COVER NOTE

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PART 1/8

COMMISSION STAFF WORKING DOCUMENT

Reindustrialising Europe

Member States' Competitiveness Report 2014

Commission staff working document

Reindustrialising Europe

Member States' Competitiveness Report 2014

SWD(2014) 278 final

A Europe 2020 Initiative

EN

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Foreword by Commissioner Nelli Feroci

Europe has gone through a long economic crisis and although growth has returned, it remains low and fragile. But Europe has not stood still. The preconditions for growth have been improved by the structural reforms that the Member States have undertaken. These reforms have been contributing to the growth potential of our continent, creating the conditions for more sustainable and balanced growth, leading to a viable improvement in employment and standards of living.

The purpose of this annual report drafted by the Commission — pursuant to Article 173 of the Treaty — is to review and compare the industrial performance and policies of the EU as a whole, and of individual Member States. It builds upon the country-specific recommendations and other work done under the 2014 European Semester. This report serves the monitoring of policy and performance, in particular focusing on deeper microeconomic analysis. I hope the report will help policy makers to focus on obstacles to growth, and to learn lessons from good practices in other countries.

Despite considerable differences in the performance and policies of Member States, many problems are common. Examples include lack of investment, access to finance, access to markets, the price of energy, and the need for structural change – these questions are in the forefront of policy-making in most Member States.

I would like to emphasise that industry, and services linked to industrial products are major contributors to our economies, in particular to exports. This why the EU aspires to increase the share of industry's contribution to EU GDP to 20%. A strong and diversified industrial base that is competitive on a global scale requires a skilled workforce, innovative firms, and investment in the future. But it also needs an environment that allows it to flourish, including an efficient and effective public administration.

Europe can contribute by making the single market work better, by providing a level playing field and common rules for all firms, and by helping the Member States to reform. Only by improving our performance and reforming our structures can we achieve the strengthening of our industries, and through that higher growth and more jobs.

Ferdinando Nelli Feroci

Member of the European Commission

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Investment for improved competitiveness

This annual report is prepared by the European Commission in light of Article 173 of the Treaty on the Functioning of the European Union, which directs the Union and the Member States to ensure that the conditions necessary for the competitiveness of the Union's industry exist. The report complements the documents of the European Semester process by reviewing and comparing the industrial performance of the Member States and the EU as a whole. The comparison is based on indicators in the areas of investment and access to finance; innovation and skills; energy, raw materials and sustainability; and access to markets, infrastructure and services. The report also covers the implementation of European industrial policy and focuses in particular on growth-friendly public administration.

The European economy has been slowly recovering, but faces headwinds. Stronger domestic and export demand are needed, but after the crisis the question is whether European industry is in a position to benefit from these. Looking at investment, we can only arrive at one conclusion — **additional investments are needed across all sectors to ensure that, post crisis, European industry can continue to compete with other regions of the world.** For this, both financial resources and healthy domestic and foreign demand are necessary.

The share of gross value added invested by non-financial corporations is now 15 % lower that at the outset of the crisis. While investment in intangible assets has returned to the pre-crisis level, investment in equipment continues to suffer in most Member States. Although the latter is projected to strengthen as the economic outlook improves, its sluggishness and **unresponsiveness to policy measures** risks acting as a brake on growth. To achieve the growth currently forecast (see section 1.1.1), additional private credit of EUR 225 billion will be needed in 2014-2016.

Thus it is essential that the **lack of credit** observed in many Member States does not stifle the recovery. Financing conditions vary significantly across the euro area, with bank lending available for solid SMEs in countries that have been less affected by the banking crisis. However, the internal market for bank credit remains fragmented, as shown by the wide interest rate differentials — despite recent signs of stabilisation — between the more and less affected countries,. To address this situation, most Member States have adopted measures to strengthen loan guarantee systems, and many are facilitating both access to and transfer of financial information.

Access to alternative financing sources has improved in many Member States. Although direct access to capital markets is mostly limited to large businesses, efforts have been made to improve access to the corporate bond and alternative funding markets, and to facilitate the listing of SMEs.

To overcome the lack of credit flows, in June 2014 the ECB took a series of monetary policy measures and signalled that it is ready to use unconventional instruments if necessary. **The favourable monetary policy environment makes it easier for the banking system to make credit available to businesses, and for companies to use credits for investment,** so that the industrial investment needed can materialise. Without this investment, an industrial renaissance in Europe will be difficult and the relative competitiveness of other regions will increase.

Supporting industrial renewal

Thanks to the quality and innovative nature of many of their goods and services, European firms have largely maintained their competitiveness in international terms. Exports to outside the EU have recovered well, and the trade surplus with the US is increasing and the deficit with Japan shrinking. **Access to markets and integration into global value chains are crucial elements of competitiveness in this context**. Investments and innovation drive improvements in external competitiveness, contributing to higher added value and new products and services.

The single market provides growth and innovation opportunities for European firms, in particular SMEs. Its good functioning is essential. However, over the next decade some 90 % of new global demand will be generated outside Europe, which makes the internationalisation of firms an indispensable element of policy strategies at both national and European levels. In many Member States businesses, and in particular SMEs, have **difficulty in accessing foreign**

markets, both for buying inputs for production and for exporting their products and services.

Many Member States have stepped up their support for SMEs that operate in export markets, for example by increasing trade financing and the provision of market information. The EU promotes the internationalisation of SMEs through diplomatic missions and specific support measures. The overall objective of the EU's internationalisation strategy is to achieve greater synergy between national and EU-level support.

Global sourcing has bound industrial firms more tightly into complex international value chains. To capture value, **firms need strategies that combine product, service and process innovation. To support this, policy should remove barriers to innovation, in particular by small and medium-sized firms.** A stable macroeconomic environment reduces uncertainty about demand for new products and services, improved access to finance helps investment, and healthy competition and a favourable regulatory environment keep the costs of inputs in check. Many Member States are increasing demand for innovative products and services through public procurement initiatives.

Many also invest considerable amounts in research and innovation, but have not been able fully to commercialise these investments. Other Member States have made only slow progress towards building a more knowledge-intensive economy. This is because their research and innovation systems are weak due to low investment, and cooperation between the scientific community and businesses is insufficient.

Systems for fostering innovation should be improved in a balanced way that **addresses all the inputs needed for innovation**. To achieve value for money in an environment of scarce resources, investment in research and innovation needs to be done more efficiently and to become more effective in producing outputs. Above all, it should result in more high value-added products and services.

In many Member States people with the right talents cannot be recruited despite competitive wages. These shortages can reflect factors other than skills, such as unattractive working conditions, poor recruitment policies and lack of labour mobility. Most governments give financial incentives for employer-provided training, particularly where skill shortages are common or for groups with high inactivity rates. Even in countries where the education and training systems are performing well, there are ways to **improve the matching of skills with the changing requirements of the workplace**.

The EU has proposed a number of measures that facilitate cross-border mobility, match qualifications to the skills base, anticipate and manage industrial change at regional level and improve the availability of inter-disciplinary skills.

Further work is needed in many Member States to get employers to develop effective recruitment strategies and create attractive working conditions and the learning opportunities that are essential for successfully upgrading skills. In addition, there is potential in many Member States to **increase the use of the dual system**, which combines apprenticeship in a firm with education at a vocational school**.**

Competitive inputs: energy, raw materials, services

Gas and electricity markets are being gradually opened up to competition. At the same time, electricity generation is being decarbonised, leading to growth in generation of wind and solar power. However, electricity prices vary considerably between Member States. **In some Member States the high cost of energy poses a challenge to some parts of industry and targeted adaptation strategies could be useful**.

Europe has made progress in improving its energy efficiency as energy intensity decreased by about 24 % between 1995 and 2012. A structural shift towards a greater role for services and high value-added manufacturing is helping as these consume less energy and produce less CO2.

The Commission's proposal for an integrated climate and energy policy framework for 2020-30 seeks to ensure regulatory certainty for investors and a coordinated approach among Member States. The goal is to decouple economic growth from resource use and its environmental impacts, by building on long-term strategies addressing climate change, energy, transport, and broader resource challenges. The 2030 strategy seeks to lower CO2 emissions, build a competitive and secure energy system, ensure affordable energy for all consumers, increase the security of energy supplies, reduce dependence on

energy imports and create new opportunities for growth and jobs.

High volatility in the prices of non-energy raw materials over the past decade has led to a greater focus on **promoting technologies that increase investment in the EU's natural assets**. A number of Member States have formulated national strategies to improve the governance of domestic exploration, extraction and processing of raw materials.

Business services are important inputs for companies, but market fragmentation, international competition and lack of innovation hamper their development. Many Member States have adopted measures to improve the functioning of the internal market in regulated professions, but in some there is room for further improvements.

Progress in improving EU **infrastructure** has been mixed. Transport infrastructure is improving in the new Member States, but for transport and logistics further work is needed to create a real single market. To develop an internal market in energy, the difficulties in establishing interconnections between networks need to be rapidly overcome and investment in energy infrastructure increased. Innovative businesses need broadband coverage to be available throughout the EU.

A public administration supportive of business and competitiveness

The quality of public administration is an important driver of Europe's competitiveness. The key features of public administration for competitiveness are the costs and uncertainty firms face in dealing with the administration and its effectiveness in defining and implementing policies and providing public services. A stable, transparent and predictable regulatory framework that respects the specific needs of SMEs also promotes growth.

Good governance, and strategic, budgetary, regulatory and implementation capacities, are crucial to anchor the incipient recovery and cope with future challenges. Besides leading strategic policy-making and achieving their policy objectives, governments need to be capable of promoting a growth-friendly mix of expenditure and revenue measures while respecting their fiscal commitments.

Business-friendly design includes more streamlined and simpler procedures, especially for starting a company, applying for licences, paying taxes, participating in public procurement, exporting goods and services and settling legal disputes. This frees up businesses to spend more time on their core activities, including investment and innovation. Using information and communication technologies, in particular, helps to make public administrations more efficient and cost-effective by changing the way they deliver public services, streamlining administrative procedures and lowering transaction costs.

In several Member States, inefficient public administrations, ineffective justice systems and legal uncertainty remain major obstacles to competitiveness and growth. While the importance of undertaking reforms has been recognised, and some far-reaching measures have been launched in recent years, additional efforts are still required.

To achieve the EU policy's objectives, taking competitiveness concerns into account in other policy areas is essential. The basic tool for doing this is the consistent and rigorous use of **competitiveness proofing** techniques for all rules affecting businesses, and making this proofing an integral part of a wider impact assessment process. Furthermore, regular checks on the fitness for purpose of existing legislation would help to maintain and improve the quality of regulation at both European and national levels.

Member States' progress towards greater competitiveness

How much progress are the Member States making towards increasing their competitiveness? Based on three indicators of output in the past five years — labour productivity, exports, and innovation — we have assessed their current level of competitiveness as follows:

Member States with strong and improving competitiveness in all three dimensions: Denmark, Germany, Ireland and the Netherlands.

Member States with strong but declining competitiveness: Belgium, France, Italy, Luxembourg, Austria, Finland, Sweden and the United Kingdom. Most of these countries had a high starting point in 2008 but have since seen their labour

productivity and external competitiveness deteriorate. This decline should be addressed.

Member States with modest but improving competitiveness: Czech Republic, Greece, Spain, Estonia, Latvia, Lithuania, Hungary, Poland, Portugal, Romania and Slovakia. These countries have been successful in improving their performance and narrowing the gap with the stronger Member States on at least two of the three indicators. However, many of them still perform relatively poorly on productivity and innovation.

Member States with modest and declining competitiveness: Bulgaria, Croatia, Cyprus, Malta, Slovenia. Countries in this group should focus on restoring the competitiveness of their economies since they suffer from both relatively poor performance and limited improvement. They are not closing the gap with the strong performers.

The three output indicators (labour productivity, exports and innovation) are influenced by a series of input indicators. These include how easy it is to access finance; the availability of inputs to innovation, including skills; the availability of material inputs like energy, raw materials, and their sustainability; and access to markets, infrastructure and business services. The performance of these input indicators, and the policies related to them, are reviewed in chapters 1.1 to 1.6.

The performance and policies of public administration in the Member States is reviewed in section 2. Performance at Member State level is reviewed in section 3. The methodological details of the indicators used are explained in section 4.

1.1. Introduction

1.1.1 Recovery from the crisis

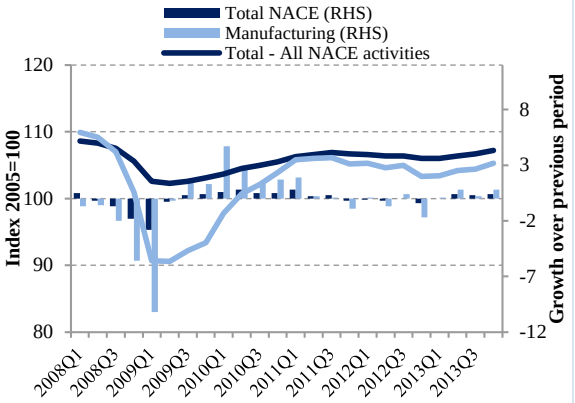
The 2014 Communication on industrial policy ([1]) highlighted the role of industry in fostering recovery and competitiveness. While EU industry has proved its resilience in the face of the crisis by remaining a world leader in sustainability and contributing significantly to the current account surpluses, less is known about the impact of the crisis in relation to the capacity of industry to maintain a sustained and accelerated growth path in the future.

Growth is returning, but improvements are needed

The EU28 returned to growth in 2013, with a year-on-year improvement of 0.1 %. Following a sluggish start in the first quarter, the economy grew by 0.4 % per quarter during the rest of the year. Despite this, European GDP stands at 98.3 % of the pre-crisis level (first quarter of 2008). During this time the US economy has grown at a much faster pace and surpassed its pre-crisis level already in the fourth quarter of 2010. In 2013 the OECD grew at 1% with some developed economies growing at an even faster pace (i.e. Japan at 1.5%, the US 1.9%; Australia 2.4% and Korea at 3.0%). Moreover, since the start of the crisis, the growth of total factor productivity in the EU has lagged behind that of the US and the gap between the two economies is widening.

In 2013, manufacturing outperformed other sectors of the economy (figure 1.1.1). From December 2012 to December 2013, manufacturing production grew by 1.0 %, approaching the level of 2010. But production is still far below the pre-crisis peak. Growth was high for intermediate goods (3.7 %), and to a lesser extent for capital goods (0.7 %), while production of energy and durable consumer goods decreased in 2013.

Figure 1.1.1: EU 28 Gross value added evolution for selected branches



Source: Eurostat

Despite these signs of recovery, the share of manufacturing remains below the 20 % target ([2]) as set in the Communication. While there might be some controversy about the feasibility of the target, it is certainly possible to reverse the downward trend.

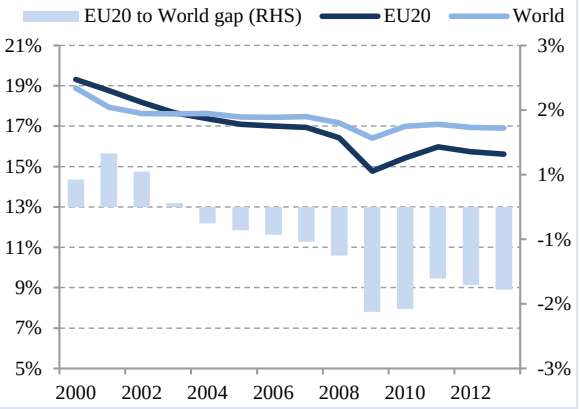
While in 1995 the share of manufacturing ([3]) in the EU was slightly higher than that of the world as a whole, since 2002 the situation has reversed. Now the share of manufacturing is below that of the world average (figure 1.1.2). Moreover, this gap has been increasing, which is a sign of relative deindustrialisation in the EU.

([1]) For an European Industrial Renaissance, COM(2014) 14

([2]) The target is described in the Communication as contribution of industry to GDP. However, the indicator actually used to measure the achievement of this target is the share of manufacturing on total gross value added.

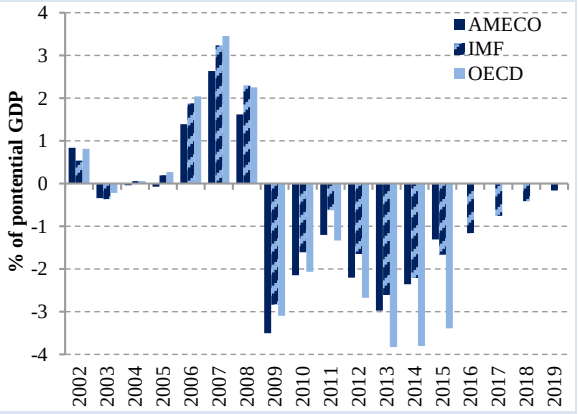
([3]) The IHS dataset used for this analysis only provides figures for 20 Member States (AT, BE, BG, CZ, DK, FI, FR, DE, GR, HU, IE, IT, NL, PL, PT, ES, RO, SE, SK and UK). These countries represent 98.4% of the EU28 industry´s GVA (2013Q3).

Figure 1.1.2: Share of manufacturing in total GVA for EU28 and the world



Source: European Commission; IHS

Figure 1.1.3: Euro area output gap (% of potential GDP)



Source: European Commission; OECD; IMF

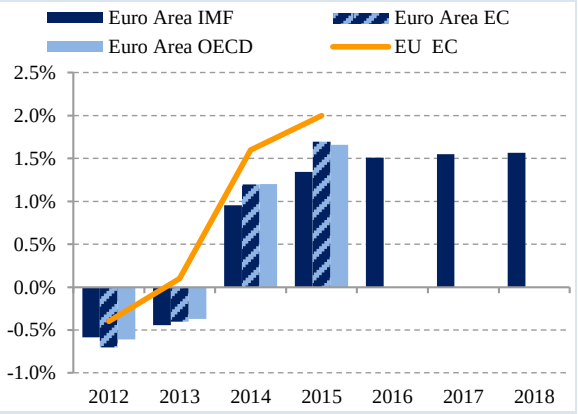
Outlook is positive but more could be done

Forecasts by international organisations ([4]) indicate that the conditions for sustained recovery in the medium term are improving. Domestic demand is firming up as the main driver of growth, compensating for the decrease in export-led growth. Employment in industry has started to grow. The forecasts imply that bank deleveraging will continue in 2014, acting as a barrier, and net credit to the private sector will only start flowing in 2015.

Estimates of the gap between potential and real output ([5]) show that output could have been up to four percentage points higher for the euro area in 2013. This gap is expected to remain for several years (figure 1.1.3).

These forecasts point to moderate growth for the EU in the next two years([6]). All the available three forecasts for the euro area show growth remaining well below 2 %. Although the growth for the whole EU is estimated to be consistently higher, it is not likely to hit 2 % until 2015 (figure 1.1.4).

Figure 1.1.4: GDP growth forecasts (euro area and the EU)



Source: European Commission; OECD; IMF

Faster growth is a necessary condition to reverse the downward trend in the share of manufacturing – however, it is only one of the factors making it possible. The negative output gap indicates that growth could be further accelerated without putting price stability at risk.

In order to close the gap, considerable investment in capital stock, increased labour use and higher total factor productivity are required. In particular,

([4]) IMF World Economic Outlook October 2013, EC Spring 2014 European Economic Forecast and OECD Economic Outlook No 95 May 2014.

([5]) The output gap is defined as the difference between actual output and potential output, where potential output is understood to be the maximum non-inflationary level of output.

([6]) The lastest figures for actual GDP growth (Q2 2014) show that even the limited forecasted growth might be too optimistic.

industry can contribute through higher investment and innovation, leading to increased employment.

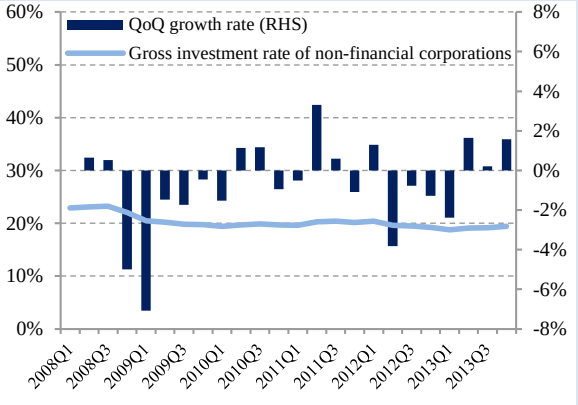
1.1.2 Investment and competitiveness

1.1.2.1 Investment performance

The 2012 Communication on industrial policy ([7]) identified investment as the key indicator for recovery. The overall level of investment determines how quick the recovery is; and the distribution of investment across sectors affects their competitiveness. Thus investment determines the capacity of industry to recover, grow and contribute to innovation.

The recent trend in investment by non-financial corporations suggests that the EU economy has not reached the point where investment can promote growth at an increasing pace. The level of investment by non-financial corporations is now 15 % lower than at the outset of the crisis, while profits remain more or less stable (figure 1.1.5).

Figure 1.1.5: Share of investment over GVA for non-financial corporations

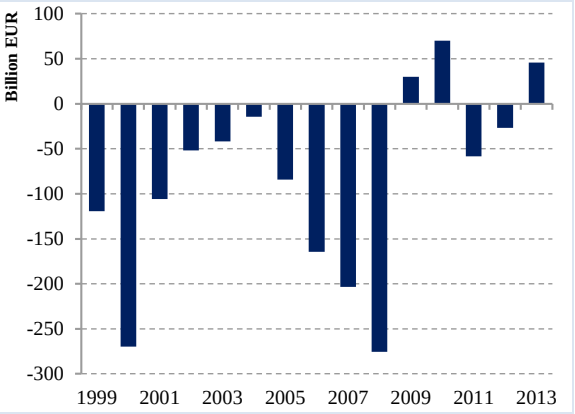


Source: Eurostat

The ratio of investment to profits also fell by 12 % during the period. However, the downward trend seems to have stopped in 2013, as investment grew by 1 %. The development of investment in the past helps to understand how it can contribute to recovery in the future.

The low level of investment by European industry can be explained by a series of factors. First, during the crisis, non-financial corporations moved from a net borrowing position to net lending, deleveraging their balance sheets (figure 1.1.6).

Figure 1.1.6: Euro area net lending (+) / borrowing (-) requirement



Source: European Central Bank

Second, after the credit bubble burst, the external financing environment for the euro area´s corporate sector deteriorated, as banks curbed lending to riskier customers, which contributed to the decline in investment. Finally, the reduction of the marginal lending interest rate by the ECB since 2012 has not fully fed through into reductions in interest rates for non-financial corporations. This highlights fractured link between monetary policy rates and lending rates to businesses (figure 1.3.2). Recent developments in accessing finance are described in chapter 1.3.

Manufacturing investment for growth

The recovery of manufacturing in Europe will depend on how much companies are willing to invest. The European share of total world investment in manufacturing declined from 40 % in 2005 to 25 % in 2013 ([8]) (a 37 % reduction). A similar trend was visible in Japan and the US, as their share decreased, by 35 % and 19 % respectively. This loss of share in world investment is mostly due to an increased capital accumulation in emerging economies, but the absolute investment levels in Japan and the EU have

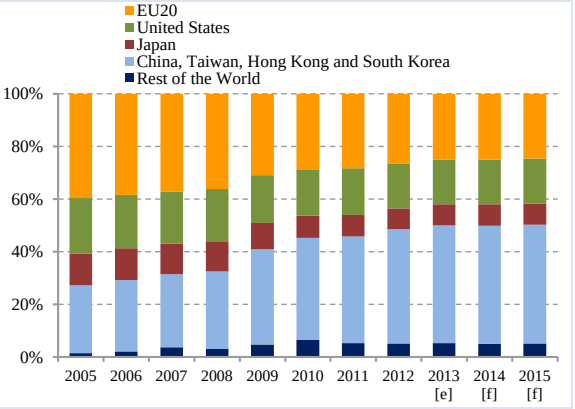
([7]) COM(2012) 582 final. A Stronger European Industry for Growth and Economic Recovery.

([8]) The IHS World Industry Service database defines investment as Capital Expenditure (CapEx). It includes investments made by establishments operating in that sector during the reference year, net of fixed assets sold. The investments cover those (whether new or used) with a productive life of one year or more. These are intended for the use of the establishments' own labour force. Major additions, alterations and improvements to existing assets that extend their normal economic life or raise their productivity are also included.

also declined by over 10 % compared to the five years before the crisis.

China, Taiwan, Hong Kong and Republic of Korea have increased their share and they are now responsible for 80 % of total world investment (figure 1.1.7).

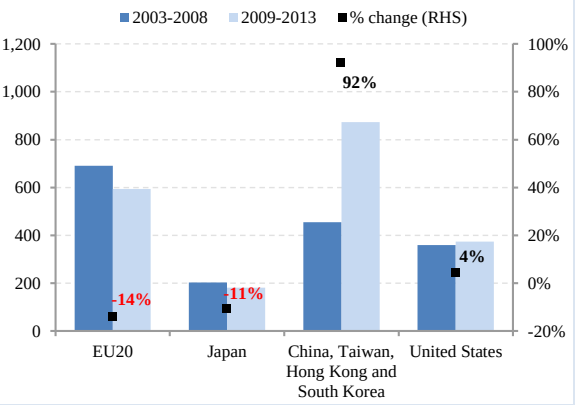
Figure 1.1.7: Share of world's total manufacturing investment by regions



Source: IHS

China and the US stepped up investment in the wake of the crisis (figure 1.1.8). Consequently, European industry is losing ground in investment compared to its main competitors.

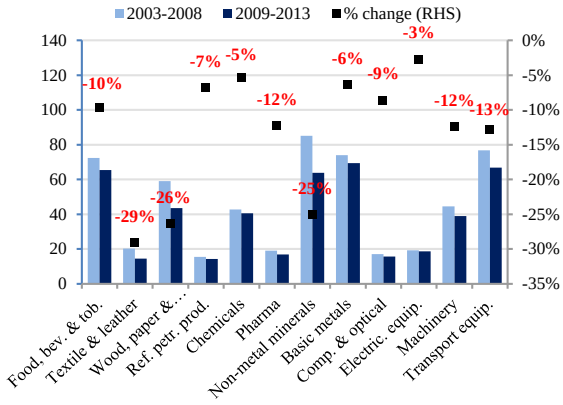
Figure 1.1.8: Average total manufacturing investment (billion 2005 EUR) by region



Source: IHS

The decrease in average investment of EUR 79 billion since 2008 has hit all sectors (figure 1.1.9), although most sectors have maintained their relative position when the global investment intensity is considered. ([9])

Figure 1.1.9: Change in average annual investment by sector



Note: Billions in constant 2005 euros

Source: IHS

([9]) Investment intensity is defined as total capital expenditure over gross output.

Table 1.1.1: Classification of industrial sectors (ISIC rev 3)

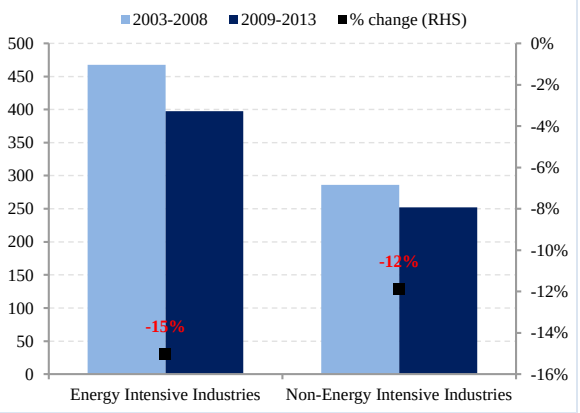
	Technology Level		Energy Intensity		Export intensity		Export growth	
	High	Low	High	Low	High	Low	High	Low
Food products, beverages and tobacco products								
Textiles, wearing apparel, leather and related products								
Wood and paper products; printing and reproduction of recorded media								
Coke and refined petroleum products								
Chemicals and chemical products								
Basic pharmaceutical products and pharmaceutical preparations								
Rubber and plastics products, and other non-metallic mineral Products								
Basic metals and fabricated metal products, except machinery and equipment								
Computer, electronic and optical products								
Electrical equipment								
Machinery and equipment n.e.c.								
Transport equipment								
Other manufacturing; repair and installation of machinery and equipment								

1.1.3 Investment dynamics by sector ([10])

Energy-intensive industries hit harder

It goes without saying that high energy prices in Europe affect energy-intensive acutely, as for these sectors energy represents a significant share of their total input costs. ([11])

Figure 1.1.10: Average annual total investment (billion 2005 EUR) in the EU20 by sectors according to energy intensity

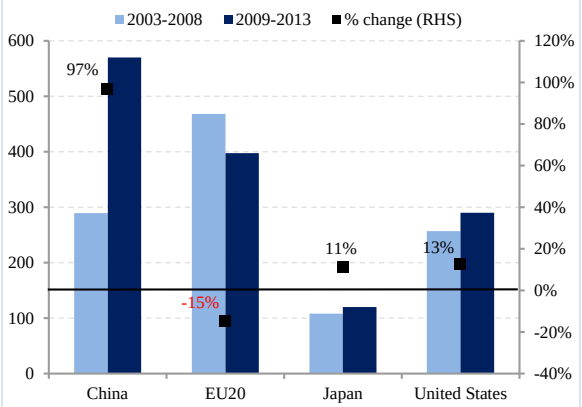


Source: IHS

In Europe, non-energy-intensive industries have invested more, in both absolute and relative terms than energy-intensive ones (figure 1.1.10). This is true for both the pre-crisis and post-crisis periods but the crisis-induced drop has been bigger for energy-intensive industries.

While investment in non-energy-intensive industries has declined in Japan, the US and the EU, investment in energy-intensive industries has only dropped in the EU (figure 1.1.11). The lower US gas prices due to shale gas have attracted investment by energy-intensive industries, and increases in Japan might be related to the additional investment needed to recover from the earthquake and tsunami in 2011.

Figure 1.1.11: Average annual total investment of energy intensive industries (2005 EUR billion) by region



Source: IHS

([10]) The classification of industry sectors is indicated in Table 1.1.1.

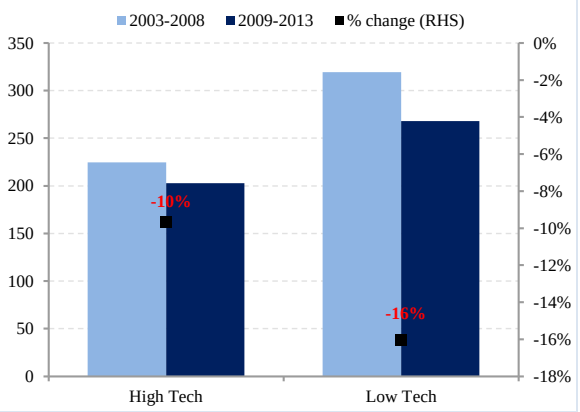
([11]) Based on the classifications of the 13 ISIC Revision 3.

However, from the analysis presented we can see that energy intensive industries in Europe have seen less investment and lower growth, which partly has been driven by higher energy prices as other world regions with lower energy prices have experienced a more positive development. The policy options of increasing the efficiency of European energy markets are explored in chapter 1.5.

Investment is resilient in high-tech

Investment in both low-tech and high-tech industries (for the classification, see table 1.1.1) fell from 2003-2008 to 2009-2013. However, the drop was smaller in high-tech as investment there rose from 70% to 76% of that of low-tech industries, despite the fact that low-tech industries are much more capital intensive (figure 1.1.12).

Figure 1.1.12: Average annual total investment (2005 EUR billion) in the EU20 by sectors according to technology intensity

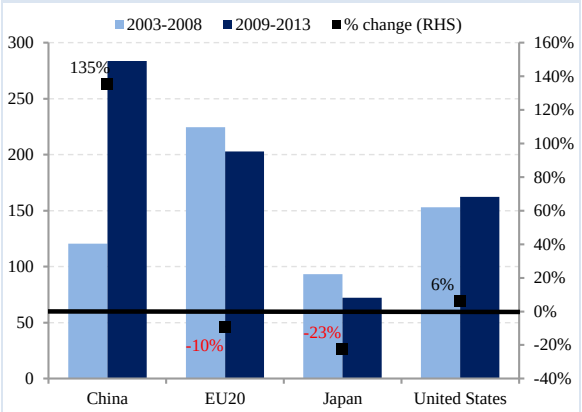


Source: IHS

Although investment in high-tech industries has been relatively more resilient, they are still losing ground compared to our main competitors (figure 1.1.13). The US and Chinese high-tech sectors have continued to increase their investment.

Again the underlying message seems clear the lower investment induced by the crisis has reduced the capacity of European high-tech industries to sustain their international competitiveness, in particular as competitors elsewhere in the world have continued to invest.

Figure 1.1.13: Average annual total investment of high tech industries (2005 EUR billion) by region

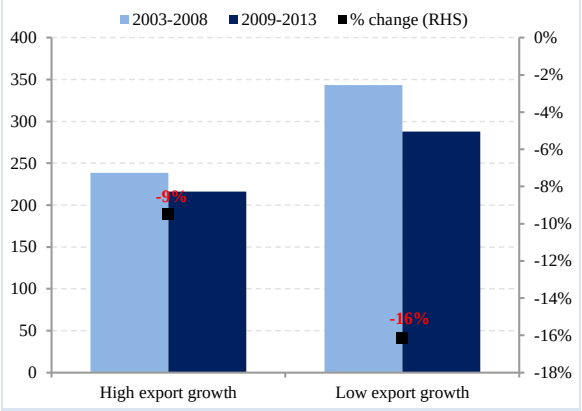


Source: IHS

Export orientation fosters investment

In the global context, it is clear from the data that European energy-intensive and low-tech industries have lost ground in terms of investment. Investment dynamics can also be reviewed in the light of export performance. Sectors that had high export growth between 2009 and 2013 have seen a much smaller decrease in investment than sectors that did not increased exports (figure 1.1.14). ([12])

Figure 1.1.14: Average annual total investment (2005 EUR billion) in the EU20 by sectors according to export growth



Source: IHS

([12]) Growth of extra-EU trade was calculated using COMEXT trade data and IHS value of production for 2009-2013. High export growth is defined as grow from 2009 and 2013 above 60%. Including also intra-EU trade two sectors fall from the high export growth list (transport equipment and basic metals) and nine others are included (other manufacturing; basic pharmaceuticals; electrical equipment; machinery and equipment; chemicals and rubber and non-metallic products).

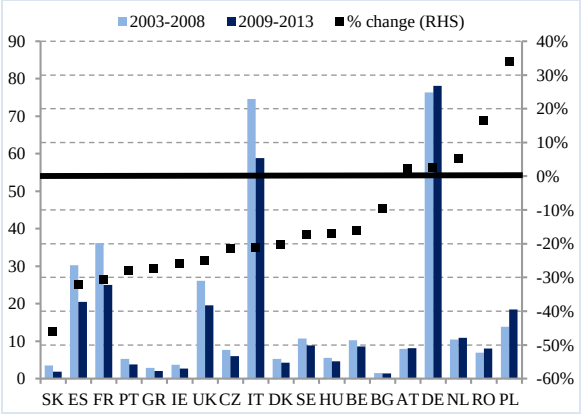
For instance, two out of the three sectors with the highest export growth, namely motor vehicles, other transport equipment, and computer and technical equipment, are also those with the highest investment growth. While no causality can be identified, some sectors do invest more in order to be able to benefit from external drivers of growth. ([13])

1.1.4 Performance at Member State level

The evolution of investment in Member States reflects their different industrial structures (figure 1.1.15). Investment has increased in only five countries (Poland, Romania, Netherlands, Germany and Austria) after the crisis. The most financially stressed countries ([14]) as well as France, Denmark, Sweden and Belgium have seen a significant decrease in investment. This diversity in performance helps to identify where additional efforts are needed to enable the industrial base to reap the benefits of higher growth.

Most policy efforts to revitalise investment have focused on restoring macroeconomic stability, easing financing conditions and improving business environments by removing microeconomic barriers to investment. For example, Luxembourg plans to create an agency to promote financing and investment, while Croatia is expanding the activities of the existing one. The United Kingdom and Italy are increasing public subsidies to support investment activities. Further, several Member States plan to support investment activities with the structural funds in the period 2014-2020.

Figure 1.1.15: Average annual total investment (2005 EUR billion) in selected Member States



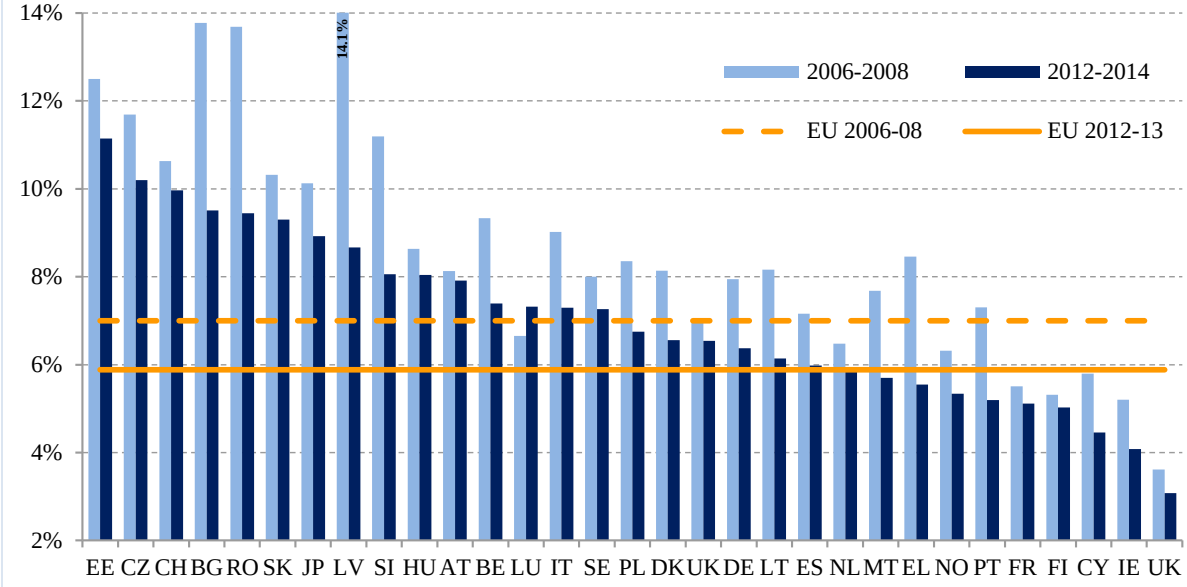
Source: IHS

Overall, firms' decisions concerning investment in equipment reflect the prevailing demand. Therefore investment in equipment is expected to strengthen as the economic outlook improves and the main impediments to firms' demand and profits (uncertainty, financing conditions, deleveraging needs) recede.

([13]) Cf. 'Product Market Review 2013 – Financing the real economy', European Commission, December 2013.

([14]) Notably, Greece, Spain, Cyprus, Ireland, Portugal, Slovenia and Italy.

Figure 1.1.16: Investment in equipment (% GDP)



Source: European Commission - AMECO; Eurostat

The investment rate in equipment is high in Estonia, the Czech Republic, Slovakia, Romania, Bulgaria and Latvia, although the latter three have seen the biggest drops during the crisis, together with Slovenia (figure 1.1.16).

Foreign direct investment

The EU28 remains an attractive destination for foreign direct investment (FDI). The increase of investment in the European Union by more than 38% in 2013 indicated a return of investor confidence. As countries in the euro-area periphery are seeking to redress imbalances and reduce their liabilities in a period of low growth, FDI is becoming increasingly important as a potential driver of growth. In particular, investment in the tradable sectors has significant potential to improve the trade balance through exports.

Within the EU, the inward investment stock is largely concentrated in the EU15 Member States. The most attractive destinations are the United Kingdom, Germany and France. ([15]) However, before the crisis, the most dynamic inward investment flows were from EU15 to the Member States that joined between 2004 and 2007. The main factors supporting these flows were geographical position, new markets and new consumers, and lower production costs. These flows have been partly reversed in the last two years, perhaps reflecting adjustment towards more balanced long-term conditions after the exceptional period of EU enlargement and strong growth. The crisis may also have revealed some weaknesses in the fundamentals of the recipient countries, thus decreasing their attractiveness.

Member States already facilitate foreign investments more than most other countries. ([16]) Given the EU's high degree of openness, the policy initiatives that can support FDI in the tradable sectors are more of a horizontal nature and linked to making the investing environment friendlier in order to foster economic growth, thereby promoting investment by both domestic and foreign companies. Although they differ between sectors and countries, measures more likely to have a lasting impact are those focusing on improving workers' education and ensuring wage moderation. Also, the quality of business-relevant infrastructure and the distance from important industrial centres have been identified as determinants in driving FDI in the tradable sector. ([17])

Still, Member States have also adopted specific measures aimed at fostering FDI. For instance, trade and investment agencies have been set up to provide information and support services to foreign companies looking to invest in Member States. They typically offer services to reduce transaction costs and facilitate information. These agencies are increasingly targeting investment promotion activities to specific groups and sectors with higher added value.

Moreover, various Member States have adopted specific measures to foster investment, both domestic and foreign. For instance, Portugal has introduced measures to encourage private investment, while the UK plans to double the annual investment allowance granted to businesses for plant and machinery until the end of 2015. Also, the Czech Republic has extended the reduced corporate tax rate to a 10 year period, from the previous 5 years.

([15]) Source: European attractiveness survey, Ernst & Young, 2014.

([16]) Cf. FDI regulatory restrictiveness index 2013, OECD.

([17]) Cf. 'The role of FDI in preventing imbalances in the euro area', Quarterly report on the euro area, volume 12 (2013) Issue 2, European Commission, June 2013.

1.2.1 Industrial performance

Manufacturing and the legacy of the crisis

The financial crisis underlined the importance of the real economy and a strong industrial base for growth and competitiveness, in order to sustain and strengthen the recovery and to achieve the goals of the Europe 2020 agenda. The interaction of industry with the wider European economic fabric extends beyond manufacturing, from upstream raw materials and energy, to downstream business services (e.g. logistics), and consumer services (e.g. after-sales services for durable goods). Industrial activities have been integrated into increasingly rich and complex global value chains, linking large corporations and small and medium-sized enterprises (SMEs) across sectors and countries.

Industry accounts for over 80 % of Europe's exports, private research and innovation. Moreover, nearly one in four private-sector jobs is in industry. These are often highly skilled and each additional job in manufacturing creates 0.5-2 jobs in other sectors. ([18]) Differences in Member States' performance were noticeable during the crisis, as can be seen from figure 1.2.1, where the share of manufacturing in GVA is indicated in 2008 (light) and in 2013 (dark).

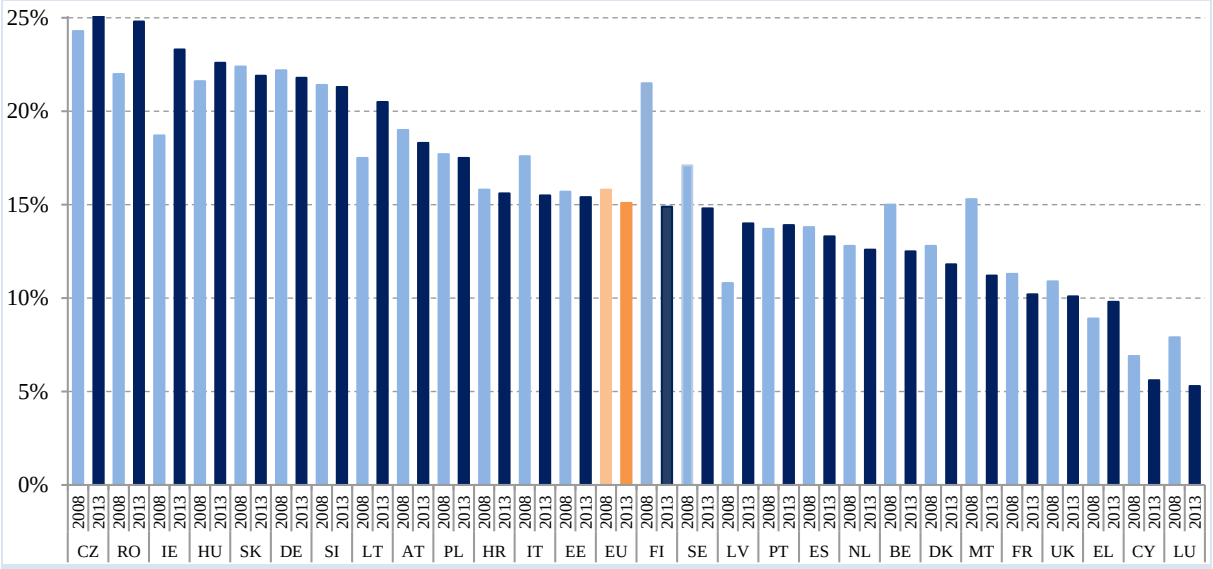
Based on the situation of the manufacturing industry, the Member States can be divided as follows: ([19])

- Member States that have experienced an increase in the relative weight of manufacturing. This group includes Ireland, Romania, Lithuania, Latvia, Czech Republic, Greece, Hungary and Portugal.
- Member States that have experienced a reduction in the relative weight of manufacturing equal to or lower than the average (-0.7 %). This group includes Austria, Spain, Germany, Slovakia, Slovenia, Estonia, Poland and the Netherlands.
- Member States that have experienced a reduction of their share of manufacturing greater than the EU average (-0.7 %). Finland, Malta, Sweden, Luxembourg, Belgium, Cyprus, Italy, France, Slovakia, Denmark and the United Kingdom belong to this group.

([18]) Rueda-Cantuche, Sousa, Andreoni, and Arto. 'The Single Market as an engine for employment growth through external trade', Joint Research Centre, IPTS, Seville, 2012.

([19]) Data for Bulgaria not available.

Figure 1.2.1: Manufacturing as a percentage of gross value added (2008 and 2013)



Source: Eurostat

Although EU industry has maintained its competitiveness, as demonstrated by the fast recovery of exports and by the increase in productivity in most Member States, nonetheless the legacy of the crisis is severe. Since 2008, 3.5 million jobs have been lost in manufacturing, and the pressure of external competition on prices has led to a deterioration of margins in a number of Member States. In addition, investment dynamics have been slowed by decreasing demand and reduced credit availability. Increasing investment is a priority as it could enhance productivity, improve external competitiveness and foster the innovation capacity of EU industry.

Member States along the output indicators

The industrial performance of Member States is reviewed here using three output indicators, namely labour productivity, exports and innovation.

- Labour productivity in manufacturing, measured by value added per person employed in manufacturing industries.
- Value of exports and growth in relation to gross value added as a proxy for external competitiveness.
- Innovation, measured by the innovation union scoreboard (IUS), as a proxy for non-price competitiveness and intensity of innovation.

These three indicators provide an assessment of relative strengths and weaknesses of Member States and allow some common patterns to be identified.

1.2.2 Labour productivity

Labour productivity indicates how efficiently the production inputs related to workforce are combined to produce goods and services, offering a dynamic measure of economic growth, competitiveness and living standards. In this section labour productivity is measured by means of value added per person employed in manufacturing and is evaluated by taking into account variations in manufacturing workforce and profitability. Figure 1.2.2 depicts labour productivity in manufacturing on the horizontal axis, while the vertical axis shows growth from 2007 to 2012. ([20]) Data for Ireland (EUR 163 607 in 2012) give the highest figure in the EU; however, as this result reflects the behaviour of a large number of foreign multinationals and contains effects of transfer pricing, it has been considered an outlier and excluded from figure 1.2.2.

The EU average was EUR 54 592 in 2012, and the average compound annual growth rate from 2007 to 2012 was 1.35 %. Countries on the right-hand side have higher levels of productivity, but many of them have seen a low rise in productivity compared to the pre-crisis level.

Member States in the upper right area (Sweden, Netherlands, Denmark, and Spain) have both above-average productivity and sustained growth despite the crisis.

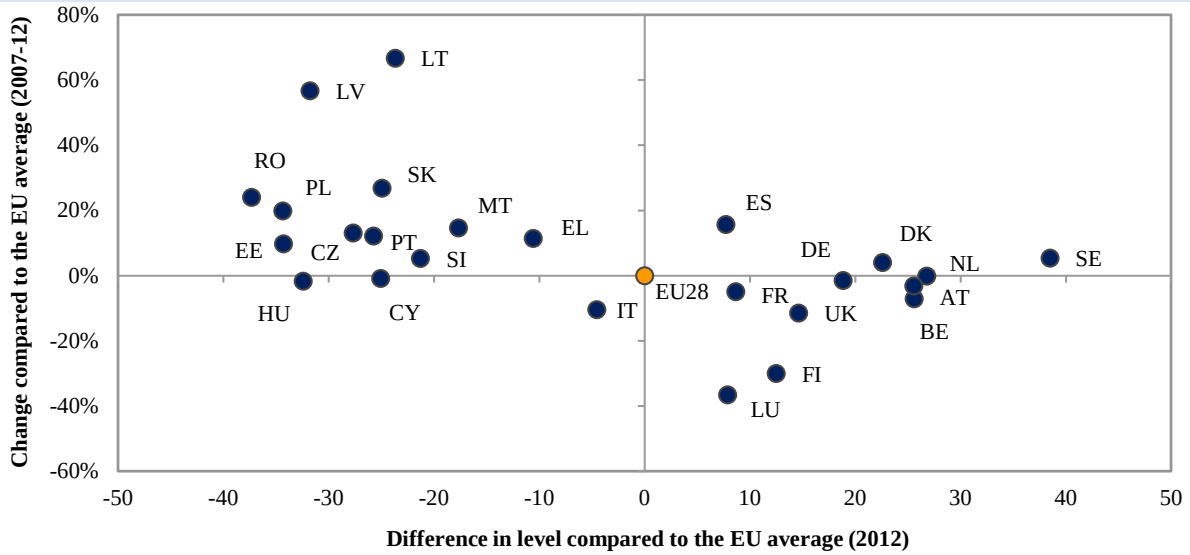
Countries in the upper left quarter show a trend of convergence of their productivity levels, which are still below average but have been growing more than the average, reducing their gap with the best performers. A number of countries in this group are catching up rapidly (Lithuania, Latvia, Slovakia, Romania, Poland, Malta and Greece).

The other Member States in this group (Slovenia, Portugal, Estonia, and Czech Republic) have also improved their performance with respect to the average; however, considering their initial level and the performance of other countries, there seems to be considerable scope for accelerating the convergence path in these countries.

Countries on the lower right quarter report consistent performance but have seen a reduction of their relative competitiveness (Austria, Belgium, Germany, United Kingdom, Finland, France and Luxembourg). Finally, countries in the lower left quarter have experienced a deterioration of their relative productivity (Italy, Cyprus and Hungary).

([20]) The choice of the 2007-2012 period has been tested for robustness over a ten year period and provides a proxy of the labour productivity trends in the Member States.

Figure 1.2.2: Change in manufacturing productivity (2007-2012)



Note: Horizontal axis = value added per person employed in manufacturing (thousand EUR); Vertical axis = difference in percentage with respect to EU compound annual growth rate (2007-2012). Data for Ireland have been excluded from this Figure, data for Bulgaria and Croatia were not available.

Source: Eurostat

Despite the encouraging overall rise in productivity in many Member States, these results are not always based on increased success in smart specialisation or extended use of key enabling technologies (KETs), nor do they stem from increased external competitiveness. In some countries, increased productivity is due to reduced production outweighed by an even larger reduction of employees in the manufacturing sectors, as shown in figure 1.2.3. Nevertheless, a recent European economic forecast ([21]) show a trend inversion and forecasts point to positive net job creation in manufacturing for 2014.

The slow rate of productivity growth in Europe has forced firms in many sectors to cut their margins to maintain their competitiveness. Only in Sweden, Ireland and Denmark, among the group of best performers, have firms been able to improve their capacity for generating surplus in manufacturing. On the other hand, in Spain firms have suffered a reduction of their margins, while in the Netherlands the variation has been lower than 1 %.

([21]) European Commission - European economic forecast, spring 2014.

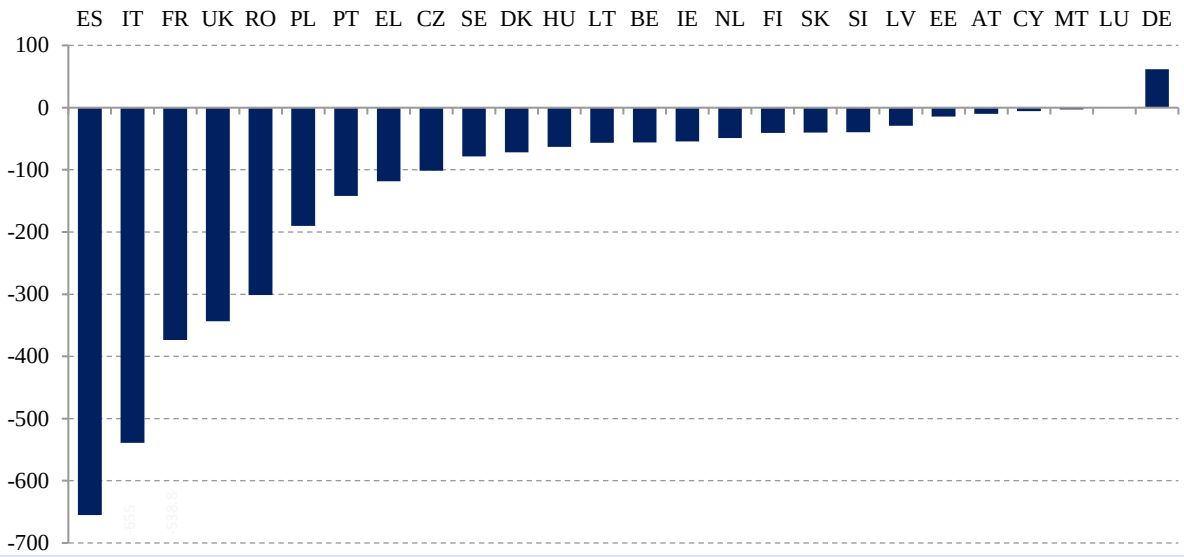
Manufacturing firms in the catching-up economies have seen a relative improvement in their profitability, except in Romania where it deteriorated. In the cluster characterised by high productivity and lower growth rates, the only countries where manufacturing firms have increased profitability are Germany and the United Kingdom, while in France, Belgium, Austria, Finland and Luxembourg gross operating surpluses have deteriorated.

Firms in Italy, Hungary, Estonia and the Czech Republic have managed to increase their margins despite the crisis, whereas this has not happened in Cyprus and Portugal.

This analysis emphasises the importance of focusing on recovering competitiveness and on the restructuring of manufacturing sectors. Many Member States have committed themselves to fostering productivity and innovation and to improving cost and non-cost competitiveness.

However, the legacy of the crisis and global competition are such that no country can afford to stand still, and policies in favour of competitiveness need to be continued.

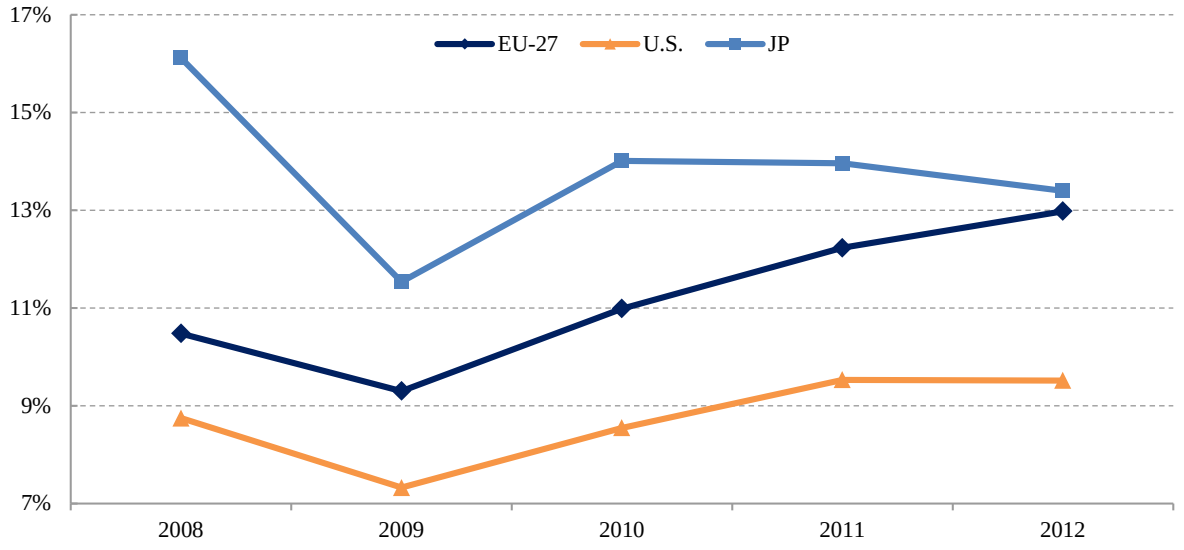
Figure 1.2.3: Net job creation in manufacturing in the Member States (2007-12; in thousands)



Note: Data for Bulgaria and Croatia not available.

Source: Eurostat

Figure 1.2.4: Export of goods (% GDP; 2008-2012)



Note: EU27 - export of goods includes only extra EU trade.

Source: Eurostat

1.2.3 Export performance

Despite the crisis, European manufacturing has maintained its overall competitiveness, driven by the high quality of, and intensity of innovation in goods and services. After a decrease of 15.8 % between 2008 and 2009, the value of exports at current prices has recovered and reached a new peak in 2013 at over EUR 5 800 billion, while extra-EU export of goods was 13 % of EU GDP in 2012. ([22]) Comparing the EU's performance with that of the US and Japan, figure 1.2.4 shows progress in external competitiveness, particularly in the case of manufacturing.

EU exports recovered faster after the crisis, widening the gap with the US and reducing the one with Japan. Accessibility of markets and integration in global

([22]) Data from The World Bank and World Trade Organisation (2014), referring to EU-27 data of 2012.

value chains are the key factors of competitiveness in this context. Nevertheless, competitors such as China have reported even higher growth, continuously increasing their share of global exports in the last five years.

With a view to boosting the external competitiveness of industry, investment and innovation are the crucial drivers of higher quality, along with new products and services. Based on export performance, Member States have been divided into three groups, depending on the size of their population.

Figure 1.2.5 shows the performance of the Member States, calculated as the GDP share of goods and services exports. The horizontal axis measures the latest available data (2012), while the change in performance (2007-2012) is measured on the vertical axis, through the compound annual growth rate. The six largest countries are indicated in red, mid-sized countries in light blue, and smaller Member States are in dark blue. ([23])

Countries on the right side with respect to the EU value are performing better than the average, while countries above the horizontal line have improved their external competitiveness.

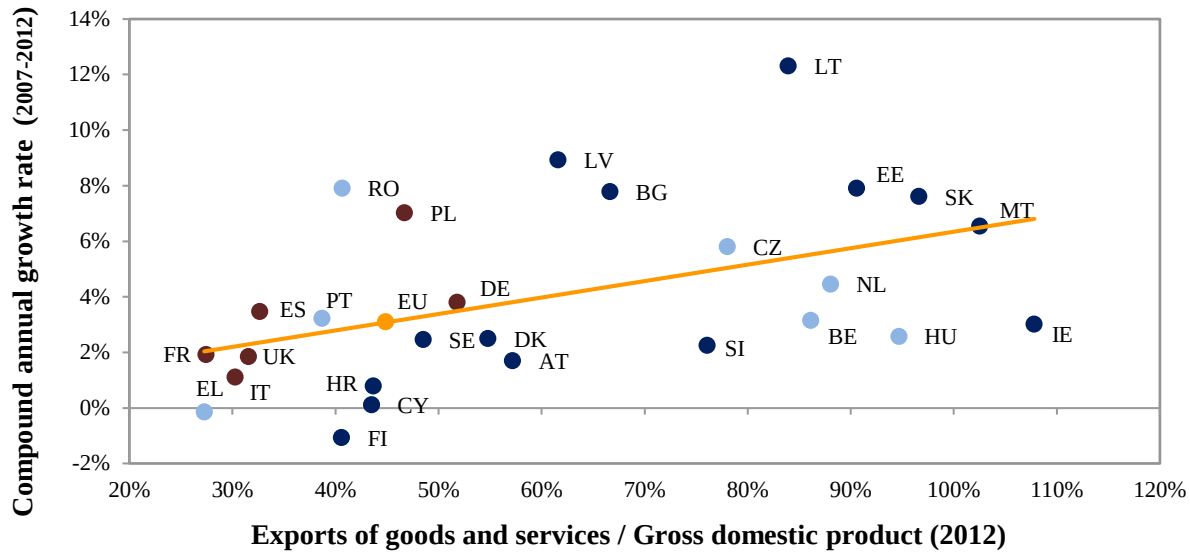
All of the six largest economies have increased their exports. Poland, Germany and Spain improved more than the EU on average. France and Italy saw modest growth and the United Kingdom performance has been in line with the average. As regards absolute performance, Poland and Germany stand out as the more open large economies.

Among the medium and small economies, exports of the Baltic countries, Romania, Bulgaria and Slovakia grew rapidly. Slovakia and Hungary are bigger exporters (producing intermediate components), whereas Cyprus and Greece are not performing well, and Finland's exports shrunk in the period.

Member States such as Finland, Greece, Cyprus, Hungary, Italy, the United Kingdom and France, in which exports performance has deteriorated during the crisis, need to increase the competitiveness of exports of goods and services, in order for the EU's industry to keep its leadership in world merchandise export.

([23]) Large countries have a population of over 30 million, mid-size ones 10 to 30 million, and small ones less than 10 million.

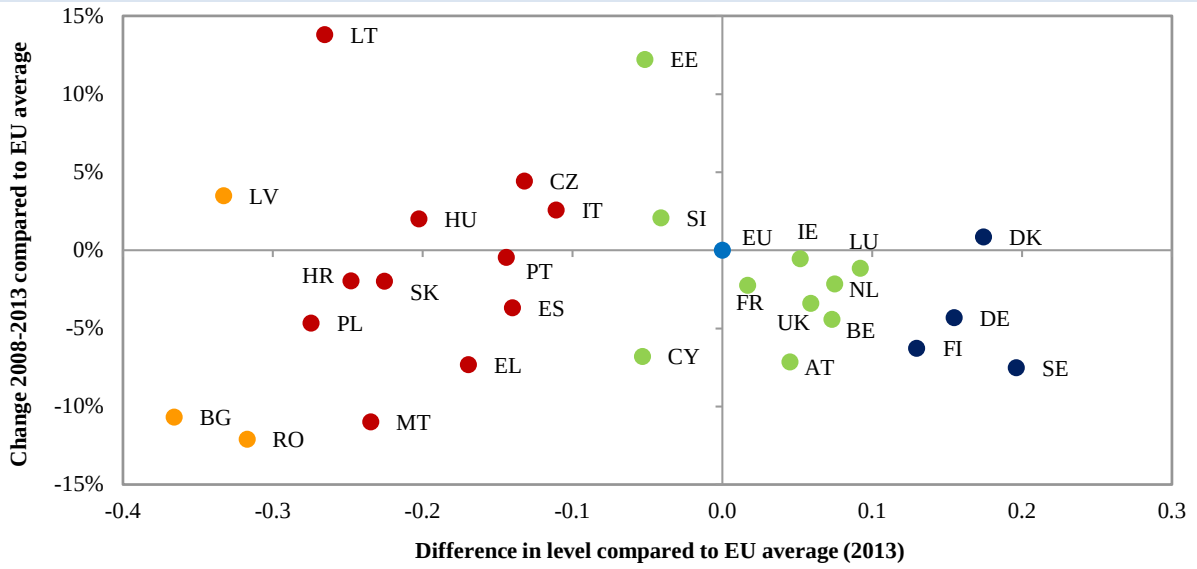
Figure 1.2.5: Export of goods and services (% GDP; 2007-2012)



Note: Data for Luxembourg were excluded from the analysis of this indicator.

Source: Eurostat

Figure 1.2.6: Changes in performance and relative innovation intensity in the Member States



Source: Innovation Union Scoreboard 2014; Eurostat

1.2.4 Innovation performance

Innovation is an essential driver of the performance of European industry. However, in many Member States, progress towards a more knowledge-intensive economy is slowed by weak research and innovation systems, low R&D investment or insufficient cooperation between the science base and enterprises. In some countries, this makes the commercialisation of innovation difficult, limiting opportunities for growth, job creation and increased competitiveness.

The innovation union scoreboard (IUS) measures innovation performance combining over twenty indicators in an index, ranging from 0 (worst performance) to 1 (best performance).

In order to refine the analysis, figure 1.2.6 combines the performances of the Member States in the IUS for 2014 with the progress made by each country over a five-year period (2008-2013), measured as a percentage of the 2008 value on the vertical axis. This shows that innovation performance in the EU has improved considerably since 2008. However, the innovation gap is considerable as a number of less innovative economies have not been able to narrow the gap with the innovation leaders.

Sweden, Germany, Denmark and Finland, shown in dark blue, are the most innovative economies, and Germany is improving its relative position as well.

Components of the Innovation Union Scoreboard

Human resources
- New doctoral graduates
- Population aged 30-34 with tertiary education
- Youth with at least upper secondary education

Open research systems
- International scientific co-publications
- Top 10 % most cited scientific publications
- Non-EU doctoral students

Finance and support
- Public sector R&D expenditure
- Venture capital

Firm investments
- Business sector R&D expenditure
- Non-R&D innovation expenditure

Linkages and entrepreneurship
- SMEs innovating in-house
- Innovative SMEs collaborating with other
- Public-private co-publications

Intellectual assets
- PCT patent applications
- PCT patent applications in societal challenges
- Community trademarks
- Community designs

Innovators
- SMEs with product or process innovations
- SMEs with marketing or organisational innovations
- High-growth innovative firms

Economic effects
- Employment in knowledge-intensive activities
- Medium- and high-tech product exports
- Knowledge-intensive services exports
- Licence and patent revenues from abroad

Within the group of consistent performers, represented in light green, a convergence trend is observed, with only two countries growing more than the average, namely Estonia and Slovenia, and two countries having suffered a deterioration of their position, namely Austria and Cyprus.

Countries in the top two innovation groups perform positively across the board and have relatively high R&D expenditure, although many of them are still far from their Europe 2020 target. Private R&D investment is consistently larger than the share of public investment, in particular in the first group of innovation leaders. Scientific and technological excellence is transformed into knowledge-intensive jobs and exports, benefiting from close cooperation between academia and industry.

Compared to the top performers, countries like Italy, Czech Republic and Hungary are a step behind, dragged down by low private investments. However, within the group of moderate innovators, these countries have developed rapidly and are catching up with the consistent innovators. Although its innovation performance is still below the average, Lithuania has seen the biggest change among Member States and slightly improved its relative ranking. On the other hand, the majority of the moderate innovators have not been able to reduce the gap with respect to the best performers and report modest progress in the period, while the performance of Malta has worsened.

Finally, further efforts to improve innovation would particularly benefit Romania, Bulgaria and Latvia, which lie in the group of modest innovators. Within this group, only Latvia has been improving more than the average, while the relative position of Romania and Bulgaria has also deteriorated.

1.2.5 Conclusions

In order to preserve its role as the leading industrial exporter, the EU needs to continue making the transition to innovative, knowledge-intensive industries and more efficient use of resources, as well as reinforcing the mechanisms in support of internationalisation of SMEs in a number of Member States.

Based on a methodology combining the evaluation of the 2012 performance in regard to these three indicators, and the change occurring over the 2007-2012 period with respect to the EU average, it is possible to divide the Member States into four groups. ([24])

1 Member States with strong and improving competitiveness.

Four Member States have strong performance in most respects, and have also improved their labour productivity, exports or innovation performance. These are the Netherlands, Germany, Denmark and Ireland.

2 Member States with strong but stagnating or declining competitiveness.

The Member States in this group have seen no or only very marginal improvement in the competitiveness indicators used. Such decline should be addressed. Most of these countries have deteriorating labour productivity and external competitiveness. Belgium, the United Kingdom, Austria, France, Italy, Luxembourg, Sweden and Finland belong to this cluster.

3 Member States with modest but improving competitiveness.

These Member States have been successful in improving their performance and getting closer to the strong performers in at least two of the three indicators. However, this still leaves many of them with relatively poor productivity and innovation performance. Estonia, Lithuania, Spain, Latvia, Czech Republic, Hungary, Poland, Portugal, Romania, Slovakia and Greece belong to this cluster.

4 Member States with modest and stagnating or declining competitiveness

Member States in this group should focus on restoring the cost and non-cost competitiveness of their economies, as they combine a relatively low performance level with limited improvement. They are not closing the gap between them and the strong performers, and are in danger of losing competitiveness. Slovenia, Bulgaria, Croatia, Malta and Cyprus belong to this group.

([24]) Based on data from Eurostat for 2007-2012. See the methodological annex for further details on the methodology and robustness check.

1.3 Access to finance and investment

1.3.1 Essential for growth…

The current growth forecasts for the European economy indicate that industry should have at its disposal around 225 billion of additional private credits for the period 2014-2016. ([25]) The gradual loosening of bank lending conditions and movement of non-financial corporations towards net borrowing indicate that this would be feasible, as the average lending needs would be below the averages since the euro was introduced. Most of the additional investment will need to come from SMEs.

The banking system and industry have an opportunity to benefit from the policy measures adopted at European and national levels. If both demand for and supply of credit respond to policy, industry could recover from the investment downturn that it has seen since 2009. Without investment, other regions of the world will gain competitiveness faster and the industrial renaissance of the EU would be difficult.

To maximise growth, policies should ease the availability of credit to SMEs. Traditional monetary policy transmission channels seem to have reached a point where the impact of interest rates on the real economy is limited. The Commission has thus stressed the need to persevere in a number of domains in its economic policy recommendations to individual Member States. ([26])

1.3.2 …but still a concern

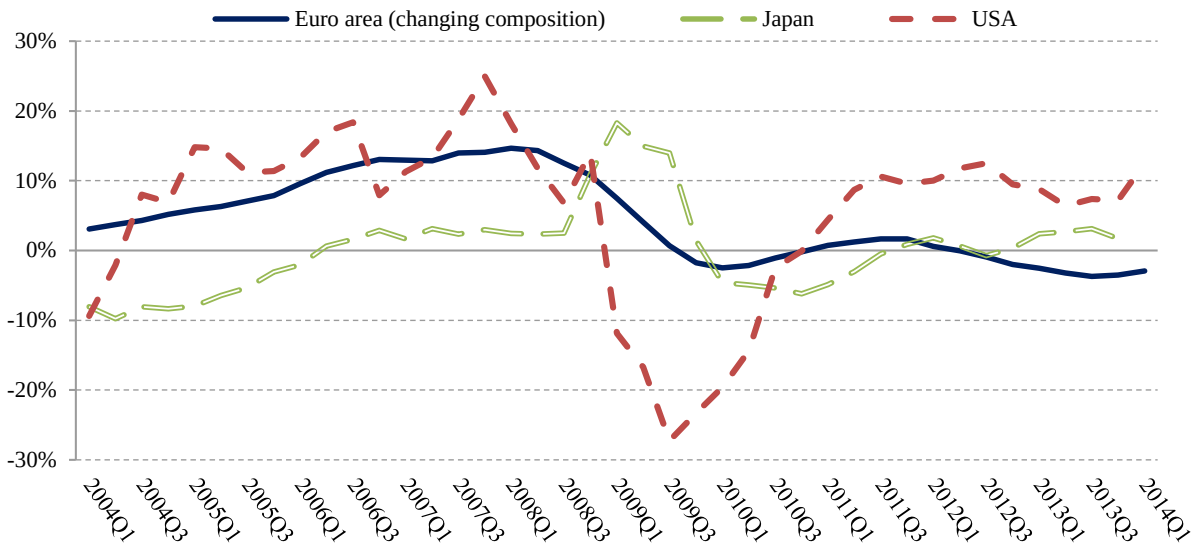
Large corporations have continued to invest as they can access equity and other alternatives to bank debt. However, access to finance remains a challenge for SMEs. While the EU economy has returned to positive growth, the incipient recovery is hampered by the lack of credit in many countries. Financing conditions for SMEs continue to differ significantly across the euro area.

Lending to non-financial corporations continued to decrease in the euro area last year, although the rate of decrease was slower in the second half (see figure 1.3.1).

([25]) Accelerated growth would require around an additional EUR 228 billion between 2014 and 2016 to reach an inflation rate of 1.9% by 2017 or EUR 286 billion in from 2014 to 2015 if the 1.9% inflation level were to be reached by 2016. Source: Focus Europe: funding the recovery, Deutsche Bank research, 2014.

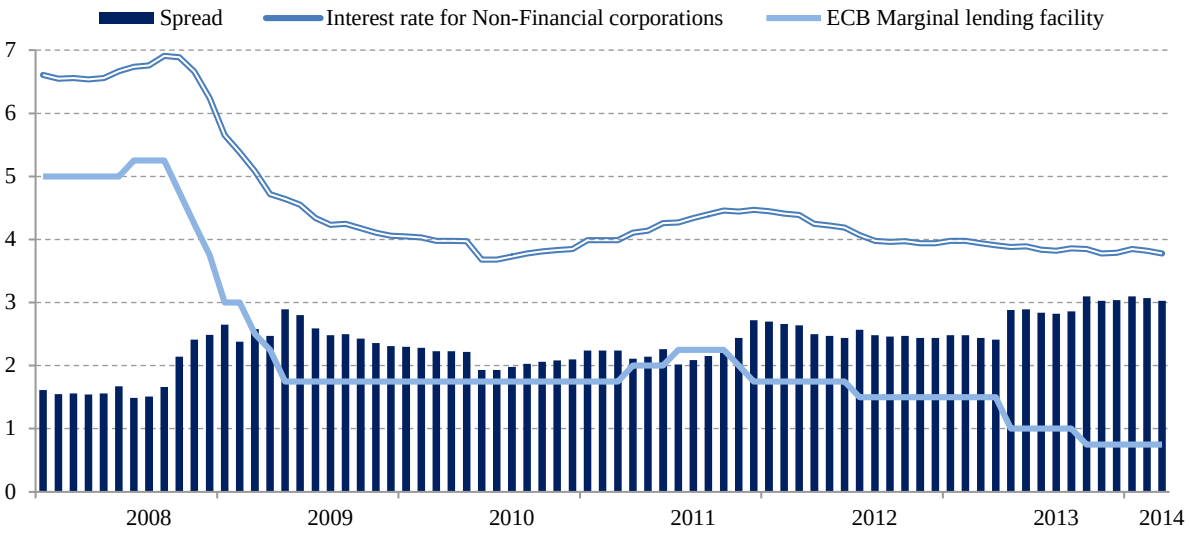
([26]) Accelerated growth would require around an additional EUR 228 billion between 2014 and 2016 to reach an inflation rate of 1.9% by 2017 or EUR 286 billion in from 2014 to 2015 if the 1.9% inflation level were to be reached by 2016. Source: Focus Europe: funding the recovery, Deutsche Bank research, 2014.

Figure 1.3.1: Year-on-year growth of loans to non-financial firms



Source: European Central Bank, The Federal Reserve, Bank of Japan

Figure 1.3.2: Euro area interest rate for non-financial firms and ECB marginal lending facility



Source: European Central Bank

Non-performing loans in the EU have increased since 2008 and reached almost 7% in 2013, with high variability across Member States in contrast to the steady decrease in the US since 2011. The availability of external finance has an impact on European firms' investment, productivity, employment and expansion into international markets. ([27]) Easing businesses' access to finance is therefore critical to the survival of a good portion of Europe's industry.

European external finance remains largely bank-based. Bank lending is the most important source of external financing for SMEs and the second one for large corporations. However, the market for bank credit is not functioning efficiently and the difficulties encountered by small and young firms are thought to stem from information asymmetries. ([28]) At the same time, alternative financing mechanisms are not broadly used and the limited availability of equity financing in early stages of a business' development, hampers the growth of innovative companies. ([29])

Most Member States have adopted measures to give SMEs better access to finance. As shown in the country chapters, the focus has been on easing bank lending in countries with the worst financing conditions, while Member States in a better situation have focused on fostering market-based financing.

1.3.3 Developments in bank lending

Access to bank financing deteriorated further in 2013 as a result of the combined effect of tighter bank credit conditions and lower demand from viable companies. The reduction of the marginal lending interest rate by the ECB since 2012 does not seem to have translated totally into reductions in interest rates for non-financial corporations, highlighting the break of the theoretical link between interest rate policy and borrowing in the real economy (see figure 1.3.2). There has been a loosening of bank lending standards since 2013, which has favoured the flow of funds towards industry. One of the challenges for an enhanced and sustained recovery is to ensure that the trend is not reversed towards a contraction of credit again in 2014, similar to that of 2011.

Nevertheless, there are significant differences among Member States. Obstacles have been reported to be very high in Greece, followed by Ireland, Italy and the Netherlands, and lowest in Germany, Austria and Finland. ([30]) The situation is particularly worrying in

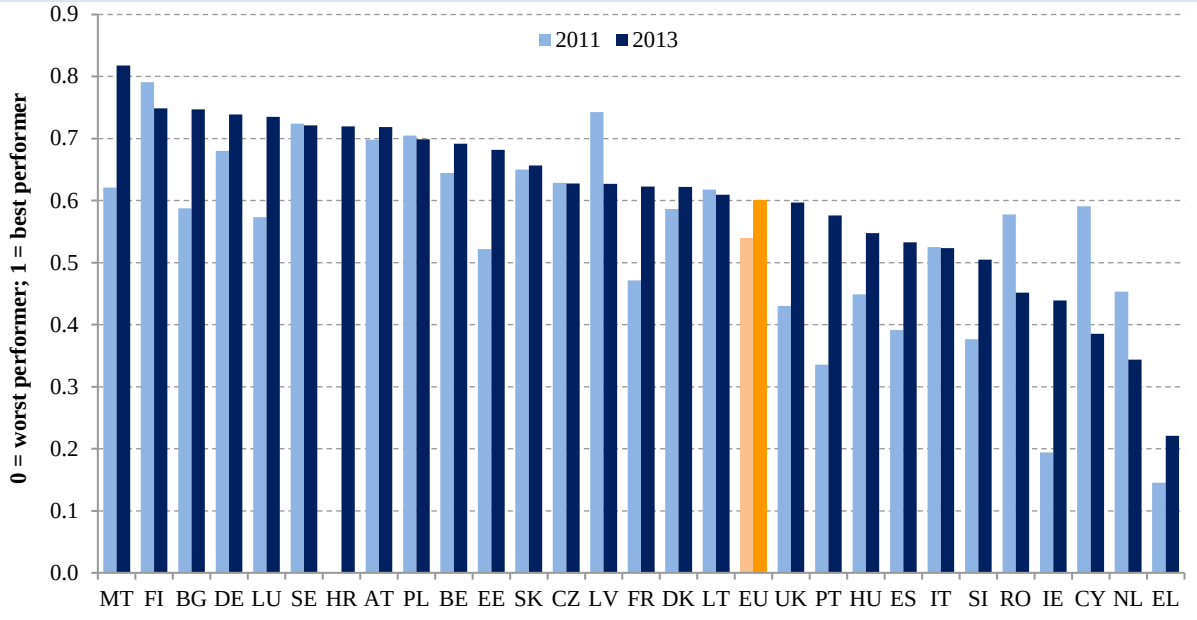
([27]) Country-specific recommendations are published every spring. They are then discussed and endorsed by EU leaders and ministers and formally adopted by EU finance ministers in July, as part of the European Semester, the EU's calendar for economic policy coordination. Cf. Country-specific recommendations 2014, European Commission.

([28]) Cf. Chapter 2 of European Competitiveness report 2014, European Commission, 2014.

([29]) Cf. Communication on long-term financing of eth European economy, COM(2014) 168 final, European Commission, 2014.

([30]) Cf. Survey on the access to finance of SMEs in the euro area, European Central Bank, April 2014.

Figure 1.3.3: SMEs' access to bank loans



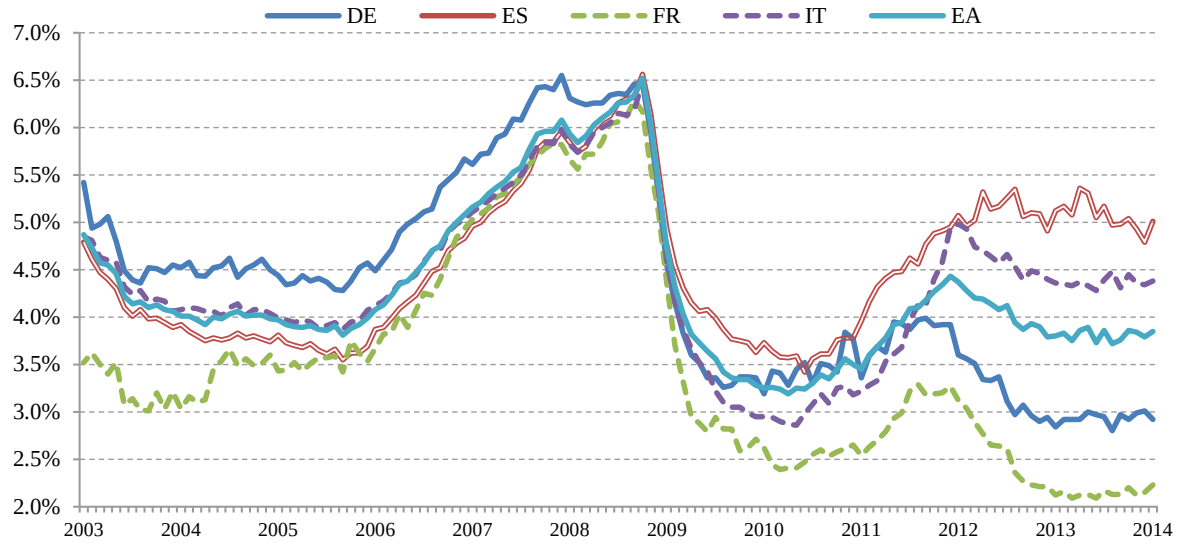
Source: European Commission-European Central Bank SAFE survey

Slovenia, Romania, Cyprus, the Netherlands, Ireland, and Greece, although for the latter two conditions have improved in comparison to 2011 (see figure 1.3.3).

The internal market for bank credit remains fragmented. Although the level of fragmentation has receded in some markets, like that for bank funding, it remains high for lending to non-financial corporations, as reflected in the wide spread of interest rate differentials (see figure 1.3.4), despite recent signs of stabilisation.

Member States have taken several policy measures to enhance SME access to finance, with varying results. Most of the regulatory activity has taken place in those countries where bank lending to SMEs is worse than in the EU on average but the situation has improved or stabilised, namely the United Kingdom, Portugal, Spain, Italy, Hungary, Slovenia, Ireland and Greece.

Figure 1.3.4: Interest rates for loans of one year and up to EUR 1 million



Source: European Central Bank

The observed improvement is likely to be due to the effectiveness of the adopted measures, at least to some extent. This contrasts with the few measures adopted in the Netherlands and Romania, countries where the situation not only remains challenging but has deteriorated since 2011 (see figure 1.3.3).

Most of the adopted measures have aimed at enhancing and strengthening loan guarantee systems, mainly through broadening their scope and increasing their financial allocation. In parallel, development finance institutions are being set up in several Member States, including France, Latvia, the United Kingdom, Greece and Portugal. Additional measures to improve the liquidity and capitalisation of the financial sector have been taken in countries with challenging financing conditions, such as Latvia, Cyprus, Ireland, Spain, the United Kingdom, Slovenia and Greece.

An area of increasing interest lies in facilitating the access and transfer of financial information. Policy initiatives under consideration include improvements to credit registers (United Kingdom, Portugal), the development of credit review and appeal bodies (United Kingdom, Ireland, France), and the sharing of bank assessments on SMEs' creditworthiness (United Kingdom, Spain). Their objective is to ease SME's access to bank loans by reducing information asymmetries in lending. This is also the scope of a provision included in the latest EU Capital Requirements Regulation, ([31]) according to which credit institutions shall 'explain their rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when asked'.

As SMEs will remain highly dependent on bank financing in the medium term, SME loan securitisations could play an important role in closing the current funding gap. However, the SME securitisation market has not yet recovered and issuance remains far below the pre-crisis levels. ([32]) The most active SME securitisation markets in terms of issuance in the first half of 2013 were in some of the most vulnerable countries, ([33]) with Spain and Italy accounting for 89% of the issuance activity. However, this issuance has been largely used by the originators (commercial banks) to access ECB liquidity, rather than to sell to investors. As far as the latter are concerned, these are mainly funds and banks from the UK, France and Germany. ([34]) Regulatory and policy initiatives are underway in Italy and Spain to reduce issuance costs. ([35])

An internal market for capital where SMEs can effectively access cross-border finance would ease SMEs' financing constraints. In March 2014 the Commission adopted a Communication on long-term financing of the European economy, which includes a package of measures to stimulate new and different ways of unlocking long-term financing and supporting Europe's return to sustainable economic growth. The actions include legislative modifications that facilitate the mobilisation of private funding (banks and insurance companies); fostering the activity of national promotional banks and cooperation among national export credit schemes; developing European capital markets and their accessibility for SMEs, and enhancing the capacity of SMEs to access finance by improving credit information on them; reviving the dialogue between banks and SMEs and assessing best practices on helping SMEs to access capital markets.

1.3.4 Alternative financing mechanisms

The deterioration of bank financing has provided an incentive to stimulate the role of capital markets in Europe. However, access has largely remained limited to large businesses.

The financing role of venture capital for SMEs is still very small and the industry continues to have difficulties in raising funds. However, there are significant differences across Member States, with eight countries having roughly 90% of all venture capital assets managed by funds, namely the United Kingdom, Germany Sweden, Denmark, Finland, the Netherlands, France and Spain. ([36]) Various countries are currently overhauling or enhancing their public venture capital sector, including Germany, Denmark, Sweden, Poland, Latvia, Ireland, Portugal Spain and Croatia. Additional measures to foster equity financing such as tax incentives have been taken in Spain and Italy.

([31]) Article 431(4), EU Regulation 575/2013 of 26 June 2013.
([32]) Source: Association for financial markets in Europe (AFME).
([33]) Source: SME Loan Securitisation 2.0 Market Assessment and Policy Options, Working Paper 2013/19, European Investment Fund.
([34]) Source: analysis by DZ Bank, 2013.
([35]) Cf. country chapters 3.9 and 3.12.
([36]) Source: European private equity and venture capital association (EVCA).

The gap left by the fall in venture capital activity during the crisis has been partially filled by business angels. In 2013, angel investment grew to EUR 5.5 billion. ([37]) Germany and Spain have established new financial incentives for fostering business angels' investments.

Crowdfunding ([38]) has become more widespread since the financial crisis and has the potential to complement more traditional forms of alternative financing. In 2012 about EUR 735 million ([39]) was raised for all forms of crowdfunding in Europe and the predicted figure for 2013 is around EUR 1 billion. ([40]) This figure is quite marginal compared to retail bank lending to non-financial institutions, but it is promising compared to the financing provided by business angels (EUR 5.5 billion in 2013 ([41]) or venture capitalists (EUR 3.4 billion in 2013. ([42]) Various Member States are working to enhance the existing regulatory framework for crowdfunding, including Belgium, France, Austria, Spain, Italy, Germany and the Netherlands.

Corporate bond markets and alternative markets for listing SMEs have been developed over recent years, including in Belgium, France, Denmark, Finland, Poland, and Spain. However, they are accessible only by businesses with an external rating and large financing needs. Various ongoing initiatives aim at addressing these challenges, including policy measures in Italy for easing the cost of issuing mini-bonds, and an industry-led initiative in Finland to standardise the terms for bond issuance.

Against this background, the 2014 Industrial Policy Communication identified access to finance as one of the key priorities for boosting Member States' competitiveness. Planned actions include the allocation of European structural funds for fostering the development of risk-sharing instruments with EU guarantees. At European level, two programmes provide equity and debt instruments to businesses, COSME and Horizon 2020. Also, an SME initiative has been launched calling on Member States to allocate structural funds to a single financial instrument at European level complemented by funds from the COSME and the Horizon 2020 programmes to support SME financing.

([37]) Source: EBAN.
([38]) Crowdfunding generally refers to an open call to the public to raise funds for a specific project. Often these calls are published and promoted through the internet and with the help of social media, and are open only for a specified time period. The funds are typically raised from a larger number of contributors in the form of relatively small contributions, but exceptions exist.
([39]) Based on an industry estimate: Massolution (2013) Crowdfunding Industry Report 2012.
([40]) Cf. European Commission Communication on Unleashing the potential of crowdfunding in the European Union, 2014.
([41]) Source: EBAN.
([42]) Venture capital invested in 2013. Source: European private equity and venture capital association (EVCA).

1.4.1 Innovation is crucial for industrial competitiveness

EU industry is becoming more and more integrated into international value chains as global sourcing becomes more complex. ([43]) For European firms to capture relevant parts of global value added, innovation strategies will be of utmost importance, covering not only product innovation, but also service and process innovation. The European Council concluded in March 2014 that the "overall framework at European and national levels must be made more conducive to investment and innovation".

Strong innovation performance, as measured by the Innovation Union Scoreboard (IUS) indicator, is related to high levels of economic efficiency, as measured for example by labour per-hour productivity levels (total economy, figure 1.4.1). Improving innovation systems in the EU is thus essential to make the economies of Member States more efficient and competitive, and to close the productivity gap between the EU and some of its main trading partners (about 40 % for EU/US).

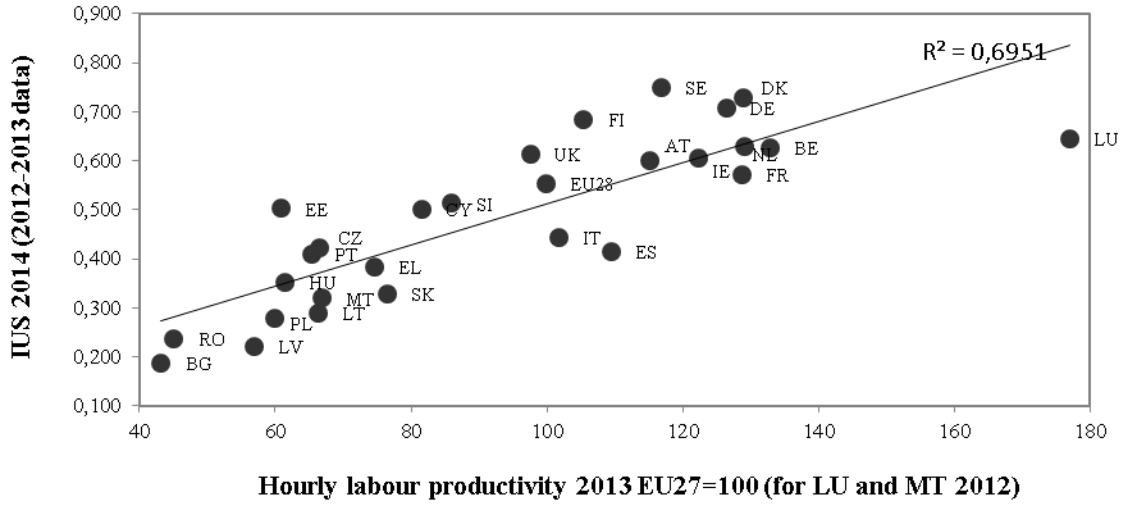
The innovation union is one of the Europe 2020 flagship initiatives. Innovation is also closely linked with EU industrial policy, as industry accounts for 80 % of private research and innovation. As identified in several EU policy documents, most recently in the 2014 industrial policy communication, ([44]) European investment in research and innovation remains too low, which hampers the necessary modernisation of our industrial base and thereby our future competitiveness. At 2.07 % of GDP in 2012 expenditure on R&D in EU28 is still far from the objective of 3 % by 2020. In the EU28 on average over the period 2000-2012, R&D expenditure per unit of GDP grew by only 0.2 percentage points (from 1.85 % of GDP to 2.07 %), the relative contribution of public funding to R&D has remained stable, while higher education and business contributions grew very slowly.

In order to improve innovation performance in Europe, policies should focus on factors that restrict firm innovation (new products or processes, new brands, organisational changes).

([43]) See e.g. "Fragmentation, Incomes and Jobs, An analysis of European competitiveness", Timmer et al, ECB Working Papers n°1615 Nov. 2013 http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1615.pdf

([44]) http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/communication-2014/index_en.htm

Figure 1.4.1: Innovation performance and productivity



Source: Innovation Union Scoreboard 2014; Eurostat

According to a recent survey, ([45]) almost half (46%) of the firms concerned have not developed any innovative goods or services since January 2011. The main obstacles to commercialising goods and services include lack of financial resources (56%) a market dominated by established competitors (53%) and the cost or complexity of meeting market regulations or standards (52%). Almost half say low demand for their goods or services is a problem (49%).

The lack of financial resources has been a particular problem in Greece (86%), Portugal (77%) and Croatia (76%). A market dominated by established competitors is cited by firms in Poland (68%), the Czech Republic (67%) and Malta (65%). The cost or complexity of meeting regulations or standards has been a particular problem in Italy (68%), Croatia, Poland and Portugal (all 67%), compared to 16% of those surveyed in Estonia and 21% in Luxembourg.

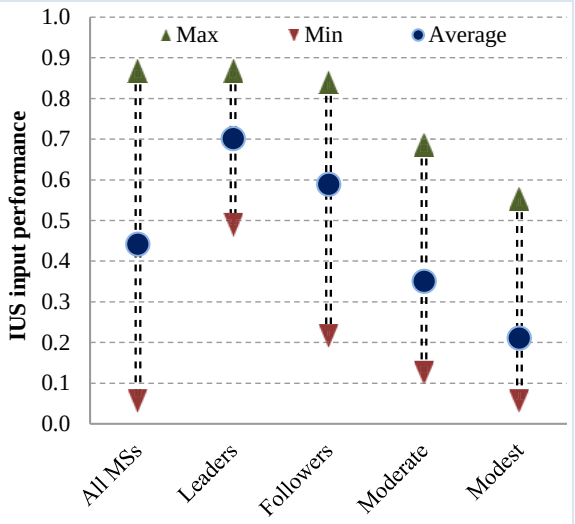
Companies in Italy (46%), Poland (45%) and Portugal (42%) are also the most likely to say a lack of marketing expertise has been a problem, compared to 13% in Malta and 15% in Sweden.

The 2014 edition of the Innovation Union Scoreboard points to a relatively homogeneous quality of innovation systems in the best performing groups of Member States. For each category (all Member States, innovation leaders, followers, moderate and modest, ([46]) figure 1.4.2 plots the minimum, the average and the maximum quality score over all the dimensions reflecting IUS input to innovation: human resources, research systems, finance and support, firms' investments and linkages and entrepreneurship. It can be seen that higher performance levels are generally associated with lower performance spreads across dimensions. This suggests that in order to achieve excellence structural changes in innovation systems should seek balanced performance across all dimensions of innovation input.

1.4.2 Innovation in EU policy

In addition to the monitoring of innovation performance and of the uptake of innovation in order to identify developments that require a policy intervention, the Commission actively develops policies to foster the broad commercialisation of innovation by industry (e.g. public procurement of innovation or design). Another concrete policy area concerns the development and co-ordination of policies to accelerate the uptake of advanced manufacturing technologies and other cross-cutting innovations with a view to modernising the EU's industrial base. Improving access to finance for innovation has also been a priority in EU policymaking.

Figure 1.4.2: Member State innovation performance across Member States' groups and input dimensions



Source: Innovation Union Scoreboard 2014

One of the central aspects of the Commission's 2012 Industrial Policy Communication was its focus on six priority action lines. Task forces have been established for each of them. The advanced manufacturing task force has produced a report outlining first results and work ahead. As regards the other action lines, a dedicated key enabling technologies (KET) budget of almost EUR 6 billion is earmarked in Horizon 2020, including 30 % for cross-cutting KET activities (activities closer to market as pilot lines and demonstrator projects). KETs are now also a priority for the European Investment Bank (EIB). As a result of the memorandum of understanding between the European Commission and the EIB, lending to KET projects has increased by 60 % (from EUR 2.7 billion in 2012 to EUR 4.4 billion in 2013). Furthermore, a KET observatory has been launched providing information on the deployment of KETs. An expert group for bio-based

([45]) Flash Eurobarometer 394, 2014.

([46]) For the definition of these categories see Innovation Union Scoreboard 2014, p. 11, http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm .

products has been established and has started its work, with the aim of creating a policy framework leading to markets for bio-based products. In addition, technical standardisation work is progressing with additional technical specifications and technical reports now available.

For sustainable construction, technical guidance has been provided on financing the energy renovation of buildings with European structural funds, and there is guidance ([47]) on financial support for energy efficiency in buildings. The priority action line for clean vehicles has led to the establishment of a public-private partnership called the "European green vehicle initiative". Further, UNECE has developed regulations for electric and fuel cell vehicles to achieve harmonisation at international level. In addition, a European Electromobility Observatory has been set up.

The European Council conclusions of March 2014 stress that the overall framework at European and national levels must be made more conducive to innovation. Specifically, the Council states that smart specialisation should be promoted at all levels, as this "will facilitate contacts between firms and clusters and improve access to innovative technologies". The Commission has therefore initiated policies to promote the participation of industry in smart specialisation strategies by facilitating collaboration between industry and regions (for instance by establishing a platform for information exchange. ([48])

The regional dimension of innovation has an important role to play in this. The latest Regional Innovation Scoreboard points to the fact that the most innovative regions are typically in the most innovative countries, and that all regional innovation leaders are located in only eight Member States. Thus excellence in innovation still remains concentrated in relatively few areas in Europe.

The reindustrialisation of regions is to be based on regional strategies of "smart specialisation", identifying specific competitive advantages based in particular on innovative products or services, and the recent Vanguard Initiative 'New Growth through Smart Specialisation' of 15 EU regions looks promising for regional innovation (box 1).

The recent Vanguard Initiative 'New Growth through Smart Specialisation'

'New Growth through Smart Specialisation' is a political initiative of 15 EU regions that are committed to playing an active role for the renaissance of industry. They intend to initiate a new bottom-up approach towards European innovation and industrial policies, leading by example in developing interregional cooperation and to work towards a better combination of support instruments

The following regions are members of this initiative: Basque Country, Asturias (Spain); Flanders, Wallonia (Belgium); Lombardy (Italy); Malopolska (Poland); North Rhine Westphalia, Baden-Württemberg (Germany); Scotland (UK); Skåne Region (Sweden); Southeast Netherlands (Netherlands); Tampere Region (Finland); Rhône-Alpes (France); Upper-Austria (Austria); and Norte (Portugal).

In January 2014 they issued an open letter to the President of the European Council as a contribution to the policy debate about the role and operationalisation of new European industrial policies at the start of the new European programming period 2014-2020. The Vanguard Initiative seeks to monitor the progress in European industrial policies, looking in particular at the results of the debate in the European Council, striving for an alignment of efforts.

Five European innovation partnerships are now fully functional. They bring together the whole research and innovation chain to accelerate the uptake of innovation in five areas: active and healthy ageing; agricultural sustainability and productivity; smart cities and communities; water; raw materials. Further initiatives focus on demand-side innovation, where the European procurement of innovation platform is now fully functional with advice, support and consultations. Cooperative projects have been launched for public procurers to form consortia for finding innovative solutions.

Intellectual property (IP) is a key driver for innovation. To this end, various Commission initiatives provide initial advice, training, self-help materials and websites. This is done at local and national level (via the Enterprise Europe Network; and by coordinating local and national initiatives

([47]) COM(2013) 225 final and SWD(2013) 143 .
([48]) See also the communication on "Research and innovation as sources of renewed growth", http://ec.europa.eu/research/innovation-union/pdf/state-of-the-union/2013/research-and-innovation-as-sources-of-renewed-growth-com-2014-339-final.pdf#view=fit&pagemode=none

through national IP offices and the IPorta project). Services are also provided at transnational level in the EU, for instance via the European IPR Helpdesk. At international level in key markets outside the EU, the Commission offers services via the ASEAN (South-East Asia), China and MERCOSUR (part of South America) IPR SME Helpdesks.

Standardisation plays a similar role as a facilitator of innovation. Whereas IP rights are a tool to protect innovations, standards are a tool to efficiently share and deploy innovations. It is therefore one of the topics discussed in all trade negotiations, and the implementation of the standardisation regulation now focuses e.g. on the speed of standardisation and on the referencing of ICT specification in public procurement.

In order to support innovation, the latest multiannual framework (2014-2020) has simplified financial instruments for accessing capital; in particular, the possibility of using the resources allocated to the Horizon 2020 research programme in combination with the programme for the competitiveness of enterprises and SMEs (COSME) will facilitate the transition from technological development to the industrial and market exploitation of new technologies. In addition, the European Investment Bank's capital increase of EUR 10 billion is estimated to generate EUR 60 billion in additional lending capacity, of which between EUR 10 and 15 billion will be allocated to SMEs, and a similar amount to innovation.

As to the access to capital markets (in particular seed capital), the Council and the European Parliament adopted a regulation on European venture capital funds in February 2013. The regulation sets out a new label for these funds and includes measures to allow venture capitalists to market their funds across the EU using a single set of rules. Every fund using the label will have to prove that a high percentage of investments (70 % of the capital received from investors) is spent on supporting young and innovative companies.

1.4.3 Policy developments in Member States

Five Member States (Estonia, Luxembourg, Poland Portugal and Slovakia) received country- specific recommendations in 2014 to enhance co-operation between businesses and innovation or academia/research institutions. Improving these synergies is important to ensure knowledge transfer takes place and leads to the commercialisation of innovation and the creation of business opportunities for entrepreneurs.

Moreover, eight Member States (Belgium, Czech Republic, Estonia, Spain, France, Finland, Latvia and Poland) have been given recommendations to improve their research and innovation systems. For most of them priorities and specialisations should be more focused while rationalising public financing of innovation, so as to stimulate the ability to deliver innovative goods and services more quickly. Member States may be invited to identify financing for the national strategy (Spain) or when their innovation strategies have already borne fruit (Finland, France), they are encouraged to further enhance their capacity to market innovation.

Below is an illustration of recent Member State policies designed to foster better incentives and framework conditions for higher private or private and public investment, as well as to support wider commercialisation of innovative products and services.

Policy example: the Austrian PPPI action plan

In September 2012 the Austrian federal government adopted its action plan on public procurement promoting innovation (PPPI) to encourage industry to deliver innovative goods and services and to supply public bodies and citizens with advanced and (eco)efficient goods and services. In July 2013, the law on public procurement in Austria was amended to insert innovation as a second procurement objective. At the end of 2013, a service point was created at the Federal Procurement Agency and corresponding PPPI centres of competence, with the aim of developing pilot projects. The strategy also aims at improving the measurement of innovation in public procurement.

As one of the main tools for boosting demand for innovative products or services, public procurement initiatives are used across the Member States. Public procurement accounts for some 19 % of GDP in the EU and offers a very large potential market for innovative products and services. Several Member States have launched programmes for the procurement of R&D, innovative products and

services. Public procurement is also supported by the EU through e.g. European structural funds and Horizon 2020.

Tax credits are used in nearly all Member States to facilitate the financing of innovation. According to recent OECD calculations (figure 1.4.3), this indirect source of government financing represents a substantial share of the total support (albeit small) of national governments to private R&D and innovation.

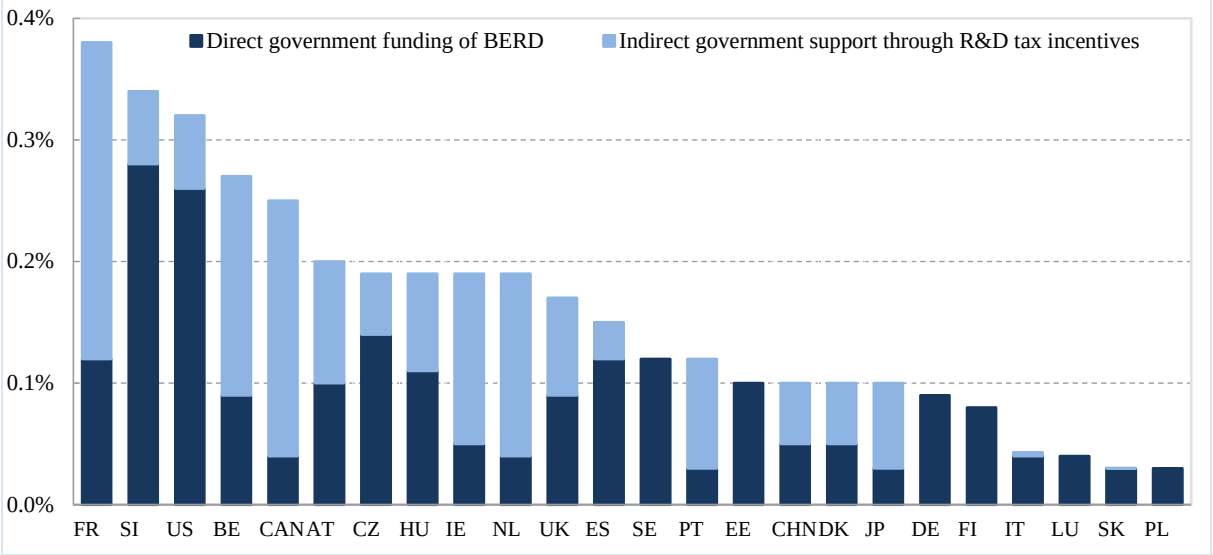
All EU countries, except for Germany and Estonia, have implemented tax incentives for R&D. ([49]) There is no 'one size fits all' approach when it comes to direct support and tax incentives. The specific economic structure of the country is an important factor in the design characteristics of a tax support scheme. R&D tax incentives can have a geographical focus that is determined by the government (Greece and Poland), or they may be tied to certain types of technologies (Belgium, Bulgaria, Greece, UK) or target SMEs (Greece, France, Malta, Norway, Portugal and the UK) and/or start-up companies (France, Netherlands, Norway) to alleviate increased difficulties in attracting finance needed for R&D activities.

The benefit can be set against different tax liabilities. The most popular one is corporate income that is present in schemes in all countries, except for Sweden. A number of countries have R&D tax incentives also for personal income, which benefits micro-enterprises (Austria, France, Luxembourg, Netherlands and Slovenia). Sweden and France have tax incentives that are based on social security contributions, while Belgium, Finland, Hungary, and Netherlands have schemes that are set against wage tax.

R&D tax incentives require substantial government expenditure. It is therefore essential to have regular assessments in place to check whether the schemes have reached their intended policy goals. Only five EU countries have planned evaluations for at least one of their R&D tax incentives: Belgium, Denmark, Finland, France, and the Netherlands.

([49]) "A Study on R&D Tax Incentives", European Commission, forthcoming.

Figure 1.4.3: Direct government funding of business R&D and tax incentives for R&D (%GDP; 2011)



Note: Data for Spain, Ireland and Belgium for 2010; data for Luxembourg and China for 2009.

Source: OECD Science, Technology and Industry Scoreboard 2013

Table 1.4.1: Industrial policy initiatives emerging in the Member States

Sectors	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK
Life sciences															x	x		x		x	x				x			x
Health						x	x	x			x	x			x	x				x	x	x		x	x			x
Energy & energy efficiency	x			x		x	x	x		x	x	x			x	x	x		x	x	x	x	x	x	x	x		x
Raw materials & resource efficiency	x					x	x	x		x	x	x						x			x		x	x	x	x		x
construction (smart cities)											x					x		x	x		x			x		x		x
KETs (including advanced manufacturing)											x	x			x	x			x	x					x	x		x
ICT						x	x	x		x	x	x		x	x		x	x	x	x		x		x	x	x		x
Creative industries							x	x												x	x	x		x				
Tourism	x			x			x		x					x						x						x		
Vehicles: Automobile and other vehicles	x				x	x					x	x		x		x		x			x		x	x	x	x		x
Maritime							x		x			x																
Aerospace					x	x						x				x		x					x					x
Food						x	x		x			x		x	x				x		x		x	x		x		
Textile (also fashion and luxury)									x			x											x					
Wood												x					x		x						x	x		
Paper																	x						x		x			
Chemicals/Pharma									x			x								x	x			x	x	x		
Business services														x			x	x		x		x			x			x

Source: European Commission

Regardless of whether there was a legal obligation, schemes have been evaluated in 12 countries. An effective administrative procedure enhances the efficiency of tax support schemes since they reduce both the administrative burden for governments and compliance costs for firms. In addition, simple and transparent procedures increase the likelihood of reaching the targeted beneficiary firms.

Tax situation for SMEs

The Commission has launched a study on the applied corporate income taxation for SMEs compared to large businesses. ([50]) Initial results show that the use of R&D tax incentives is more widespread than dedicated SME tax incentives. Some R&D incentives apply exclusively to SME corporations (France, Poland and the UK). For medium-sized companies reductions in effective tax burdens can be mainly traced back to R&D tax incentives. For most countries, an increasing significance in terms of the tax burden-reducing effect of R&D tax incentives can be observed over time. Exceptions are France, Lithuania and the UK.

In the start-up phase, corporate income tax does not have much impact on small companies, and higher tax rates reduce the potential future rewards for entrepreneurs and as such affect the incentive for entrepreneurs to take risks and start a business. During the growth and maturity stage, certain types of incentive schemes can be advantageous for small companies, in particular where they can benefit from tax deductions for investments in R&D activities.

Public-private partnerships to support innovation have been set up in many Member States, as a way to complement financial resources from the public sector and technological expertise from private actors and academia, as well as a means to remedy market failures when it comes to supporting demand for promising innovative solutions.

Policy example: the Dutch "To the Top" approach

The Dutch government is further implementing its industrial policy "To the Top", which started in 2012 and has been successful. It features a sector approach to public-private partnerships in areas such as research, innovation and education. The top sector approach is geared towards providing a solid exchange between businesses, knowledge institutes and the government in important economic sectors. The government does not make its own proposals for the sectors, but invites businesses and scientists to draw up action plans. The scope of the strategy has increasingly been broadened. SME participation is supported and monitored closely. This approach is expected to channel private research funding in a mutually beneficial way.

([50]) European Commission, 'SME taxation in Europe – An empirical study of applied corporate income taxation for SMEs com-pared to large enterprises' (186/PP/ENT/CIP/12/F/S01C24)'.

To provide a comprehensive overview, table 1.4.1 illustrates the industrial policy initiatives emerging in the Member States. Reported policy priorities are categorised by sector, including both explicit policies and thematic priorities in horizontal policies when these can easily be associated with specific sectors. Through a comparative analysis points of convergence can be observed, in particular concerning sectorial policies to support innovation, improving access to finance to support investments and value chains' development. In particular, all Member States take steps to foster innovation and the large majority similarly foster sustainability. About three out of four Member States use public procurement as a demand-side instrument for innovative and green products. Twenty-three countries are either adopting specific sectorial policies or assigning thematic priorities to horizontal policies that can be associated to specific sectors.

Moreover, a large majority of Member States are promoting alternative funding mechanisms for SMEs (venture capital, business angel networks, private equity and crowd-funding) to foster investment. In particular, in many Member States an emphasis on growth-phase financing can be identified, supported by State guarantees for bank credit. Finally, action on value chains through support for clusters creation is evident in only half of the Member States. To conclude, industrial policy is focused on innovation and sustainability in all Member States, indicating a strategy moving towards non-price competitiveness and reflecting the priorities on innovation and energy/climate set at EU level. A majority of Member States explicitly take sectorial policy initiatives as well, while in a number of the remaining Member States sectorial approaches consist in a priority given to a few sectors in the implementation of horizontal policies.

In addition, a large majority of Member States are pursuing reforms to improve vocational education and training, including apprenticeships, to better match the business needs, and a few have taken action to foster entrepreneurial attitude.

1.4.4 Skills

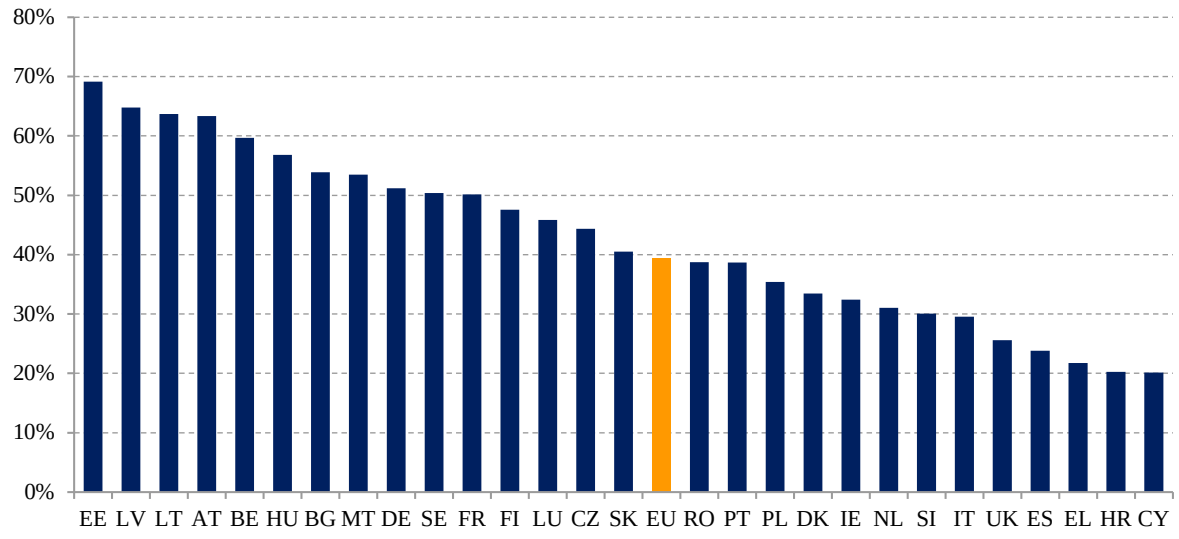
Investment in human capital is essential for ensuring growth and competitiveness, and generating leadership in break-through technologies. It is therefore necessary to ensure that the skills base is relevant to the labour market, and that all skills are recognized in the working world and constantly maintained and improved.

Employers all over Europe face skill shortages – they cannot easily fill vacancies with the right talent, despite offering competitive wage rates. ([51]) In a 2013 survey, ([52]) 39 % of companies reported difficulty in finding staff with the right skills, compared with 36 % in 2008 and 35 % in 2005. Problems with finding suitably skilled employees are most common in the manufacturing sector (43 %), and least common in financial services (30 %). Over 60 % of establishments in Austria and the Baltic states struggle to hire employees with appropriate skills, whereas Croatia, Cyprus, Greece, and Spain are doing slightly better (less than 25 % each). Sectors such as information and communications technology, electronics and pharmaceuticals are among the most affected by skill shortages. However, one has to keep in mind that these shortages could be a result of factors other than skills, such as uncompetitive wages, unattractive working conditions, poor recruitment policies and lack of labour mobility (i.e. mismatch between the location of skills and jobs). ([53])

Qualification and skill mismatches are also apparent in situations where individuals take up positions in which their educational qualifications and skills are inadequately used. Weak employment demand is increasing competition for jobs, forcing people to accept jobs that do not match their skills or level of qualification. In the EU, around 29 % of highly-qualified workers are in jobs usually requiring medium to low-level qualifications; ([54]) a comparison between workers' acquired qualifications and the qualifications they consider necessary for their job shows that, on average, 21 % of workers are over-qualified while about 13 % are under-qualified. ([55])

([51]) CEDEFOP 2014 Briefing Note Skill mismatch: more than meets the eye.
([52]) Eurofound European Company Survey 2013, see graph.
([53]) World Economic Forum Matching Skills and Labour Market Needs 2014.
([54]) CEDEFOP 2014 Briefing Note Skill mismatch: more than meets the eye.
([55]) OECD Skills Outlook 2013 – Survey of Adult Skills PIAAC.

Figure 1.4.4: Difficulties in finding workers with the required skills



Source: European Company Survey 2013

The incidence of qualification mismatch varies across countries: there are less than 15 % over-qualified workers in Italy and the Netherlands, but more than 30 % in the UK; the range of under-qualification varies from less than 10 % in the Slovak Republic, the Czech Republic, Poland and Spain to above 20 % in Italy and Sweden. ([56]) More than a third of overqualified workers, particularly those coming from vulnerable groups like migrants, female and younger workers, underuse their skills, which puts them at risk of skills atrophy and loss of the initial investment in those skills.

Given this situation, it would be advisable to bring education, training and the labour market closer together. This implies increasing the supply of high-quality apprenticeships and internships, while at the same time improving the relevance of vocational education and training systems([57]), including for emerging sectors with growing skills deficits. While governments have to provide financial incentives for employer-provided training, particularly for occupations facing shortages or groups with high inactivity rates, a stronger commitment is needed from employers to develop efficient recruitment strategies and offer attractive working conditions and learning opportunities. Member States such as Belgium, Greece, Poland, Slovakia, Latvia, Estonia, Italy, the UK and Cyprus have introduced various measures on work-based learning for both younger people and the unemployed, also paying attention to the recognition of these paths as respectable career choices. The Czech Republic offers tax credits for companies that cooperate with training institutions and Portugal has introduced short-cycle 'on-the-job' training, in cooperation with local businesses. The UK has developed an employer ownership pilot – a fund that helps employers co-invest in the skills of their workforce by allowing them to design their own training solutions.

Given its ability to generate skills relevant to companies' needs, the dual education system([58]) has started to be used as a model for reforming vocational education and training across Europe. In Germany, a country with a long tradition of the dual system, the strategy for skilled labour ([59]) stipulates the creation of a competence centre that will support SMEs in attracting and retaining skilled employees. Romania and Hungary have taken steps to establish a dual system by implementing a number of pilot measures, at the initiative of the manufacturing sectors. Spain is currently implementing the dual system with region-specific measures, but the outcomes, if positive, will be visible only in the medium to long term. Ireland's Skillnets scheme offers training in specific sectors

([56]) OECD Skills Outlook 2013 – Survey of Adult Skills PIAAC.

([57]) In 2014, 22 Members States received a country specific recommendation related to the modernisation of vocational education and training systems.

([58]) The dual education system is a form of work-based learning consisting of alternating periods of training at the workplace and in an educational institution.

([59]) 'Konzept für Fachkräfte'.

such as design, finance, and business, combined with a six-month internship in a relevant company.

Governments are also taking action to reform their education systems, for instance by encouraging students to choose areas of study where employment prospects are good. Estonia and Poland award student scholarships in those technical fields where demand is the highest. Further, Member States are seeking to provide doctoral candidates with the skills needed for a career in business. When it comes to the ICT sector, Ireland aims at doubling the number of graduates in this sector by 2018 and is implementing a new apprenticeship scheme that expands apprenticeships to new business and industrial sectors, including ICT. Estonia has opened an IT academy that involves the participation of the Tallinn University of Technology and the University of Tartu, the government, and some private foundations.

Last but not least, Member States are streamlining immigration processes in order to attract highly-skilled migrants. Estonia has simplified procedures for hiring foreign workers, and Ireland has employed workers from abroad in more than half of its ICT positions. In order to cater for sectors with skills shortages, Austria has issued some 4 600 red-white-red cards since July 2011, out of which 480 were for third-country graduates of Austrian universities. This type of solution is feasible when political conditions allow it and the number of attracted migrants remains small.

At European level, several initiatives have been put in place to address the issue of skills. The 2014 Industrial Policy Communication ([60]) proposes a number of measures that focus on facilitating cross-border mobility, matching qualifications according to the skills base, anticipating and managing industrial change at regional level, and improving the provision of transversal skills. In addition, the Commission is developing a new generation of programmes like Erasmus+ and Erasmus for Young Entrepreneurs ([61]) that target SMEs, and attempt to facilitate learning mobility by making available apprenticeships, traineeships, and higher education exchanges as well as university-business partnerships on a cross-border basis. As part of the Commission's Youth Employment Package, the European Alliance for Apprenticeships has been launched, aiming at boosting the quality, supply and attractiveness of apprenticeships across Europe. Further, the European Institute of Innovation and Technology, and the Knowledge and Innovation Communities aim at boosting EU's innovation capacity by supporting the development of entrepreneurship and innovation skills in areas of economic and societal relevance. For instance, in order to tackle the growing digital skills gap, the European Commission launched in 2013 the Grand Coalition for Digital Jobs, which led to the creation of national coalitions for digital jobs in a number of Member States. Further, in the area of business services, a high level group ([62]) has issued policy recommendations, including on developing and up-skilling the workforce. Last but not least, the implementation of the EU Blue Card scheme([63]) and the recently agreed EU rules on the admission of intra-corporate transferees([64]) provide employers across the EU a response to the need of highly-qualified workers.

The March 2014 European Council conclusions ([65]) on industrial policy urged the Commission and the Member States to prioritise STEM ([66]) skills and increase the involvement of the industry, including in forecasting future skills needs. As requested by the European Council, the European Commission will present an implementation roadmap for taking work forward on the basis of the 2014 Communication, where skills will feature as a prominent policy issue.

([60]) COM(2014)14

([61]) COM(2012)669
([62]) http://europa.eu/rapid/press-release_MEMO-14-265_en.htm
([63]) Directive 2009/50/EC
([64]) Directive 2014/66/EU
([65]) EUCO 7/14.
([66]) Science, technology, engineering and mathematics.

1.5.1 Energy use and prices

Introduction

Europe's energy sector is in the midst of a major transformation. Its gas and electricity sectors are moving from public monopolies to competitive private companies in liberalised markets and electricity generation is being decarbonised, with strong growth of wind and solar power in particular. At the same time, alternative gas supplies are being developed and diversified and the transport sector is becoming more fuel-efficient and starting to use cleaner, alternative fuels. ([67])

In January 2014 the European Commission set out an integrated policy framework for the period up to 2030 to ensure regulatory certainty for investors and a coordinated approach among Member States. ([68]) The framework is designed to drive continued progress towards a low-carbon economy, aims to build a competitive and secure energy system that ensures affordable energy for all consumers, increases the security of the EU's energy supplies, reduces dependence on energy imports and creates new opportunities for growth and jobs.

The framework includes a proposal for a binding target to reduce greenhouse gas emissions by 40 % by 2030 as follow-up to the 20 % emission reduction target for 2020, thus ensuring that the EU is on a cost-effective track towards meeting its objective of cutting emissions by at least 80 % by 2050.

The framework also includes a proposal to increase the share of renewable energy to at least 27% of the EU's energy consumption by 2030.

In the Energy Efficiency Communication of July 2014 the EU proposed a new energy efficiency target of 30% for 2030. In this context the Communication assessed the EU's progress towards the 20% energy efficiency goal for 2020, and analysed how energy efficiency can drive competitiveness and strengthen security of supply in the EU in the future. With current measures the EU will achieve an energy savings of 18-19% by 2020. The conclusion was that the 20% target can be reached without the need for additional measures if all Member States work to properly implement already agreed legislation.

Electricity prices

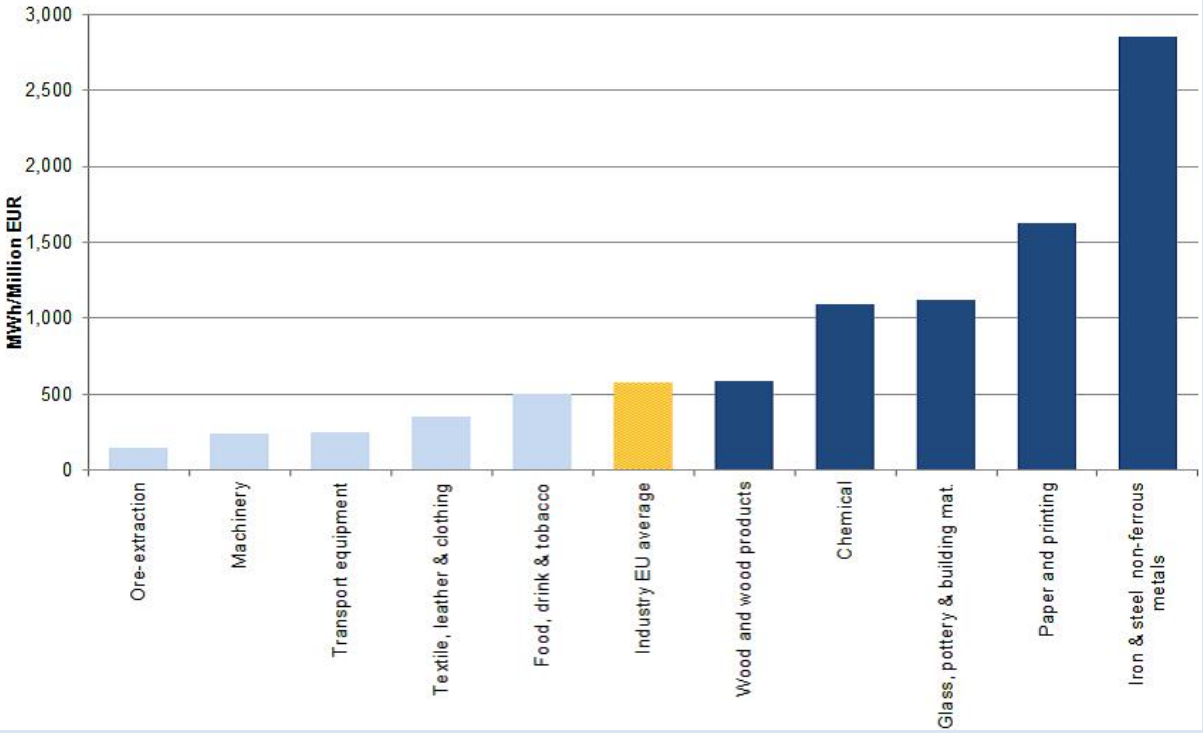
Electricity prices differ greatly between the EU Member States. In a global comparison, European prices are high and pose a challenge to the competitiveness of some parts of industry.

- The Nordic energy market is well-integrated and competitive. Integration and hydropower generation in the Nordic countries keep electricity relatively cheap in Finland and Sweden.

([67]) Communication on Energy prices and costs in Europe {COM(2014) 21 final

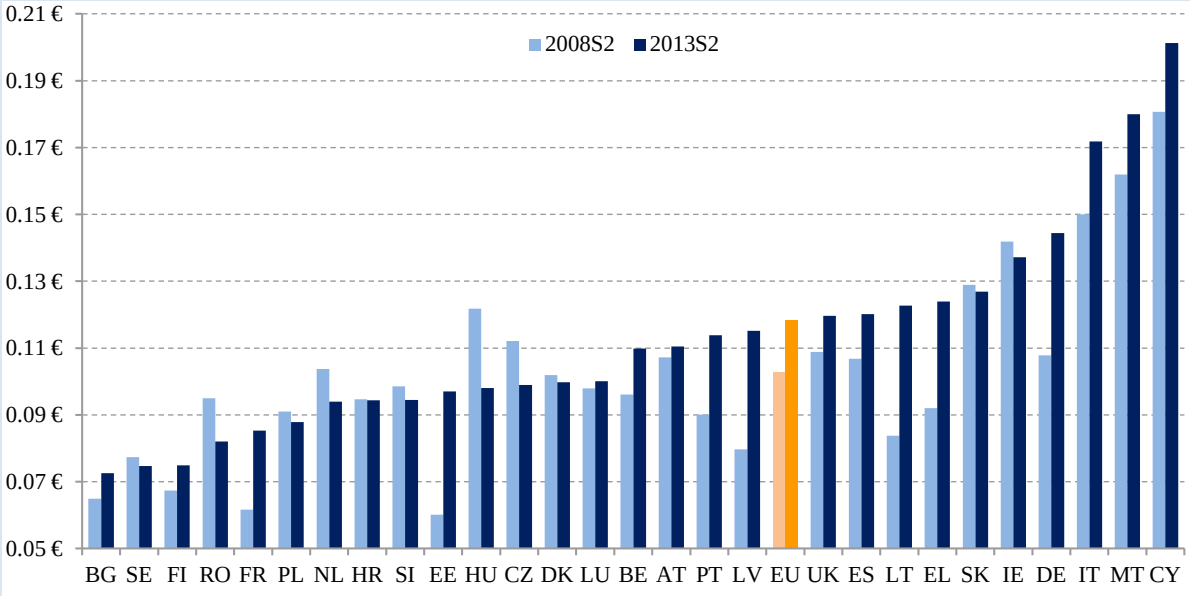
([68]) COM(2014)15 Communication: A policy framework for climate and energy in the period from 2020 to 2030

Figure 1.5.1: Electricity intensity in industrial sectors of the EU



Source: Eurostat

Figure 1.5.2: Electricity prices in the EU



Source: Eurostat

- Industrial electricity prices in Germany have increased sharply partly as a result of increases in taxes and levies.
- Italy, Malta and Cyprus have the highest prices in the EU. In Cyprus industrial electricity prices are almost double the EU average.

Energy intensity in industry

Five sectors in particular stand out as energy-intensive industries: ([69])

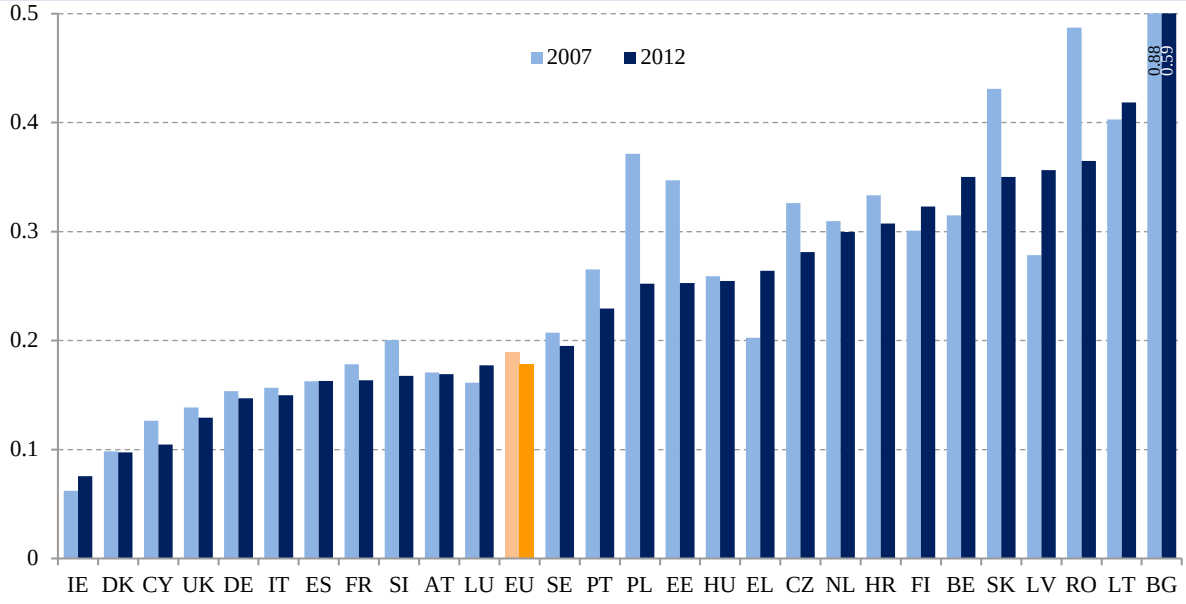
([69]) European Commission 2014 SWD on energy prices and costs in Europe. It reflects an assessment for electricity and

- Iron and steel industry and non-ferrous metals
- Manufacturing of paper and paper products
- Manufacturing of non-metallic minerals
- Manufacturing of chemicals and chemical products
- Manufacturing of pharmaceuticals

The average energy intensity has improved since 2008. The energy intensity of the EU economy was reduced by about 24 % between 1995 and 2012.

gas consumption based on NACE 2- digit classification, excluding the refinery sectors due to data limitations.
http://ec.europa.eu/energy/doc/2030/20140122_swd_prices.pdf

Figure 1.5.3: Energy intensity in industry



Source: Eurostat

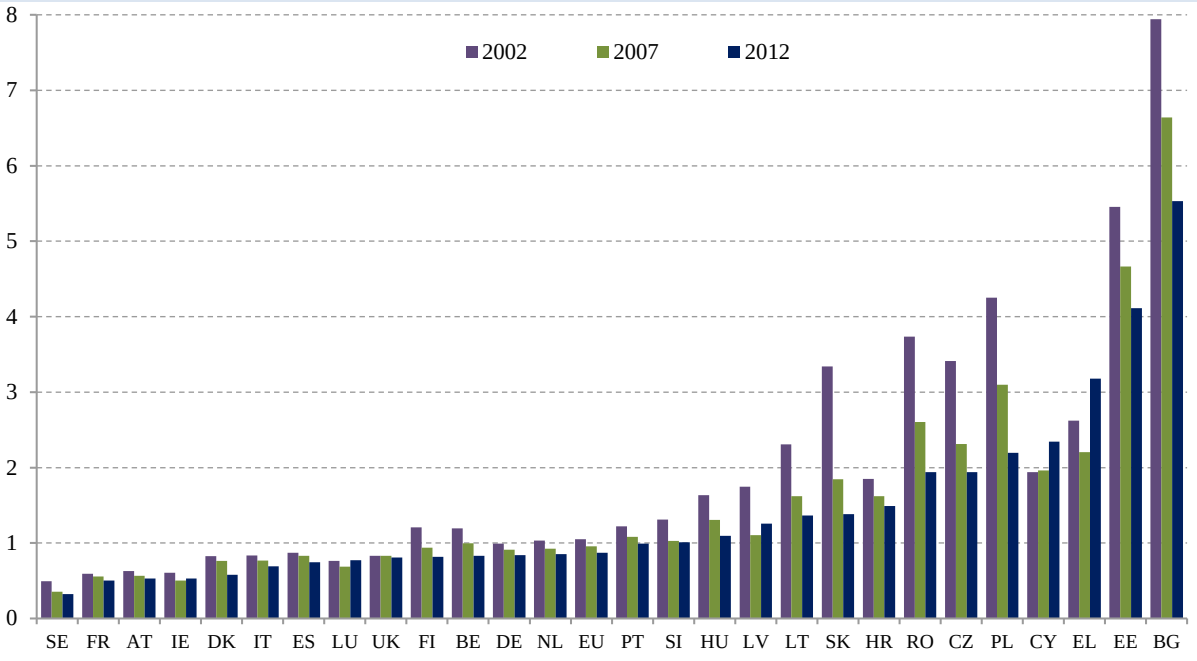
CO2 intensity in industry

The EU is steadily decoupling growth in economic activities and greenhouse gas emissions – between 1990 and 2011, EU GDP grew by 45 % and greenhouse gas emissions decreased by 16,9 %. ([70])

Member States with important service sectors and high value added manufacturing tend to have a lower degree of CO2 intensity. The key environmental challenge is fossil-fuel-based electricity generation. Most Member States have seen a decrease in CO2 intensity over the past ten years. Sweden, France, Austria and Ireland have the lowest CO2 intensity whilst in Bulgaria and Estonia there is significant room for improvement.

([70]) http://ec.europa.eu/clima/policies/g-gas/index_en.htm

Figure 1.5.4: CO2 intensity



Source: Eurostat

Greenhouse gas emission intensities are higher in countries with a bigger share of coal in energy generation, e.g. Poland and Bulgaria, whilst Member States with nuclear and hydropower plants have lower emission intensities, e.g. Sweden and France.

1.5.2 Resource efficiency

The Europe 2020 strategy provides a blueprint for achieving sustainable growth in Europe with the initiative 'A resource-efficient Europe' that sets an ambitious agenda for decoupling economic growth from resource use and its environmental impacts. It is a coherent policy framework, which builds on long-term strategies addressing climate, energy, transport, and broader resource challenges. Specific resource efficiency initiatives have been developed by some Member States, e.g. Germany, Austria, Finland and Denmark.

There is potential to further develop markets for secondary raw materials and exploit the potential of waste as a resource to support the move towards a more circular economy. This would respond to environmental objectives, but also open up new business opportunities, such as for industrial symbiosis and the bio-economy.

Since 2000, the EU, through its regional funds, has spent almost EUR 5 billion on co-financing energy efficiency measures in the Member States. However, investment targets were, according to a European Court of Auditors' report, not achieved in many cases as the planned payback period for the major investments was very long.

1.5.3 Promotion of sustainability and raw materials

Promotion of sustainability

Around 11 % of the greenhouse gases emitted worldwide each year come from within the European Union, as against the EU's share of a quarter of the world's GDP. The EU's share of global emissions is falling as Europe reduces its own emissions and as those from other parts of the world, especially the major emerging economies, continue to grow. ([71])

The Europe 2020 strategy has set targets for reducing greenhouse gas emissions by at least 20 % compared to 1990 levels, increasing the share of renewable energy in final energy consumption to 20 % and

([71]) http://ec.europa.eu/clima/policies/g-gas/index_en.htm

moving towards a 20 % increase in energy efficiency. ([72])

Finland, Denmark, and Sweden are the EU leaders in eco-innovation. ([73]) Cleantech clusters in Sweden, Finland, Austria, Denmark and Germany are contributing to innovative and entrepreneurial ways of using natural resources sustainably.

Policy example: Decentralised water management

Eco-efficient recycling of water in Germany provides for shower and bath water to be recycled in a patented bio-mechanical process without chemical additives. The result is a hygienically clean water process.

Environmental taxes provide incentives for companies and consumers to opt for greener production or products. Environmental taxes have been implemented in several Member States, including Denmark, Germany, Finland, the Netherlands, Sweden, Estonia, the Czech Republic and the UK. Romania introduced a new environmental stamp tax in 2013 and increased the excise duties on fuel in April 2014.

Policy example: Environmental taxes

At 3.9 % of GDP, the Netherlands has the second highest level of environmental taxes as a percentage of GDP in the EU. It raises significant revenues from transport taxes, notably the vehicle registration tax, with a non-negligible contribution of pollution taxes mainly from water and sewage charges.

The EU had achieved an 18 % reduction in greenhouse gas emissions by 2012. Current climate and energy policies have delivered on progress, with the economic slowdown having a significant effect on emission reduction. By 2020 a further reduction of greenhouse gas emissions by 24 % compared to 1990 is expected, thus exceeding the target.

Example: Reconversion in Italy

Another dimension of sustainability is the re-industrialisation or reconversion of industrial sites. This is a strategic issue in Italy which has high density of population. The government recently simplified land reclamation procedures, specifying better responsibilities in the different reclamation phases and developed tax relief measures. These provisions are estimated to facilitate environmental recovery projects and should have an impact on generating additional investments.

The share of renewables in the EU rose from 7.5 % in 2000 to 14.4 % in 2012. The target of 20 % by 2020 seems achievable. This progress means that the EU is the world leader in terms of global investment in renewables. The EU had installed about 44 % of the world renewable electricity (excluding hydroelectricity) by the end of 2012.

Since 2004, the share of renewable sources in gross final consumption of energy has grown in all Member States. The largest increases during this period have been recorded in Sweden (from 38.7 % in 2004 to 51.0 % in 2012), Denmark (from 14.5 % to 26.0 %), Austria (from 22.7 % to 32.1 %), Greece (from 7.2 % to 15.1 %) and Italy (from 5.7 % to 13.5 %). ([74])

Policy example: Renewable energy

In Poland there is a new requirement for large industrial users to get a proportion of their energy from renewable sources.

Primary EU energy consumption fell by around 8 % between the 2006 peak and 2012. This is due to a conjunction of factors, including ambitious energy efficiency policies and the economic slowdown.

Raw materials

The European raw materials initiative (RMI) recognises the importance of enhancing access to, and the sustainable supply of, raw materials and seeks to stabilise long-term commodity prices by removing market distortions, providing alternative approaches to meeting demand and supporting the transition to a low carbon and resource-efficient economy.

The 2011 Communication 'Tackling the Challenges in Commodities Markets and on Raw Materials' notes that progress has been made through the

([72]) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth.

([73]) http://www.eco-innovation.eu/images/stories/Reports/EIO_Annual_Report_2012.pdf

([74]) Eurostat Newsrelease STAT/14/37, 10 March 2014

initiative, but acknowledges ongoing policy challenges in ensuring access to raw materials for European industry. These include the growing interdependence of commodities and related financial markets and the increased volatility of prices, over-dependence on a small number of third countries for the critical raw minerals on which EU industry depends (and a lack of appropriate alternatives), cyclical patterns of supply and demand leading to price spikes, exacerbated by the economic and financial crisis, and an attendant risk of a lack of adequate investment to ensure access to raw materials in the future.

A number of Member States have formulated national raw material strategies, including Denmark, Finland, Germany, Greece, Hungary, Portugal, Sweden, Ireland and the UK.

At least 30 million jobs in the EU depend upon access to raw materials. The accessibility and affordability of raw materials is vital for ensuring the competitiveness of the EU industry. Europe is facing a number of challenges along the raw material value chain, including exploration, extraction and processing. Competition in exploration is increasing, with alternative land uses and an increasingly regulated environment.

During the past decade, world market prices for raw materials have been highly volatile. They have increased significantly but fell during the financial crisis. The growing demand of the emerging economies, in particular China, is one of the major factors influencing prices.

The Europe 2020 strategy underlines the need to promote technologies that increase investment in the EU's natural assets. Extractive industries fall under this category but their development has been held back by a complicated and burdensome national regulatory framework and by competition with other land uses.

An exchange of good practice project in the raw materials sector ([75]) provided 25 concrete examples of good practice in implementing developments that increase the competitiveness of the European raw materials sector:

Sweden is the leading iron ore producing country in the EU. The overall objective of Sweden's minerals strategy is to increase the competitiveness of the Swedish mining and minerals industry in a long-term sustainable way. In this context, one of the key impacts of the strategy is that it has better positioned a range of governmental bodies, industry and other stakeholders in the coordination of issues of strategic importance to the sector. High-profile aspects of the strategy relates to the governance of developments around accessing raw materials and measures to reduce the lead-time for planning permits. The strategy provides for good dialogue and clear distribution of responsibilities among stakeholders as an important basis for stimulating greater competitiveness. Strategies of this nature consider the mining industry to be part of a broad policy landscape requiring action in multiple areas.

Portugal has introduced changes to the royalties system to ensure that part of the income generated benefits the local communities in areas where mining activity takes place. Under the new scheme, up to 25 % of the royalties payable as part of all concession agreements for exploration or exploitation can be allocated to sustainable development projects. It aims to strengthen the contribution of the mining sector to local development. The Portuguese scheme provides for greater engagement with local communities and improves the profile of the sector.

ProMine was the first major mineral resources project funded by the EU for 20 years. It had a budget of over EUR 18 million and more than 400 participants from 30 partners in 11 countries, with a variety of backgrounds.

Over the past four years, its various strands have made a series of significant contributions to the sector's knowledge base, not only addressing some of the headline requirements of industry in the form of extensive mapping but also delivering new products and processes and contributing to sustainability and competitiveness through technology for more efficient processing and reduced energy requirements. Better use of mineral by-products resulting from the application of products developed by ProMine could reduce processing waste by 10-20 %.

([75]) Evaluation and exchange of good practice for the sustainable supply of raw materials within the EU, March 2014, CSES.

1.6.1 Access to markets

1.6.1.1 The single market

The ability of the single market to work as an integrated area that is favourable to entrepreneurship and commerce is essential to growth and innovation in European industry, in particular for SMEs. Moreover, access to production inputs remains an issue, as EU firms face higher energy prices than most of our leading competitors, and have difficulties in accessing raw materials, qualified labour and capital under affordable conditions.

Europe's recovery from the recession has largely been export-driven, as manufactured products ([76]) produce a trade surplus of around EUR 365 billion. It is estimated that over the next decade some 90 % of global demand will be generated outside Europe. Encouraging the internationalisation of EU firms is therefore an indispensable element of policy at both national and European level, as it will contribute to making the EU economy more stable and resilient.

It is therefore vital that the EU can participate in world markets, and that European competitiveness is promoted through deep and comprehensive free trade agreements that, on top of removing tariffs, also open up markets for services, investment, and public procurement, as well as dealing with regulatory issues. Access to markets is also a factor in the functioning of the internal market and effective legislation for products is a key element of European industry's competitiveness. In this context, the Commission has presented the Communication on 'A vision for the internal market for industrial products', ([77]) which sets out how to deal with technological and societal challenges while keeping in mind industry's need for regulatory stability. In the short term it is necessary to focus on strengthening enforcement mechanisms.

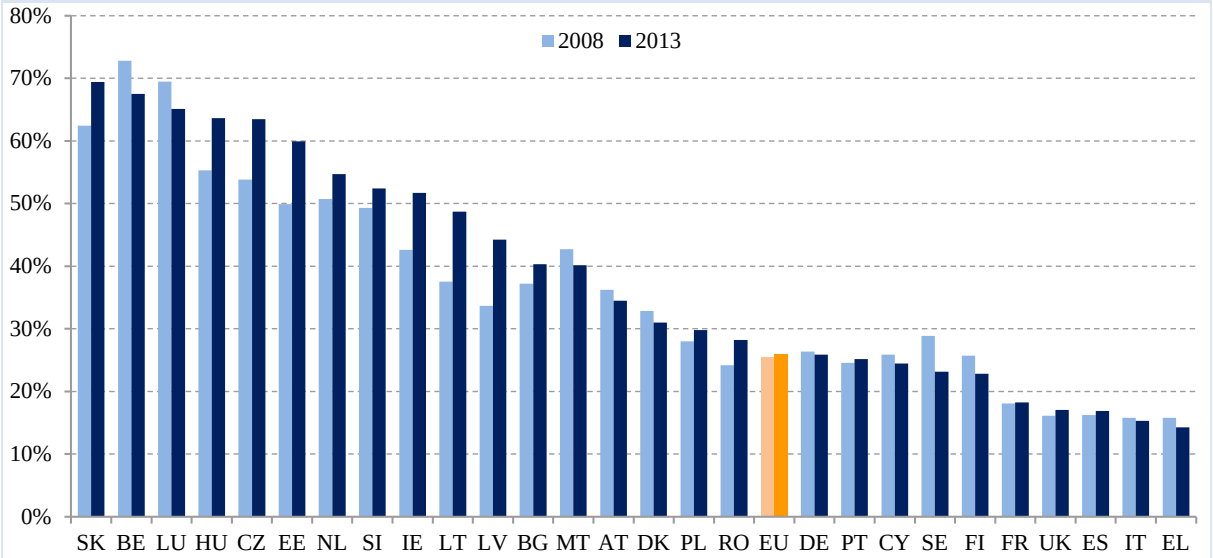
Graph 1.6.1 shows the relative openness to trade of Member States and the evolution of performance between 2008 and 2013. The integration of countries in the single market is measured by the average ratio of total exports and imports over GDP.

Among the Member States which were in the EU before 2004, Luxembourg, Belgium, the Netherlands and Ireland are relatively more integrated, but only the Netherlands and Ireland have managed to increase their integration in the reference period. Of the large countries, Poland and Germany have the highest level of integration, although the performance of Germany has been dropping over the period, while Poland Spain, France and the United Kingdom have improved their performance.

([76]) Mainly high- and medium-technology sectors.

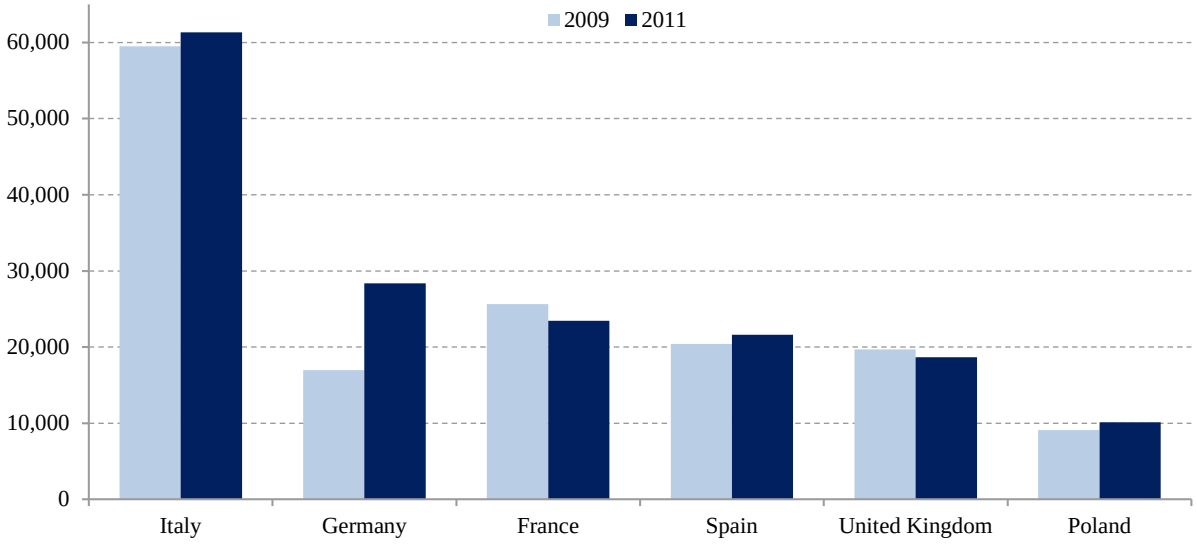
([77]) (2014) 25 final 22.1.2014.

Figure 1.6.1: Trade integration in the single market



Source: Eurostat

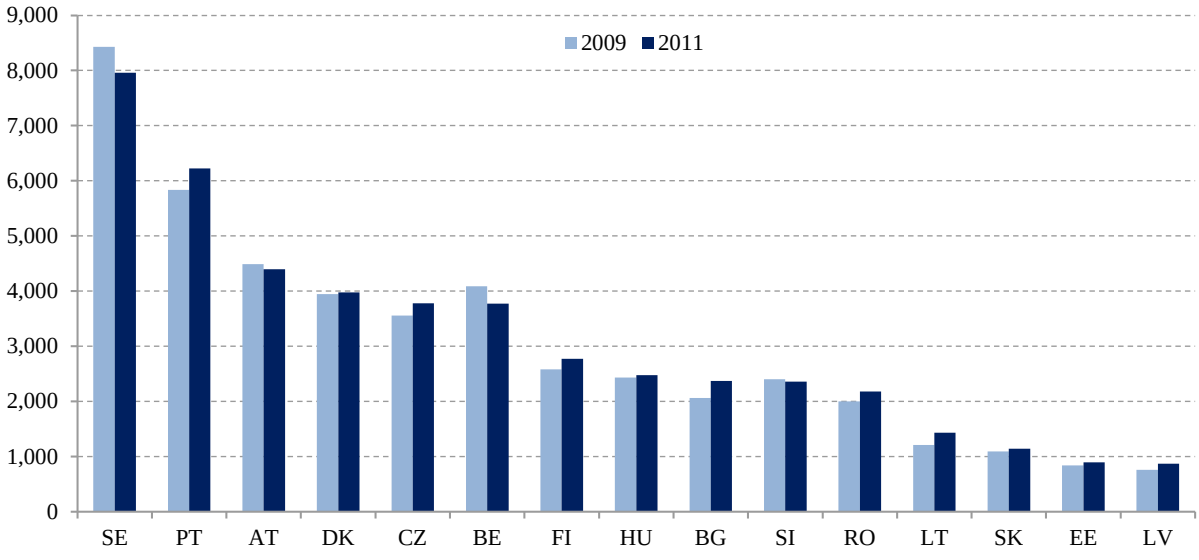
Figure 1.6.2: Number of SMEs exporting outside the EU, six largest countries (2009; 2011)



Note: SMEs in industry involved in trade of goods. Data for Netherlands, Ireland, Greece, Malta and Luxembourg n.a.

Source: Eurostat

Figure 1.6.3: Number of SMEs exporting outside the EU (2009; 2011)



Note: SMEs in industry involved in trade of goods.

Source: Eurostat, data for the Netherlands, Luxembourg, Ireland, Malta, Greece, Croatia and Cyprus were not available.

Finally, while the overall integration in the single market has improved between 2008 and 2013, only six out of the fifteen countries that were members before 2004 have performed better. The increase in the relative performance of the EU is mostly due to the Member States that joined in 2004. All of these countries except Cyprus outperformed the EU weighted average in 2013. Slovakia, Hungary and Czech Republic are above 60 %, indicating high trade integration.

1.6.1.2 Internationalisation

The EU should fully exploit world markets and boost its competitiveness through deep and comprehensive free trade agreements that, on top of removing tariffs, also open up markets for services, investment and public procurement. Negotiations on bilateral trade and investment agreements are ongoing with several global partners, notably the US and Japan. Further, in November 2013 negotiations were launched with China on a comprehensive bilateral investment

agreement, covering both investment protection and market access.

In many Member States enterprises and in particular SMEs have difficulties in accessing foreign markets, both for acquiring inputs for production, and for exporting products and services. However, as Graphs 1.6.2 and 1.6.3 show, the number of SMEs in manufacturing that export outside the EU increased between 2009 and 2011 in the majority of the Member States. This evidence is partially a consequence of the numerous initiatives undertaken by the EU to support internationalisation. Among the large countries, the number of exporting SMEs in manufacturing has diminished only in France and the United Kingdom, while fifteen out of twenty-one analysed Member States report an increasing number of exporting SMEs and only six show an opposite trend. ([78]) The 2014 European Competitiveness Report includes a detailed analysis of the key drivers of SME internationalisation.

The challenges faced by SMEs seeking to enter third markets are proportionally more difficult than for large companies. So far, only about 14 % of SMEs in the manufacturing sector export goods to other Member States and about 10 % export goods to countries outside the EU. ([79]) In general, exporting SMEs are more competitive, since they also tend to be more productive, more innovative and have a more skilled workforce. The EU seeks to encourage a business-friendly environment, eliminate non-tariff barriers with third countries, harmonise standards and strengthen the rule of law. ([80]) These steps help SMEs to invest and do business abroad. The EU also promotes the internationalisation of SMEs through 'Missions for growth' and specific support measures, such as the Enterprise Europe Network as well as IPR helpdesks in China, ASEAN and MERCOSUR.

In 2013, the Commission analysed how public and private operators already help SMEs abroad. ([81]) The exercise illustrated that the support services provided by Member States are often too generic and insufficiently focused on the most promising groups of export-oriented SMEs, or on the most promising growth markets. Most of the Member States' support services target Ukraine, Turkey, and China out of the 25 third countries analysed. For these countries, Member States may have unnecessarily duplicated support services. The most frequent support services include advice and consultancy, seminars and workshops, as well as business cooperation and networking. The overall objective of the EU strategy in favour of internationalisation is to achieve greater synergy between national and EU-level support.

Over the past year, many Member States have stepped up support for SMEs, including through additional means of trade financing and provision of market information. A number of Member States have opted for a comprehensive approach, by coordinating all relevant public resources (including embassies and other overseas representations) so as to systematically boost the success of their SMEs in third-country markets.

Recently, Finland and the UK for example, have substantially increased their budgets for export credits. Portugal has introduced an online platform for requesting VAT exemptions by exporters, which has significantly reduced the average time for processing reimbursements. Croatia has established a commission to support the internationalisation of its economy, aiming to coordinate all relevant institutions and provide a single point of contact for exporters. Romania and Spain have adopted an internationalisation strategy with a range of actions to further improve the business environment and provide better access to markets. However, despite these efforts, in many Member States there is still largely unused potential to tap into.

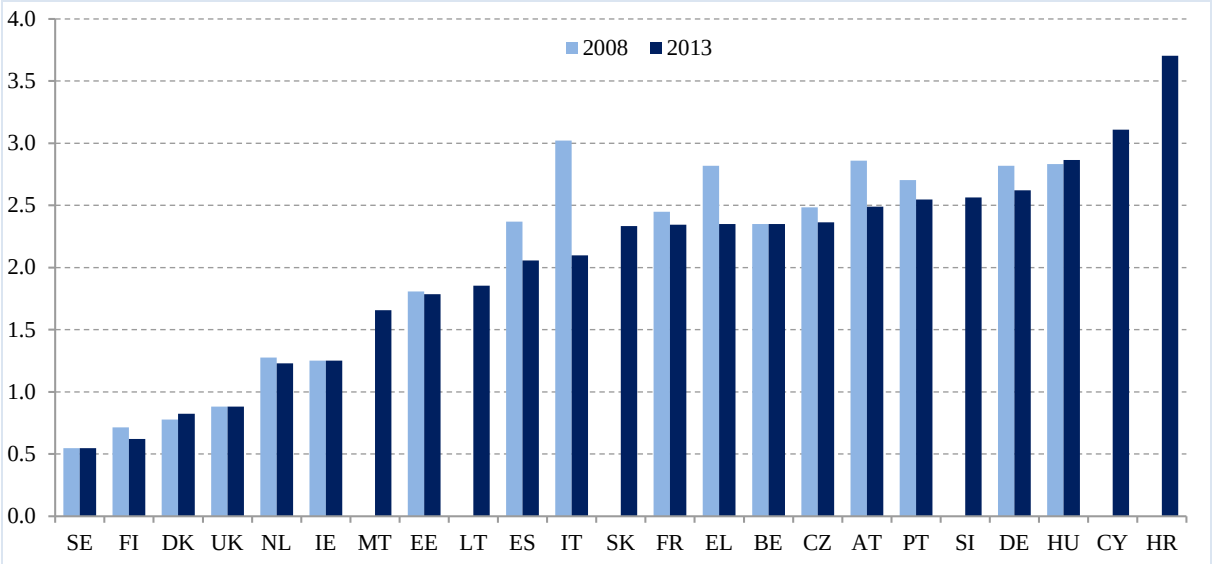
1.6.1.3 Entrepreneurship and implementation of the Small Business Act

The aim of the Small Business Act for Europe (SBA) ([82]) is to improve the business environment for SMEs. The annual SME performance review and SBA fact sheets ([83]) analyse the situation across the EU and look at initiatives that Member States have taken in the individual priority areas. The Commission and the Member States have implemented many measures set out in the SBA to lighten the administrative burden, make it easier for SMEs to get access to finance and support them in

([78]) Data for Netherlands, Ireland, Greece, Malta, Cyprus and Luxembourg n.a.
([79]) European Commission, *SME Performance Review*
([80]) *'Small Business, big world: A new partnership to help SME's seize global opportunities", COM (2011)702.*
([81]) European Commission, *Study on Support Services for SMEs in International Business 2013*

([82]) European Commission, *Small Business Act for Europe.*
([83]) European Commission, *SME Performance Review.*

Figure 1.6.4: The product market regulation index for professional services



Note: Data for PL, LU, LV, RO and BG, and 2008 values for MT, LT, SK, SI, CY and HR are not available.

Source: OECD

entering new markets. Although progress has been achieved, further efforts are needed to improve the conditions under which SMEs do business.

The SBA and its governance structure have led to enhanced cooperation and exchange of good practices between Member States. Such direct cooperation has been facilitated in particular through the SME envoy network. The policy measures in the individual priority areas of the SBA have helped to mitigate the effects of the crisis. At the same time, progress across policy areas and among Member States over the past five years has been uneven. For example, the principle of 'think small first' is now well established as a guiding principle of EU policy making and is increasingly being applied also at national level.

However, there is room for improvement in terms of implementation at national level. Similarly, as regards the principle of second chance, very little progress has been noted. In order to address this issue, the Commission adopted a recommendation in March 2014. ([84]) Its aim is to improve the conditions for viable enterprises to restructure and stay in business. At the same time, honest entrepreneurs who have failed should get a second chance because evidence shows that they are more successful the second time around. The recommendation asks Member States to put in place appropriate measures within one year.

In the Entrepreneurship 2020 action plan ([85]) the Commission proposed a number of actions and encouraged Member States to exploit Europe's entrepreneurial potential. Continuing a longstanding policy of promoting entrepreneurship and helping people to start a business, many Member States have further improved the conditions for entrepreneurs. Measures to improve access to finance and support entrepreneurship, as well as training and innovation activities, are particularly widespread among Member States.

Tax regimes ([86]) and SME tax incentives vary considerably across Member States. According to the 2014 Commission study on the applied corporate income taxation, a large number of Member States use reduced corporate income tax rates or special regimes favouring specific types of companies, targeting SMEs, companies operating in economically-distressed regions or in specific sectors.

The preferential treatment of SMEs may find its roots in the general perception that corporate taxation could be regressive, in the wish to address possible market imperfections, such as difficulties in accessing finance in the form of term debt and equity, asymmetric information about the investment environment abroad, absence of large economies of

([84]) Commission Recommendation of 12.3.2014 on a new approach to business failure and insolvency, C(2014) 1500.

([85]) European Commission, Entrepreneurship 2020 Action Plan.

([86]) Tax regimes are assessed against the EU Code of Conduct criteria and State Aid rules in order to identify and eliminate the harmful elements for tax competition. Those that are deemed non-harmful can be implemented.

scale for SMEs or their lack of resources to optimise their tax burden. Therefore, taxation plays a more important role in the cost structure of SMEs as compared to large enterprises.

SMEs' main concern with corporate income tax usually relates to changes in the applicable rules rather than the regime itself at any one point in time. Moreover, taxes other than corporate income tax (e.g. labour taxes) are often the prime area of concern to SMEs. In relative terms, SMEs face higher compliance costs and administrative burden than larger companies, due to their size and lack of resources and internal expertise.

Higher tax rates reduce the potential future rewards for entrepreneurs and as such affect the incentive for entrepreneurs to take risks and start a business. Tax carry forwards and refundable tax credits offer a means to reduce such disincentives. During the growth and maturity stage, incentive schemes can be advantageous for SMEs. However, due to thresholds relating to the size of profits, turnover, balance sheet total or number of employees, which are only satisfied by very small corporations, many SME tax incentives do not apply to medium-sized businesses.

Moreover, as most tax incentives target existing companies, they miss the economy's real engine of job creation, new and young businesses. Reporting, evaluation and transparency can foster effectiveness and efficiency and contribute to refocusing and finding the right balance between different types of tax and non-tax instruments, including professional licensing, education, policy coordination and business networking.

1.6.2 Infrastructure and services

1.6.2.1 Competition and regulation in services

The EU is committed to the creation of a competitive product market for services and network sectors, as this can strengthen economic growth and competitiveness by fostering a well-functioning internal market and reducing costs for enterprises.

Business services range from professional services (e.g. management consultancy, accountancy and legal services) through technical services (e.g. design, engineering and architectural services) to operational support services (e.g. office leasing, labour recruitment and employment, security and industrial cleaning activities). ([87])

These sectors have doubled their turnover in the last decade to reach more than EUR 3.5 trillion in 2009 and represent a source of growth and jobs for the EU. Between 1999 and 2009 their growth rate was more than double than that of the global economy (2.4 % versus 1.1 %). And employment grew much faster, at an average rate of 3.6 %, than employment in the overall economy (0.8 %). These trends are expected to continue due to further development of the internet of things for industry and manufacturing, ([88]) to increasing outsourcing by firms and to relatively higher increases in productivity in manufacturing and agriculture due to increased automation.

Network technologies have the potential to develop and sustain new digital businesses in the area of applications, services and connectivity, including the internet of things and represent a very important potential for growth not only as a sector, but also as an enabler for other industrial areas. Investment in networks both fixed and mobile (4G) is therefore of utmost importance.

The OECD has developed an aggregate indicator, the product market regulation index, which allows for an immediate assessment of the different performance in Member States. The sub-indexes analysed in the following sections are built in such a way that the countries with lower score are the ones with fewer barriers to entrepreneurship, investment and trade.

Competition and regulation in professional services

Within business services, professional services (also known as liberal professions) are loosely defined as occupations requiring special training in the arts or sciences, such as lawyers, notaries, engineers, architects, doctors, and accountants. The services they provide are essential to businesses and consumers, and this has a knock-on effect on the competitiveness of other sectors.

([87]) Commission high level group on business services

([88]) The internet of things is defined by ITU and Internet of Things European Research Cluster as a dynamic global network infrastructure with self-configuring capabilities based on standard and interoperable communication protocols where physical and virtual 'things' have identities, physical attributes and virtual personalities and use intelligent interfaces and are seamlessly integrated into the information network.

The results of the 2013 product market regulation analysis for professional services are shown in Graph 1.6.4. ([89]) The graph shows that enterprises in Sweden, Finland, Denmark and the United Kingdom enjoy the most favourable market conditions for these services. Enterprises operating in Germany, Hungary, Cyprus and Croatia have higher barriers to overcome. However, of these Germany is among the Member States that show larger progress compared to 2008, as are Portugal, Austria, Spain, Greece and Italy (largest improvement).

Member States have adopted policy measures to improve the functioning of the internal market, and in particular have reduced existing barriers in regulated professions. The majority have introduced measures to reduce entry barriers or restrictions in at least one sector; however, in some cases the reach of the policy initiatives has been limited, leaving scope for further improvements.

Challenges for business services and policy recommendations of the high-level group

A Commission high-level group on business services noted that the vast majority of business service enterprises (99.8%) are small or medium-sized and that labour productivity of business services has grown more slowly than in manufacturing. There are three challenges relevant to the future development of business services.

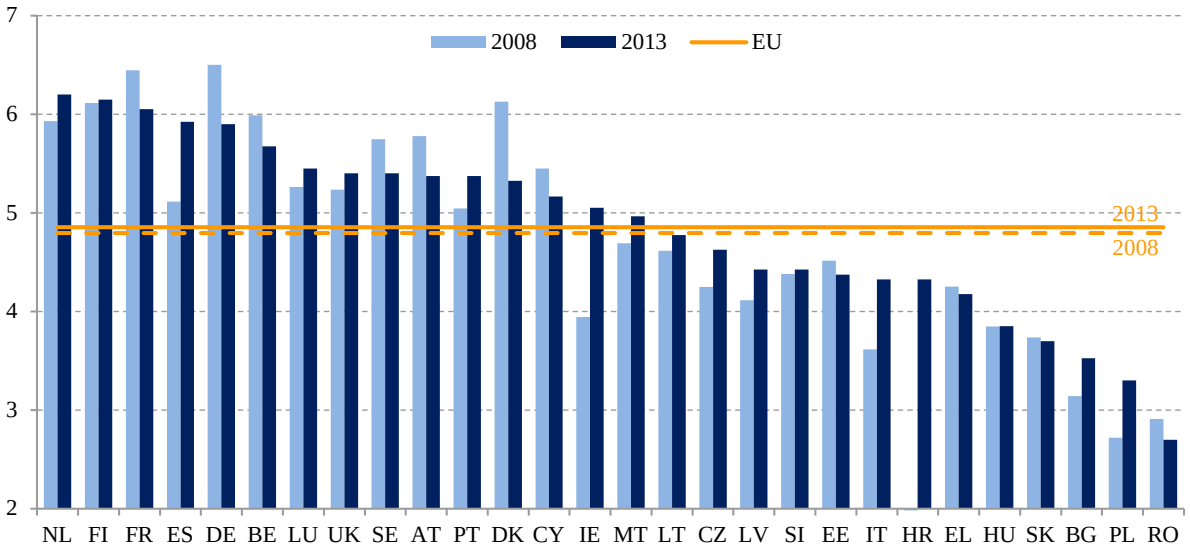
- *Market fragmentation:* the business services market is fragmented and there is significant scope for strengthening the internal market by harmonising standards and reducing the administrative burden.
- *International competition:* business service firms are growing rapidly in some fast developing markets, including consultancy and software firms in China and India. It is vital that European firms gain a foothold in these markets that are growing rapidly and have high potential.
- *Lack of innovation:* business services will play a crucial role in supporting industrial firms seeking to capitalise on the internet of things. Europe has to increase the pace of technological development and deployment and this will require coordinated effort and engagement across European manufacturing and services firms.

In order to address these challenges, the high-level group has put forward seven recommendations:

- Business services must form a core element in the 2015 revision of the EU 2020 Strategy.
- The Commission should proactively support firms, in particular SMEs, as they seek to capitalise on the global opportunities in business services. In trade and investment agreements the EU should make sure that international markets for business services are open and accessible to European firms.
- Complete the internal market for business services. This will require the optimisation of the regulatory framework and standards for the sector. Specifically, the Commission needs to address issues such as the lack of information on procedures needed for trading across borders, excessive bureaucracy and fragmented legislation, barriers to entry, taxation and insurance regimes that inhibit cross-border trade.
- Member States, with support from the European Commission, need to ensure implementation of the new public procurement framework, with a focus on outcomes, through life cost, value for society, quality and innovation, rather than lowest cost. The Commission and Member States should strive to reduce the costs of participation in procurement for SMEs.
- The Commission should develop a European skills strategy to ensure that the education systems are equipping people with the appropriate skills. Particular attention needs to be paid to retraining the current workforce and to ensuring that secondary-level students are developing the right skills for when they enter the workforce.
- The Commission should launch an initiative bringing together manufacturing and services firms across Europe to create a shared technological infrastructure that will enable easier and more open sharing of data and information, facilitating innovation and productivity gains in business services.

([89]) OECD 'Product market regulation' index 2014.

Figure 1.6.5: Satisfaction with the quality of transport infrastructure



Source: World Economic Forum: World Competitiveness Report 2013-14

- The Commission should establish a partnership with stakeholders, including senior industrialists, SMEs, trade unions, academics and Member States to support the implementation of the high-level group's recommendations and the development of a business services scorecard.

1.6.2.2 Infrastructure and competition in network industries

Infrastructure

Efficient, disaster resilient and sustainable infrastructures and well-regulated network industries (e.g. energy, transport and broadband) are fundamental for a competitive business environment. However, the quality and availability of these production inputs varies significantly across the EU. The World Economic Forum ([90]) annually evaluates the overall satisfaction with infrastructure in different countries. The 2014 report shows that among Member States, overall satisfaction is the highest in Finland and France, closely followed by Austria, the Netherlands and Germany. On the other hand, Romania, Bulgaria and Poland are lagging behind and their competitiveness is significantly hampered by lack of infrastructures.

([90]) World Economic Forum, Global Competitiveness Report 2013-2014

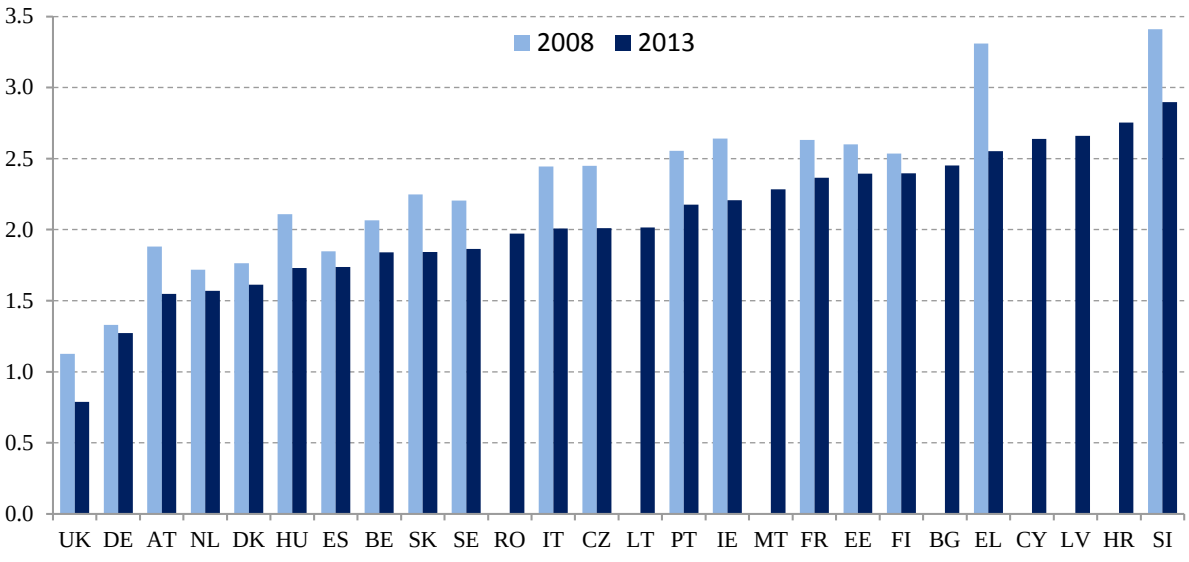
Transport infrastructure is particularly important as it enhances the ability of European businesses to compete inside and outside the EU. Looking at the level of satisfaction with the quality of transport infrastructure in Graph 1.6.5, it is clear that a number of Member States, in particular in eastern and southern Europe, score significantly below average. The quality of infrastructure in the EU has increased slightly in the last five years, due to significant investments in rebuilding and modernisation, including with the support of structural funds and other European instruments.

Satisfaction with the quality of transport infrastructure is the highest in the Netherlands, Finland and France, followed by Spain and Germany. Over the last five years, satisfaction has increased in nearly two thirds of Member States, probably reflecting the use of European structural funds for investments in transport infrastructure.

The countries showing most increased satisfaction are Ireland, Spain, Italy and Poland. On the other hand, satisfaction has decreased the most in Denmark and Germany. Poland and Romania show dissatisfaction that reflects their underdeveloped road infrastructure and delays in construction projects.

Energy infrastructure, in particular the energy grid is effective and competitive in the Netherlands, Austria, Finland, Denmark, the United Kingdom, France, Luxembourg, Sweden and Ireland. However, in Bulgaria and Romania the energy infrastructure is

Figure 1.6.6: The product market regulation index for network sectors



Note: Data for PL and LU, and 2008 values for RO, LT, MT, BG, CY, LV and HR are not available.

Source: OECD

below average. Despite encouraging developments in many Member States, further investment will be needed to maintain and upgrade the energy infrastructure, including resilient infrastructure, in particular to improve interconnection and to guarantee secure, competitive and sustainable access to energy for European businesses.

Finally, an efficient information and communication technology infrastructure is a fundamental requirement in order to fully benefit from the growth potential of digital markets. Fast broadband connections are becoming a necessity for the operations of many businesses. Many Member States have improved their infrastructure and basic broadband is now widespread in the EU. However, fast broadband is still more concentrated in areas of high population density and its extension to other areas is needed. The countries with the highest take-up of fixed broadband are the Netherlands, Denmark and France with over 35 subscriptions per 100 people. On the other hand, Romania, Czech Republic, Bulgaria, Poland, Cyprus and Lithuania are lagging behind with less than 20 subscriptions per 100 people.

Although the performance of infrastructure differs in the Member States, compared to many competitors, there is a need for upgrading and modernisation. For this reason, the 2014 industrial policy communication called on the Council, the European Parliament and the Member States to adopt and enforce initiatives to complete infrastructures and simplify and improve the business environment in the internal market.

Ongoing initiatives include the fourth railway package proposed in 2013 by the Commission to make it easier for rail operators to enter and operate in the single market. ([91]) In the maritime sector, the Commission has set out plans to facilitate customs formalities for ships, reducing red tape, cutting delays in ports and making the sector more competitive. The Commission has also taken steps to enforce the 'Single European Sky' obligations in Member States. ([92]) There are, at present, delays in the adoption, full implementation and enforcement of these initiatives.

In October 2013, the Commission adopted a list of 248 energy infrastructure projects which, on the basis of the new guidelines for trans-European energy infrastructure, will benefit from faster and more efficient procedures for granting permits and improved regulatory treatment. In addition, the Council and the European Parliament agreed in

([91]) The package is a major step towards creating a functioning Single European Rail Area, where standardised trains and rail components progressively replace the wide array of customised rolling stock and rail vehicle authorisation procedures are streamlined. The Shift2Rail joint undertaking will support this process by pooling public and private funds to speed up the development and deployment of new technologies and solutions.

([92]) In the road haulage sector, better enforcement of market access provisions is necessary for further market opening. Harmonisation of safety and technical rules in road haulage has already taken place setting the stage for a possible liberalisation of this sector at EU level.

December 2013 on the creation of the 'Connecting Europe Facility', a EUR 33.2 billion fund to finance and attract investment to improve Europe's transport, energy and digital networks. This will contribute to the creation of high-performing and environmentally sustainable interconnected networks across Europe. Within the Facility, EUR 5.85 billion has been allocated to trans-European energy infrastructure for the period 2014-20, which will contribute to market integration and supply security in the EU's energy system.

An expert group was set up in February 2013 within the task force for smart grids, ([93]) to identify gaps in policy and foster the creation of added-value synergies between industrial policies and technology development for the rapid deployment of smart grids. The group identified three actions: i) need for a framework to foster smart grid projects that do not fall under the guidelines for trans-European energy infrastructure; ii) add implications for employment to cost-benefit analysis; iii) analyse and deliver recommendations on adequate integration of energy storage and infrastructure. During 2014 the expert group will draft an implementation plan. By 2014, a total of 459 smart grid projects were launched across 30 countries (EU, Switzerland and Norway), accounting for a total investment of EUR 3.15 billion. ([94])

The policies of the Member States on infrastructure vary considerably, in particular in transport. In a number of countries most of the available budget has been directed to the construction of new axes, and funds allocated to road maintenance have not been sufficient to prevent deterioration of the existing network.

Investment in the rail network and in air transport facilities has been sustained in many Member States, thanks in part to EU funding. The majority of Member States have consistently invested in broadband networks in recent years and a number of them are planning to further enhance the capacity of their digital infrastructure.

Finally, a deficient energy infrastructure can hamper competitiveness in many Member States, in particular due to inefficiencies and insufficient investment in the past. One challenge for the development of an efficient internal market for energy is to overcome the difficulties in establishing interconnections between networks. Improving the capacity and the number of interconnections is a complex and costly process. Although many Member States, in particular peripheral ones, have launched large-scale projects which are now in the implementation phase, further efforts will be needed to streamline the process in the coming years.

Competition and regulation in network industries

The competitiveness of industry depends substantially on the interaction of network industries with the rest of the economy, including in terms of policies, which makes the functioning of the network markets all the more important. Moreover, making these sectors more efficient should improve energy security, lower trade imbalances, increase sustainability and foster market integration.

Despite the development of EU legislation over the past decades, a full single market has not yet been achieved in network industries, and some sectors are still sheltered from competition. The OECD product market regulation index for network industries in Graph 1.6.6 shows that the United Kingdom, Germany, Austria and the Netherlands have the least cumbersome regulations. At the other end of the scale, Slovenia, Croatia, Latvia and Cyprus have the highest level of regulation, although Slovenia has improved considerably since 2008. In general, there have been encouraging improvements in regulation over a five-year period and further policy measures have recently been launched in the majority of Member States, in particular concerning the phasing out of regulated prices in the energy sector.

([93]) Smart Grids Task Force: http://ec.europa.eu/energy/gas_electricity/smartgrids/taskforce_en.htm

([94]) Smart Grid Projects Outlook 2014, JRC, 2014 http://ses.jrc.ec.europa.eu/sites/ses.jrc.ec.europa.eu/files/u24/2014/report/ld-na-26609-en-n_smart_grid_projects_outlook_2014_-_online.pdf

2 Public administration scoreboard

2.1 Competitiveness through administrative efficiency

The quality of public administration is an important driver of Europe's competitiveness. Modern, innovative and efficient public administrations are the key to sustaining the incipient recovery and unlocking Europe's growth potential. They can do this by demonstrating a clear vision, strong leadership and effective implementation capacity, by promoting a dynamic business environment and good quality public services, and by making the most of the EU funding available.

Modernising public administration is one of the five priorities of the European Semester of economic governance. In many Member States, inefficient public administrations, weak judicial capacity and legal uncertainty remain major obstacles to industrial competitiveness and economic growth. While the importance of reforms in this area is increasingly recognised by Member States and some far-reaching measures have been taken in recent years, further efforts are required. In this respect, more Member States received country specific recommendations on the effectiveness of their public administration systems and judiciary at the conclusion of the 2014 European Semester.

The 2014 industrial policy communication ([95]) pointed to the role of efficient public administrations at EU, national and regional levels in helping European businesses overcome the barriers that limit their growth. It called on Member States to ensure that their policy efforts increase competitiveness throughout the EU.

As part of regular reporting on the competitiveness policies and performance of the EU and Member States, the growth-friendly public administration scoreboard ('the Scoreboard') has refined the monitoring of Member States by better covering their public administrations' performance in a number of areas important for the ease of doing business and growth. This in turn should encourage continuous improvement by government and public administrations in the context of the European Semester.

The Scoreboard is the first EU-wide exercise to analyse how fit for purpose the Member States' public administrations are when it comes to promoting growth. As such, it is integrating the competitiveness focus into public administration and 'mainstreaming' business-friendly design into key policy areas at the EU, national and regional levels. While building on previous work to assess the quality of public administrations in the Member States (see box below), it goes further by taking a more holistic approach that looks at a greater number of features important for competitiveness.

European Commission work streams in the area of public administration

Significant work on various aspects important for modernising public administrations has been done by the various Commission departments:

Assessing the quality of public administration in Member States — this is done through (1) the annual Report on Member States' Competitiveness Performance and Policies ([96]); (2) the study on 'Excellence in public administration for competitiveness in EU Member States'; ([97]) (3) the horizontal thematic fiche on the state of public administration across the EU, which is the basis for assessing progress in the European Semester priority area 'modernising public administration'. ([98])

Public sector innovation — (1) A pilot Public Sector Innovation Scoreboard (EPSIS) was published in 2013. ([99]) This exercise measures public sector innovation across the EU; (2) EC support for public procurement of innovation (PPI) to push public procurers to go for more innovative products and services. The first 'Public

([95]) http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrial-policy/index_en.htm

([96]) http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-member-states/index_en.htm

([97]) http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-member-states/improving-public-administration/index_en.htm

([98]) http://ec.europa.eu/europe2020/making-it-happen/key-areas/index_en.htm

([99]) http://ec.europa.eu/enterprise/policies/innovation/policy/public-sector-innovation/index_en.htm

Procurement of Innovation Award' was launched in October 2013 and the awards will be presented in September 2014; (3) the establishment of an expert group to support the identification, scoping and definition of possible actions in the area of public sector innovation.

Making public administration more responsive to SME needs — The Small Business Act (SBA) country fact sheets monitor Member States' performance in building business-friendly public administrations. ([100])

Civil justice — an annual EU Justice Scoreboard presenting information on the quality, independence and efficiency of national justice systems is published since 2013. It covers civil, commercial, administrative and insolvency court cases. ([101])

Fighting corruption — the first EU Anti-Corruption Report was published in February 2014. ([102])

E-government — significant work on e-government has been done in the framework of the Digital Agenda. There are also ongoing initiatives and programmes at EU level in areas such as interoperability and standardisation.

EU funding — the European Social Fund's 'institutional capacity' priority supports strengthening the capacities of public administrations and public services at national, regional and local level;

Other instruments and initiatives — (1) the European Public Sector Awards (EPSA); (2) the European Public Administration Network (EUPAN);

High-level conference on 'Public Administration for Growth' — this conference held on 29 October 2013 brought together key actors to discuss the challenges to European businesses and to the EU's growth and competitiveness agenda from inefficient and bureaucratic public administrations. ([103])

([100]) http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

([101]) http://ec.europa.eu/justice/effective-justice/scoreboard/index_en.htm

([102]) http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/index_en.htm

([103]) http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-member-states/improving-public-administration/high-level-conference/index_en.htm

2.2 Public administration and competitiveness: the assessment framework

The relationship between public administration and competitiveness is multi-dimensional and complex. ([104]) The high number of interactions between public administrations and businesses, as well as the various ways in which administrative quality has an impact on a country's competitiveness, make it difficult to fully capture the complexity of this relationship.

The most important features of a public administration for competitiveness are the costs and uncertainties for firms in dealing with the administration, and the administration's effectiveness in defining and implementing policies and providing public services. An administration's impact on the business environment could thus be measured according to the following categories: quality of governance, respect for the rule of law and absence of corruption; strategic, budgetary, regulatory and implementation capacities; and enterprise-friendly design in key areas of interaction between businesses and the administration. These categories help to measure and guide the various aspects that are important from a competitiveness perspective. They also show the type of dynamic change needed to raise political awareness and steer the policy focus at both national and EU level.

Governance

Good public governance and legal certainty are necessary for a stable business environment. This requires institutional arrangements that enhance the public sector's capacity to act. Good public sector governance implies that the institutions that govern economic and social interactions within a country meet a number of key criteria, such as absence of corruption, an effective legal environment and government ownership.

([104]) The study on 'Excellence in public administration for competitiveness in EU Member States' (2012) provides an in-depth analysis of the links between public administration and competitiveness.

Capacities

Strategic, budgetary, regulatory and implementation capacities are fundamental to anchor the incipient recovery and cope with future challenges. Restoring growth and competitiveness requires public administrations across the EU to be more strategic, client-oriented and forward-looking. For this, administrations need to match public policies to stakeholders' needs and continuously improve the management of resources, processes and risks, including fiscal risks. This helps ensure both respect for fiscal commitments and greater policy coherence across the various sectors and administrative levels.

Business-friendly design in key areas

Firms deal with public administrations in a variety of ways, for instance when registering a business, applying for licences, exporting, settling legal disputes or paying taxes. The efficiency and predictability of these interactions are important for the competitiveness of the whole economy because they have a substantial impact on the costs and risks that companies face in making investment decisions ([105]) In addition, firms indirectly depend on public administrations as they are the prime beneficiaries of public goods and bear a large part of the overall tax burden. At the same time, businesses need favourable conditions to develop and sell new products and services in the marketplace. In this respect, the public sector can act as an enabler and catalyst for innovation in the private sector by providing an innovation-friendly environment or through the strategic use of public procurement.

The assessment framework

The growth-friendly public administration scoreboard assesses performance based on a framework that links public administration and competitiveness in a concise and comparable way, using a manageable number of indicators. To facilitate reform and policy learning, three categories of links were identified focusing on the dimensions of public administration advocated: governance; capacities; and business-friendly design in key areas of companies' dealings with the administration. The three categories are broken down into 10 areas that show the longer-term direction necessary to strengthen public administrations and serve as benchmarks to guide policy:

A. 'Governance' covers the multi-dimensional concepts of administrative quality, rule of law and legal certainty, as well the extent to which the powers of government and administration are exercised for private gain.

1. Government effectiveness & corruption

B. 'Capacities' captures essential aptitudes of the administration in relation to:

2. Public finances
3. Strategic and implementation capacities
4. Quality of regulations

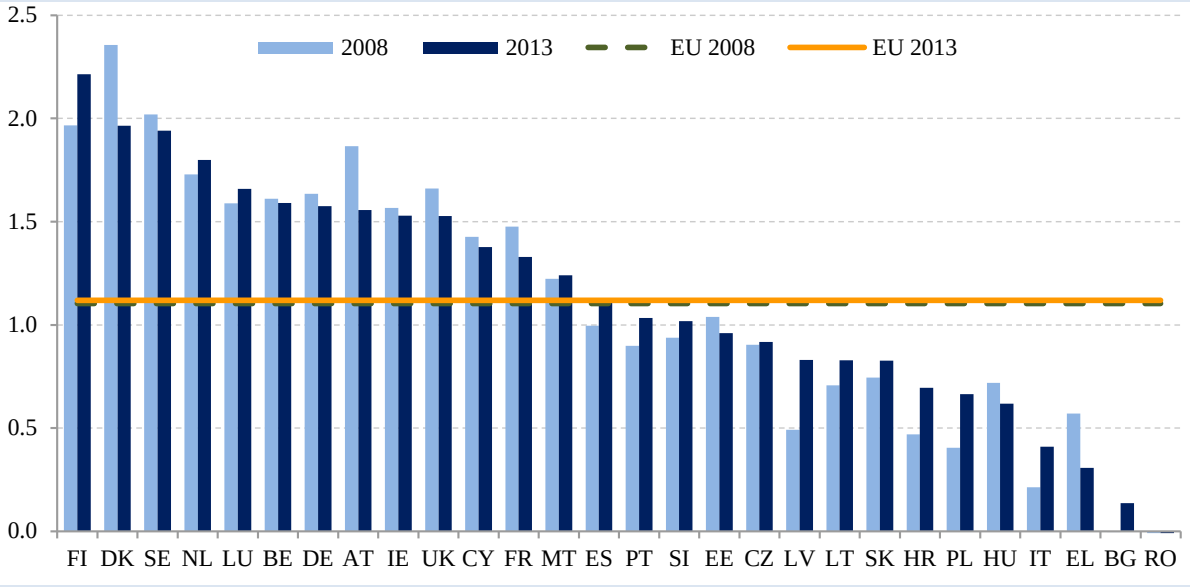
C. 'Business-friendly design in key areas' covers the most important interactions and contact points between the administration and private companies:

5. The use of information and communication technology
6. Starting a business and obtaining licences
7. Public procurement
8. Tax compliance and tax administration
9. Trade and customs administration
10. Civil justice systems

To construct the scoreboard, a set of 21 indicators was selected to represent the three categories of links between public administrations and competitiveness. The choice of indicators is constrained by the availability, quality, country coverage, timeliness and representativeness of the data. In light of possible improvements in data availability and changing policy priorities, the choice of indicators may evolve over time.

([105]) The efficiency of public administration in helping firms grow has been analysed empirically in the European Competitiveness Report (2014).

Figure 2.1: Government effectiveness



Note: The Worldwide Governance Indicators summarise information from 30 data sources on views of citizens, businesspeople and experts in the public, private and NGO sectors. Government effectiveness captures the perceptions of the quality of public service, its independence from the political process, the quality of policy formulation and implementation, and the credibility of the government commitment to policies (scale from 0 to 100 where 100 is best).

Source: World bank - Worldwide Governance Indicators 2009, 2013

2.3 Growth-friendliness of public administrations

2.3.1 Governance, rule of law and corruption

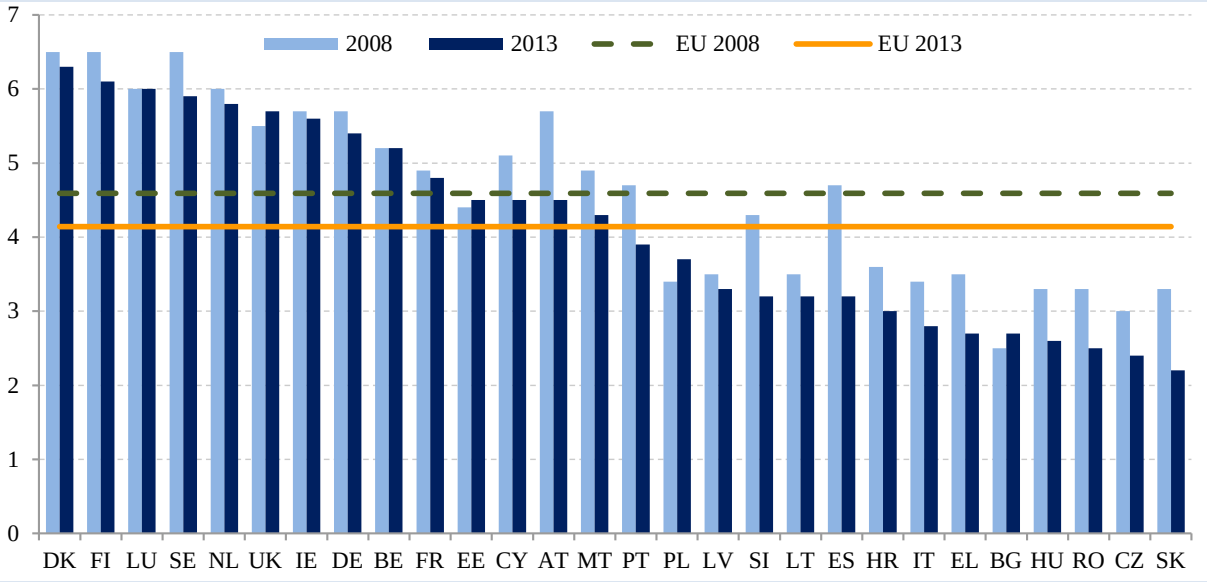
The quality of governance is a multi-dimensional concept that captures different aspects of the nature and mechanisms of a country's administrative system. It is characterised by the way government institutions operate and thereby determine the management of public affairs and the state's capacity to provide a regulatory framework that is conducive to growth and competitiveness. By shaping the environment for entrepreneurship, the institutional framework can enable firms to reach their full potential. At the same time, the institutions that govern economic and social relations in a country must meet a number of key criteria, such as the absence of corruption, a workable approach to competition and procurement policy, and an effective legal environment.

Government effectiveness

Government effectiveness is an indicator of general governance that provides a summary assessment of the quality of a public administration in general, depending on its regulatory system, its impartiality and the quality of the services it provides. The latest data show that, on average, government effectiveness has not improved much across the EU over the past five years (figure 2.1). While many Member States either maintained or improved their position relative to 2008, twelve countries' ranking fell: Belgium, Denmark, Germany, Estonia, Ireland, Greece, France, Cyprus, Hungary, Austria, Sweden and the United Kingdom. Greece, Austria and Denmark showed a marked deterioration in their performance, while the biggest improvements were in Italy, Latvia, Croatia, Bulgaria and Finland. All Member States that scored below the EU average, except Estonia and Greece, showed improvements. Nevertheless, Romania (the only country with a negative value), Bulgaria, Greece and Italy are performing very poorly. However, the perceptions of improvement or deterioration in overall government performance might have been strongly affected by the severity of the global economic crisis.

The existence of a rule-based system that economic actors can trust is essential for a stable and predictable business environment. The system needs to follow a set of universal principles which include

Figure 2.2: Diversion of public funds



Note: The indicator is the weighted average of the question 'In your country, how common is diversion of public funds to companies, individuals or groups due to corruption? (1 = very common; 7 = never occurs)'

Source: World Economic Forum - Global Competitiveness Report (2008-2009; 2013-2014)

legality, which implies a transparent, accountable, democratic and pluralistic process for enacting laws; legal certainty; prohibition of arbitrariness of the executive powers; independent and impartial courts; effective judicial review including respect for fundamental rights; and equality before the law. ([106])

Some of the countries most affected by the crisis saw government effectiveness and the rule of law worsen significantly before the crisis hit. ([107]) This was the case, for example, in Italy, Spain, Portugal, and Greece, all of which show big differences in their ranks for the period 2002–2007. Their performance improved over 2008–2012, except in Greece where it worsened. This trend suggests there is a link between the economic and financial system in general and a country's overall governance.

Corruption

By undermining the rule of law, corruption has significant effects on a country's competitiveness. This significantly discourages innovation and considerably slows down the adoption of new technologies, thereby reducing the level and quality of investment, obstructing the fair operation of the internal market and impacting negatively on public finances, productivity growth and competitiveness.

The 'diversion of public funds' indicator (figure 2.2) quantifies perceptions of 'state capture' corruption based on a survey asking how common the diversion of public funds to companies, individuals or groups is due to corruption. The data show a worsening trend across the EU. The EU average fell by 0.45 points in 2013–2014 from 2008–2009, with deteriorations in all but about six Member States.

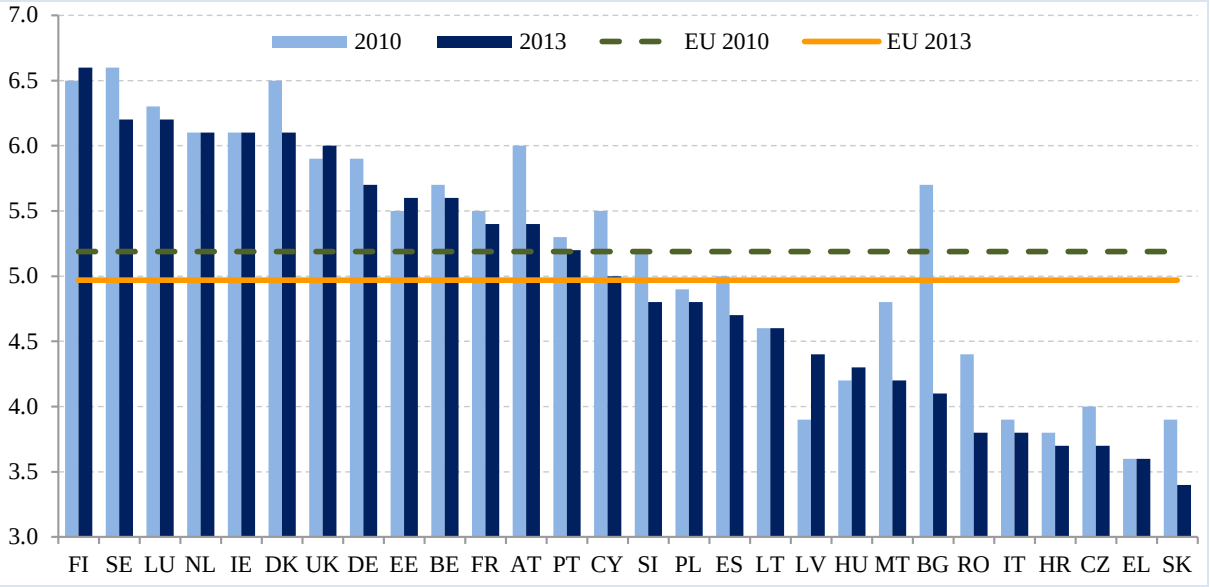
The perception that public funds are being diverted increased most in Spain, Austria and Slovakia. This was mainly due to prominent corruption cases that have been investigated in recent years. These have raised awareness of potential corruption risks and increased public authorities' focus on the need to strengthen anti-corruption and integrity-related policies. Poland, Bulgaria, the United Kingdom and Estonia are the only countries where the perception that public funds are diverted diminished. It is interesting to note that these countries were less affected by the economic and financial crisis.

This deteriorating trend is confirmed by the 'irregular payment and bribes' indicator (figure 2.3). With the exception five Member States with improving situations (Finland, the United Kingdom, Estonia, Latvia and Hungary) and four that are unchanged (Ireland, Greece, Lithuania and the Netherlands),

([106]) Communication from the Commission to the European Parliament and the Council, A new EU Framework to strengthen the Rule of Law, COM(2014) 158 final

([107]) Gamberger, D. and Smuc, T. (2013), Good Governance Problems and Recent Financial Crisis in some EU Countries, Economics E-journal (Vol. 7, 2013-41).

Figure 2.3: Irregular payments and bribes



Note: The indicator is the weighted average of the five components of the question 'In your country, how common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licences; (e) obtaining favourable judicial decisions. Answers range between 1 (very common) and 7 (never occurs).'

Source: World Economic Forum - Global Competitiveness Report (2010-2011; 2013-2014)

irregular payments and bribes in areas that are important for the ease of doing business have increased across the EU over the last three years.

The situation remains worrisome in Bulgaria, the Czech Republic, Greece, Croatia, Italy, Hungary, Romania and Slovakia, all of which have low scores for the two corruption-related indicators. According to the EU Anti-Corruption Report (2014), these countries have in place most of the necessary legal instruments and institutions to prevent and fight corruption but suffer from a number of problems which lead to unsatisfactory results. The shortcomings include insufficient political will and a lack of capacity to enforce the rules, which in turn means they are not vigorously applied. The Commission has therefore drawn attention to the anti-corruption measures of several Member States under the European Semester process.

European businesses' perception of corruption

The 2013 Flash Eurobarometre survey on corruption relevant to businesses ([108]) covered six broad sectors: energy, mining, oil and gas, and chemicals; healthcare and pharmaceuticals; engineering and electronics and motor vehicles; construction and building; telecommunications and information technologies; and financial services, banking and investment. The key findings are as follows:

- Seventy-five per cent of companies say that corruption is widespread in their country.
- Companies in Greece (99 %), Spain and Italy (both 97 %) are most likely to say this, but at least nine out of ten companies in the Czech Republic and Slovenia (both 94 %), Slovakia (92 %), Hungary and Romania (both 91 %), and Portugal and Croatia (both 90 %) say the same.
- Construction companies are the most likely to consider that corruption is widespread (79 %) and telecoms/IT companies the least likely (62 %).
- 43 % of European companies see corruption as a problem when doing business.
- The smaller the company is, the more difficulties it has in dealing with corruption and nepotism in the public administration.
- Corruption is most likely to be considered a problem when doing business by companies in the Czech Republic (71 %), Portugal (68 %), and Greece and Slovakia (both 66 %).
- Almost half (47 %) of companies agree that the only way to succeed in business in their

([108]) 2013 Flash Eurobarometer 374. http://ec.europa.eu/public_opinion/archives/flash_arch_374_361_en.htm#374

country is to have political connections.

- Favouring friends and family in business (43 %) or public institutions (43 %) is considered the most widespread corrupt practices, followed by tax fraud and non-payment of VAT (42 %).
- Thirty-two per cent of companies that have participated in public tenders/public procurement say corruption prevented them from winning a contract. This view is most widespread among construction (35 %) and engineering companies (33 %).
- At least half of companies in Bulgaria (58 %), Slovakia (57 %), Cyprus (55 %) and the Czech Republic (51 %) say this.
- More than four out of ten companies say that a range of illegal practices in public procurement procedures is widespread. Particularly common practices are specifications that are tailor-made for particular companies (57 %), conflicts of interest in bid evaluation (54 %), collusive bidding (52 %) and unclear selection or evaluation criteria (51 %).

2.3.2 Capacities

2.3.2.1 Public finances

Striking a balance between short-term macroeconomic stabilisation and long-term sustainability has become a severe policy challenge after recent financial and economic developments. In this context, the capacities of governments to promote a growth-friendly mix of expenditure and revenue measures while catering for the fiscal consolidation needs particular attention. Furthermore, strategic thinking and long-term political objectives need to be aligned with financial resources and specific budgetary measures.

Medium-term budgetary programming

Strong fiscal governance is a prerequisite for sound and sustainable public finances. Well-designed fiscal frameworks are generally associated with better budgetary outcomes in terms of deficit and debt developments. The medium-term budgetary frameworks (MTBFs) are an important factor in this respect. By allowing governments to extend the horizon for fiscal policy-making beyond the annual budgetary calendar, the MTBFs ensure consistency in budgetary planning over a period of several years (at least three years).

The Commission has surveyed EU Member States' medium-term budgetary frameworks and budgetary procedures across EU Member States through several rounds of questionnaires. ([109]) From the results, an index of the quality of medium-term budgetary frameworks (figure 2.4) was constructed. It takes into account both the existence and the properties of national medium-term budgetary frameworks and the preparation and status of Stability and Convergence Programmes. While in some countries the MTBFs were introduced a long time ago and are central to fiscal policy-making, in others the Stability and Convergence Programme has long been the only instrument for putting annual fiscal policy decisions into a multiannual context. ([110]) In 2012, MTBFs still had not been adopted in Cyprus and Luxembourg.

The properties of the MTBFs vary significantly across the EU. While the quality of MTBFs across the EU was better overall in 2012 than in 2008, figure 2.4 shows that nine Member States performed below average in 2012: Hungary, Sweden, Slovakia, Latvia, Bulgaria, Poland, Ireland, Cyprus and Luxembourg. ([111]) It must be noted that most of the countries under balance of payments assistance (Hungary and Romania) and economic and financial adjustment (Greece, Spain and Portugal) have significantly improved the quality of their medium-term budgetary frameworks. ([112])

Fixed frameworks (articulated around a predefined path for government expenditure and revenues, generally not revised over time) are being used by very few Member States with an advanced fiscal policy setting (e.g. the Netherlands and the United-Kingdom). The degree of connectedness between the MTBFs and the annual budget can be considered strong or relatively strong in a majority of countries, but appears weak in a few cases (e.g. Ireland and Luxembourg) according to 2012 data.

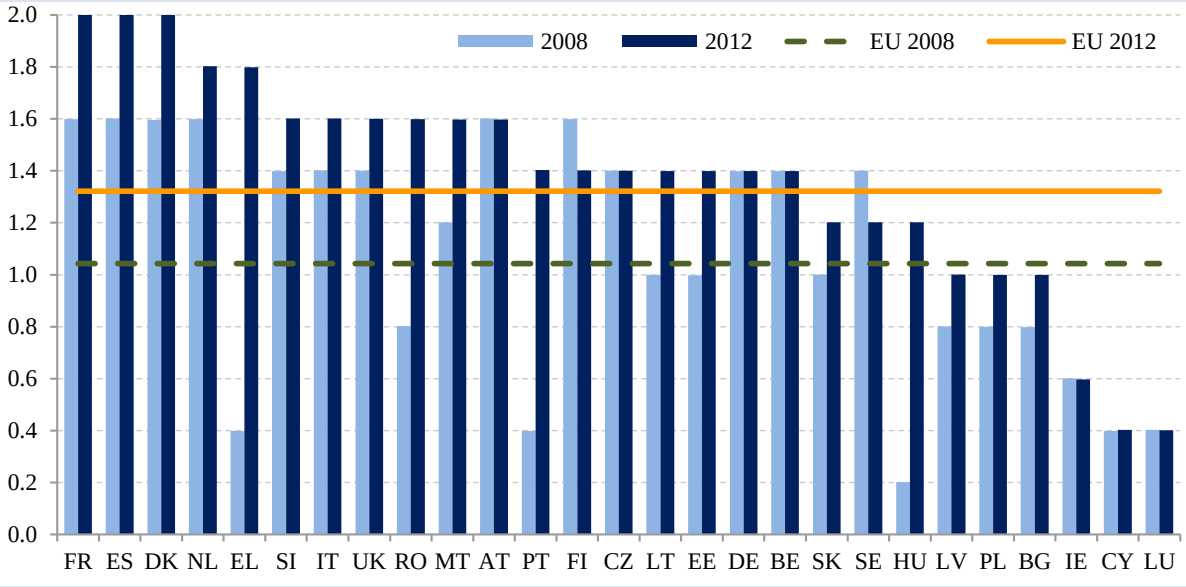
([109]) Questionnaires on the medium-term budgetary frameworks and budgetary procedures were sent to Member States in 2006, 2008, 2009, 2010, 2011 and 2012.

([110]) http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/documents/3-a5a_analysis_en.pdf

([111]) http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/framework/index_en.htm

([112]) The economic adjustment programme for Cyprus was agreed in April 2013, while the Commission survey was conducted in 2012.

Figure 2.4: Quality of medium-term budgetary frameworks



Note: The index takes into account both the existence and properties of national frameworks and the preparation and status of Stability and Convergence Programmes. The index captures the quality through five criteria: (i) existence of a domestic framework; (ii) connection between multi-annual budgetary targets and the annual budget; (iii) involvement of national parliaments in the preparation of the medium-term budgetary plans; (iv) coordination between levels of government layers prior to setting the medium-term targets; and (v) monitoring and enforcement mechanisms.

Source: European Commission

When it comes to the involvement of national parliaments, they vote on the main medium-term objectives in one third of the Member States: the Czech Republic, Denmark, Spain, France, Croatia, the Netherlands, Portugal, Romania and the United Kingdom. In Bulgaria, Ireland and Poland the parliament is not involved at all. In all other EU countries the objectives are formally presented to the parliament but there is no vote.

A proper ex-ante coordination mechanism between all levels of general government was in place in 15 countries in 2012. In other Member States, the coordination mechanisms existed only for some general government subsectors (Bulgaria, Ireland, Luxembourg, Poland, Portugal and Romania) or there was no ex-ante coordination (e.g. in the Czech Republic, Cyprus, Latvia, Hungary, Slovakia, Sweden and the United Kingdom).

Monitoring and enforcement mechanisms are needed for MTBFs to be effective. Nine countries — the Czech Republic, Denmark, Greece, Spain, France, Malta, Austria, Romania and the United Kingdom — had in place in 2012 well-defined actions in case of deviation from plans and a regulator monitoring of targets. In most cases, however, monitoring and enforcement procedures were limited or not clearly defined (e.g. Cyprus, Croatia and Luxembourg).

It is to be highlighted that a large majority of Member States undertook further measures to improve fiscal governance in 2012 and 2013, notably in response to the strengthening of the EU's requirements on domestic budgetary frameworks. ([113])

Public investment

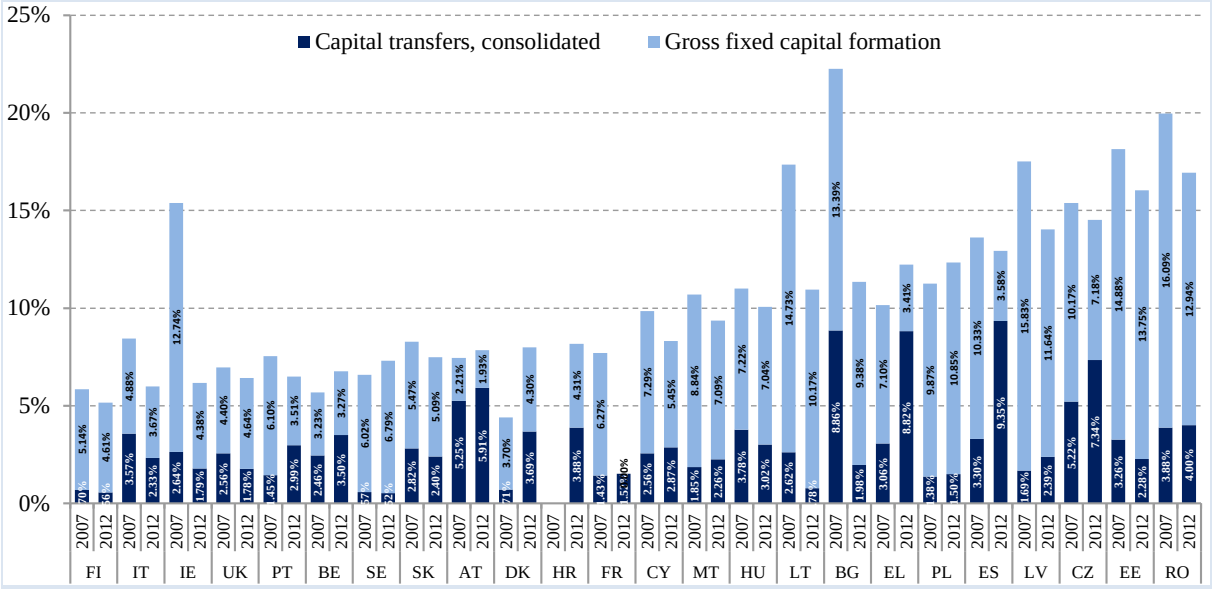
Government investments are associated with higher potential growth, in particular in 'catch-up' and emerging economies. ([114]) However, the productivity of public investment and thus its impact on long-term growth strongly depends on the nature of the individual project. It is therefore not so much the level of investment but its efficiency that matters.

Government investment as a share of total government expenditure varies across the EU (figure 2.5). In 2012, government investment — comprising both gross fixed capital formation and capital transfers — was highest in Romania, Estonia, the Czech Republic and Latvia (16.94–14 % of total government expenditure). In general, depending on their initial infrastructure resources, and due to the

([113]) EU Directive setting minimum requirements for national budgetary frameworks.

([114]) European Commission, The Quality of Public Expenditures in the EU (2012).

Figure 2.5: Government investment as a share of total government expenditures



Note: General government investment comprises gross fixed capital formation and capital transfers.

Source: Eurostat (2007, 2012)

dynamics of 'catching up', the EU-13 countries tend to cluster at the top end of the ranking.

In terms of gross fixed capital formation as a share of total government expenditures, public investment was highest in Estonia (13.7 % of total government expenditure), Romania (12.9 %) and Latvia, Poland and Lithuania (11.6–10 %). It was lowest in Belgium, Greece, Italy, Spain and Portugal (all below 4 %). Compared with 2007, gross fixed capital formation as a share of government expenditure increased only in Belgium, Poland and the United Kingdom. In the rest of the Member States it declined, above all in Ireland (-8 percentage points), Spain (-6.7 p.p.), and Lithuania, Bulgaria, Latvia, Romania and Greece (between 4.6 and 3.7 p.p.). An increase in capital transfers can be noted in some of these countries, in particular Spain and Greece (+6 p.p.).

Latest trends in expenditure composition in the EU since the onset of the economic and financial crisis show a general increase in the share spent on social protection and a tendency to cut public investments. ([115])

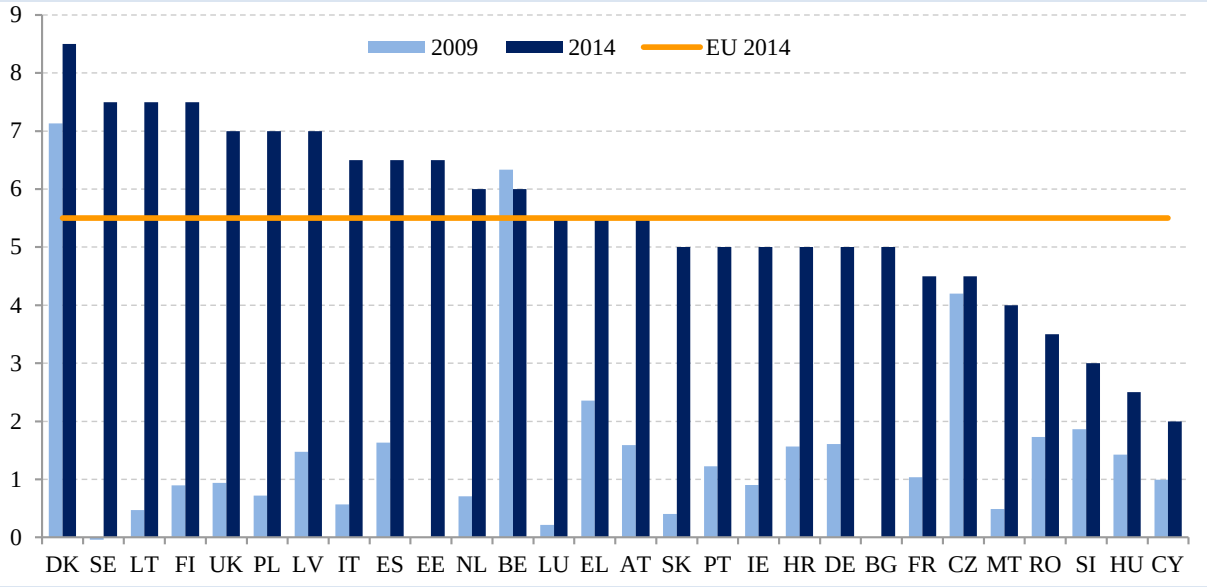
([115]) http://ec.europa.eu/europe2020/pdf/themes/01_public_finances_growth_friendly_expenditure.pdf

2.3.2.2 Strategic thinking and implementation capacities

Countries' overall direction is shaped by their ability to define their interests and assets (including industrial), have a clear vision of the challenges and risks ahead, set coherent long-term goals, make informed policy choices and manage uncertainty. Leading, enabling and delivering strategic policy-making requires strong leadership and effective strategic-thinking skills in public institutions. It calls for a strong centre of the government that is capable of promoting coherent cross-departmental cooperation and better implementation of government reform programmes. The consultation of expert communities as well as the general public on future trends, opportunities and risks offers the chance to engage more strongly with the public and helps (re)build trust in government.

The strategic capacity indicator (figure 2.6) captures the influence on government decision-making of the institutionalised forms of strategic planning (e.g. planning units at the centre of government) and of the non-government academic experts. The data show a mixed picture in terms of the evolution of strategic capacity in the EU. Some Member States improved their performance in 2014 compared with 2009, particularly Greece (+58 % from 2009), Poland (+53 %) and Spain (+40 %). At the same time, a number of countries regressed, the largest declines being in Hungary (68 % less than in 2009), Slovakia

Figure 2.6: Strategic capacity



Note: 'Strategic capacity' is a qualitative assessment by experts based on a standardised survey with two aspects — influence of strategic planning and scholarly advice — are weighted on a scale between 10 (applicable) and 1 (not applicable).

Source: Bertelsmann Stiftung – Sustainable Governance Indicators (2009, 2014).

(35 % less) and the Netherlands (29 % less). Cyprus, Hungary and Slovenia score lowest in the overall ranking.

To be influential, strategic planning bodies must take a long-term view of policy challenges and viable solutions. In some cases, the approach to strategic planning has been strongly influenced by the crisis (e.g. in Ireland and Spain). Major reforms may be prepared through committees or commissions mandated to draw up reports on possible policy options (e.g. Denmark, France). In Finland, the government's strategic goals are clearly defined in strategy documents together with appropriate monitoring mechanisms, and a long-term report on the future is presented to parliament. In some countries (e.g. Spain, Latvia, Poland and Romania), central government planning units have recently been set-up or strengthened and the prime minister's cabinet is closely involved in their activities. Long-term planning may also take place in the ministry of finance, with little involvement from the prime minister's office (e.g. Bulgaria and Sweden), or may be located mainly in the line ministries (e.g. Estonia and Malta). It must be noted that other governmental bodies — such as agencies (e.g. Sweden) or even the national parliament, through the creation of specific committees (e.g. Finland) — are being involved in the reflection on future challenges. Long-term planning may be hindered by the government's organisational structure, in particular in federal countries (e.g. Belgium, Germany and Austria), as well as by weak institutional capacities for planning (e.g. Romania, Slovakia and Slovenia). ([116])

Policy example: The 'future commission' in Sweden

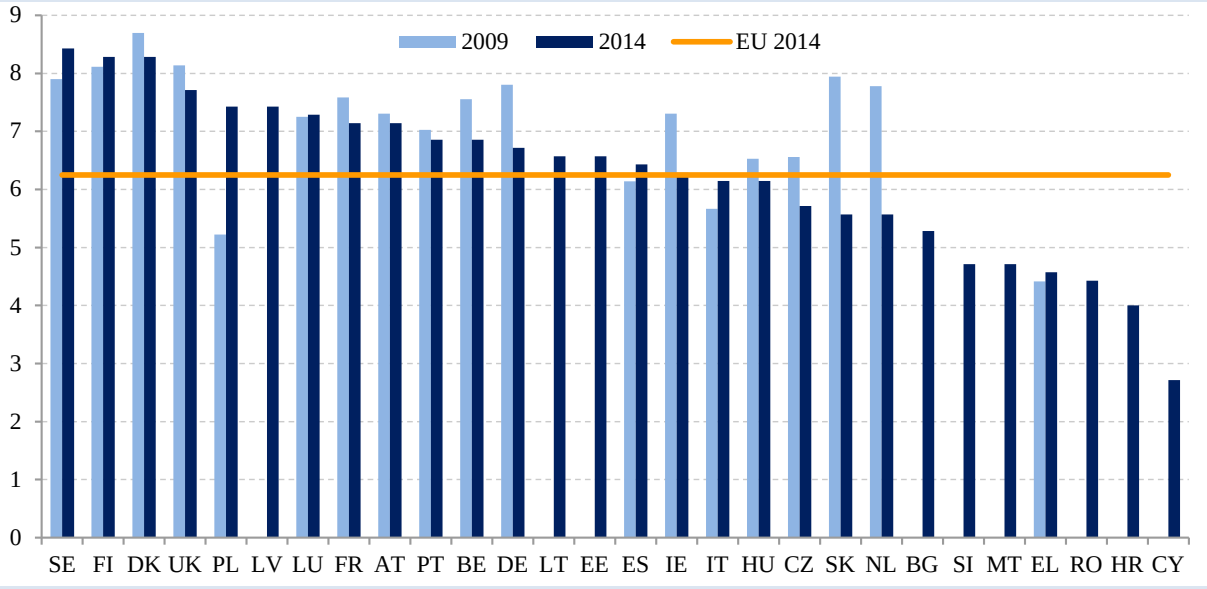
Sweden established a dedicated commission — the so-called 'future commission' — to assess the major long-term economic and social challenges facing the country. The commission published its final report in early 2013.

To be effective, consultation with non-government academic experts should be transparent, and should take place in the early stages of a decision-making process. However, the degree of openness towards scholarly advice depends much on the political sensitivity of the issue.

In Poland, an economic council was set up in 2010 which has provided expert advice on economic policy. In the Netherlands 'knowledge chambers' have been created in public departments and high-level expertise is being provided by chief scientists. In some countries, however, the limited interest in independent advice and in the participation of non-governmental academic experts in policy-making is

([116]) The policy examples are based on the analysis contained in the Strategic Capacity Report (Bertelsmann Stiftung, 2014).

Figure 2.7: Effective implementation



Note: The indicator is a qualitative assessment by experts based on a survey in which seven aspects are weighted on a scale from 10 (applicable) to 1 (not applicable). The aspects are government efficiency, ministerial compliance, monitoring of line ministries, monitoring of agencies and administrations, task funding, constitutional discretion and the existence of standards of public services.

Source: Bertelsmann Stiftung — Sustainable Governance Indicators (2009, 2014).

embedded in political traditions (e.g. Croatia, Cyprus, Hungary and Romania).

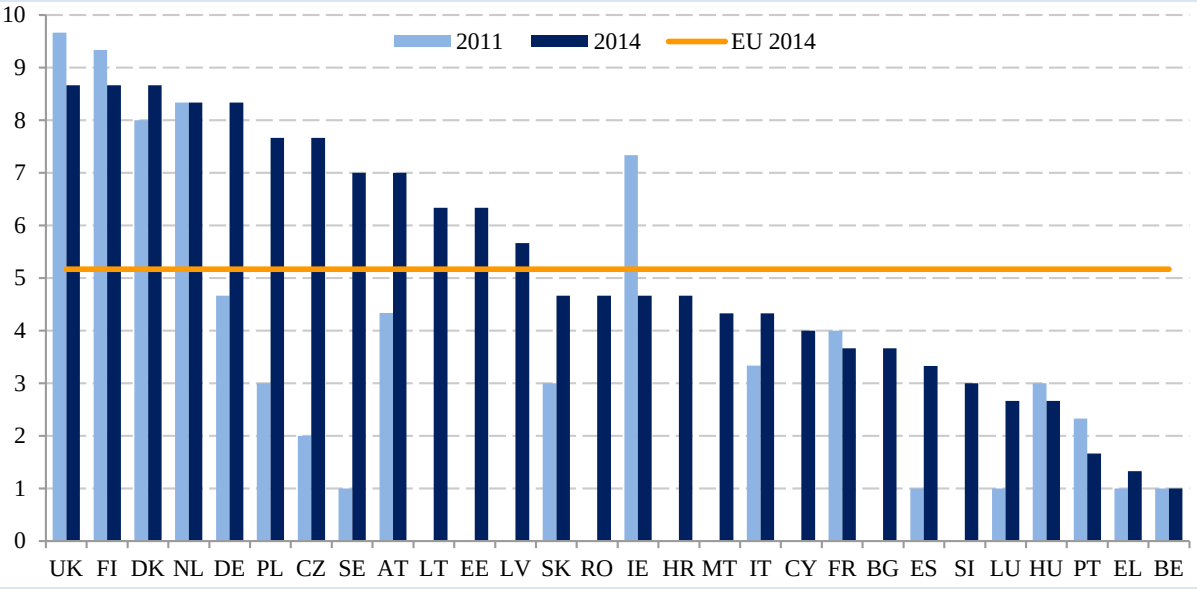
Extensive reliance on academia can be symptomatic of a lack of government expertise and of the civil service's lack of attraction for highly qualified professionals (e.g. Greece). By contrast, in France, which has a strong system of high-level civil servants, there is only limited reliance on academic advice, although non-governmental academic experts are consulted or involved in ad-hoc national councils.

The effective implementation indicator (figure 2.7) evaluates the extent to which the government can achieve its own policy objectives, including ministerial compliance with the government's programme and the effective monitoring of its implementation by line ministries and agencies. Implementation is most effective in Sweden, Denmark and Finland (almost 25 % above the EU average), closely followed by the United Kingdom, Latvia and Poland (19-15 % above the average).

By contrast, implementation needs improvement in Cyprus (56 % below the EU average), Croatia (36 % below) and Romania, Greece, Slovenia and Malta (29–24 % below). By 2014, there was a significant improvement in Poland (almost 30 % better than in 2009) but a marked deterioration in Slovakia and the Netherlands (by 30–28 %). In Slovakia, the regression is mainly due to the politicisation of agencies, inefficient financing of sub-national governments and poorly defined standards of public services at local level. In the Netherlands the limited scope of the Framework Law on Agencies results in inefficient monitoring of agencies.

Leadership by the prime minister, decentralisation and the devolution of certain tasks to agencies appear important elements of effective implementation. Uncontested leadership by a prime minister with broad political powers promotes a high level of ministerial compliance with policy objectives. In some countries, the minister of finance (e.g. Croatia and Germany) or the Treasury (the United Kingdom) are stronger than other ministers. Agencies play an important role in policy implementation, for example in Sweden (380 agencies), Croatia (75 executive agencies) and Estonia (25 executive agencies), which makes monitoring and coordinating them effectively a challenge. By contrast, the number of agencies is very low in Belgium, the Czech Republic and Italy. A tendency towards increased politicisation of agencies and capture by political clientele has to be noted in a

Figure 2.8: Use of evidence-based instruments



Note: The indicator is a qualitative assessment by experts based on a survey in which three aspects are weighted on a scale between 10 (applicable) and 1 (not applicable). The aspects are: the application of the regulatory impact assessment (RIA) in general; the quality of the RIA process, which should respect a number of criteria such as participation of relevant stakeholders, transparent communication of RIA results to the public, and evaluation of the RIA process by an independent body on a regular basis; and the conduct of effective sustainability checks within the framework of the RIA.

Source: Bertelsmann Stiftung — Sustainable Government Indicators (2011, 2014)

few Member States (e.g. Cyprus, Romania, Slovenia and Slovakia). ([117])

In decentralised states, local governments are responsible for a large part of policy implementation (e.g. Denmark). Given the fiscal relations and budgetary constraints, however, the central government continues to play an essential role in steering sub-national administrative bodies. The delegation of powers is not always accompanied by corresponding funding, leading to difficulties in financing the tasks defined by law (e.g. Estonia, France, Italy, Hungary, Slovenia and Slovakia), or even to a discretionary allocation by the government (e.g. Romania).

Policy example: Effective implementation in Estonia

In Estonia, the implementation of the government's programme is being monitored by two different bodies: the government itself and an independent think tank, Praxis. Both provide interactive online tools to check the state of the implementation.

Many countries have defined national standards of public services delivered by local administrations (e.g. France, Italy, Lithuania, Poland, Portugal and the United Kingdom). In Germany, national standards apply only to certain areas. In some cases, standards are rather poorly defined (e.g. Cyprus, Hungary, Slovenia and Slovakia) or absent (e.g. Croatia).

Policy example: Delivery unit in Romania

In Romania, a central delivery unit is being established within the Secretariat General of the Government. The aim is to improve policy prioritisation, implementation and coordination government-wide, with particular reference to implementing the Council of the EU's country-specific recommendations.

2.3.2.3 Quality of the regulatory framework

The quality of regulatory frameworks, and in particular their stability, transparency and predictability, are vital for SME-friendly business environments. Legislative and regulatory impact assessment, 'competitiveness proofing' and 'fitness checks' throughout the policy cycle are important tools to improve the quality and relevance of legislation and ensure that regulations affecting

([117]) The policy examples are based on the analysis contained in the Implementation Report (Bertelsmann Stiftung, 2014).

businesses are fit for purpose. Applying the 'think small first' principle and systematically using the SME test should be at the core of policy-making so that the design of rules reflects SMEs' needs.

Generating and using information about the desired — as well as the unexpected and undesired — effects of public policies, through a process of policy evaluation, is a crucial mechanism for improving policies. ([118]) It leads to a general improvement in the management of public sector organisations by providing information to facilitate informed decision-making and support evidence-based instruments such as impact assessments.

The sub-index 'evidence-based instruments' (figure 2.8) serves as an indicator of the quality of performance-based steering tools by describing both the application and the quality of the regulatory impact assessments. Impact assessments of new regulations are being applied by all Member States. However, the depth of the regulatory assessment, the methodology used and the content vary across countries. The latest data show that Denmark, Finland and the United Kingdom, closely followed by Germany and the Netherlands are the top performers, while in Portugal, Greece and Belgium the use of impact assessments is limited.

Compared with 2009, Sweden, the Czech Republic, Luxembourg and Poland have significantly improved their performance (by 85–60 %). Good progress has also been achieved by Germany and Austria (with improvements of 44 % and 38 % respectively). By contrast, Ireland and Portugal showed the biggest regression (of 36 % and 28 %, respectively, compared with their 2009 performances).

Quality control mechanisms are essential to ensure that impact assessments meet the quality standards and respect the procedures in place. The Czech Republic recently established such a quality control body. In Italy, the prime minister's office is responsible for the quality control of the impact assessments produced by line ministries. Early consultation with relevant stakeholders is an integral part of the impact assessment process in Denmark, Germany and Poland. By contrast, stakeholder participation remains limited in some other countries, for example Italy, Luxembourg, Hungary and Romania. Regarding the depth of the assessment and the level of detail, Denmark, Finland, Germany and the United Kingdom have in place comprehensive assessments that look at economic, social and environmental factors, while in the Netherlands the impact assessment is focused rather on environmental and administrative burden aspects. ([119])

2.3.3 Enterprise-friendly design in key areas

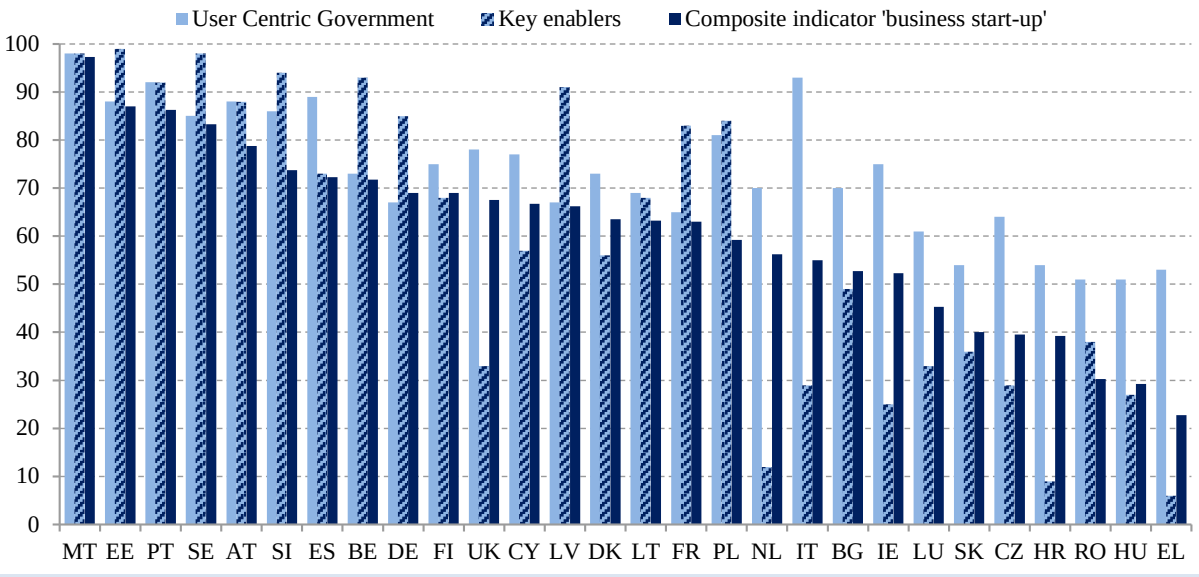
2.3.3.1 The use of information and communication technology

The use of information and communication technology (ICT) plays a vital role in transforming the delivery of public services by streamlining administrative procedures and lowering transaction costs. While most Member States have 'e-enabled' some government services for businesses (social contributions, VAT and corporate tax declarations), the provision of more advanced services is lagging behind. To move towards full digitisation, several things are needed: **full usability** of services available online (full availability, 'unified access' of related services through portals, help features, feedback mechanisms, alternative channels, etc.); the availability of **key enablers** (single sign-on, e-documents, e-safe, e-ID, authentic sources) to eliminate the need for physical transactions; and **transparency**. The latter includes transparency of service delivery (e.g. information on progress and delivery time), transparency of personal data (e.g. possibility to modify own data) and transparency of public organisations (e.g. organisational chart).

The forthcoming Regulation on electronic identification and trust services for electronic transactions in the internal market sets a comprehensive general legal and technical framework for electronic transactions by regulating the mutual recognition of notified electronic identification schemes and means, by provisioning electronic trust services (i.e. e-signature, e-seals, e-time stamp, e-registered delivery, and website authentication) as well as by ensuring the non-discrimination of electronic documents vis-à-vis their paper equivalent, thus ensuring the legal validity of electronic transactions.

([118]) OECD, Performance Budgeting in OECD Countries, Paris (2007).

Figure 2.9: User-centricity of e-government services to start a company 2012



Note: The user-centric e-government indicator (ranging from 0 to 100) measures the availability of e-government services, their connectedness and their user-friendliness.

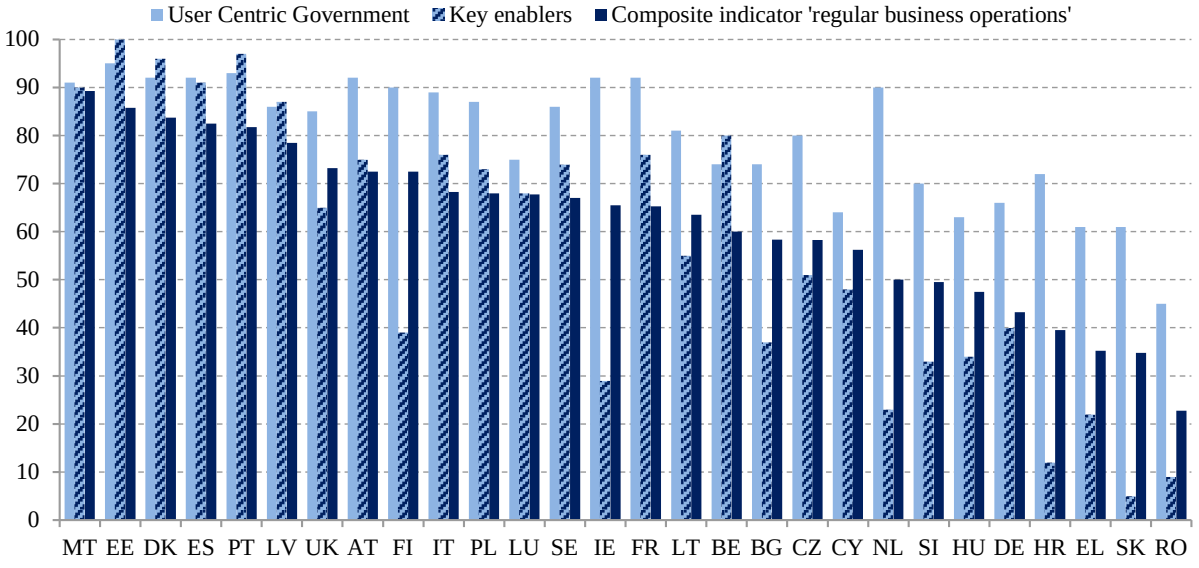
Source: European Commission, e-government Benchmarking Reports (2012).

The indicators of the user-centricity of e-government services for starting up a company' (figure 2.9) and of regular business operations (figure 2.10) assess customer-centricity through a 'life-event' approach. Figures 2.9 and 2.10 show that there is not only a big difference in maturity level between the dimensions measured — user-centricity and the existence of key enablers — but also within and among countries.

In terms of the overall performance of e-government services for starting up a company, Malta comes top (at nearly 35 % above the EU average), closely followed by Estonia, Portugal and Sweden (19–14 % above the average). These countries have specific

([119]) The policy examples are based on the analysis contained in the Evidence-based Instruments Report (Bertelsmann Stiftung, 2014).

Figure 2.10: User-centricity of e-government services for regular business operations 2013



Note: The user-centric e-government indicator (ranging from 0 to 100) measures the availability of e-government services, their connectedness and their user-friendliness.

Source: European Commission, e-government Benchmarking Reports (2013).

business portals that offer the services online through various well-integrated key enablers. At the opposite end of the ranking, Greece performs very poorly (62 % below the EU average). Slovakia, Croatia, Hungary, Romania and the Czech Republic also have low scores (45–36 % below the EU average). The difference between the highest and lowest scoring countries is on average 75 percentage points, and is even more marked when it comes to the availability of key enablers (93 p.p.) and transparency (87 p.p.).

Looking at the sub-components of the e-government services for starting a company, the picture is mixed. Countries that score highly on one dimension do not necessarily score well on the others. The EU average for online usability is 73 %, which means that for the majority of services in this life event, support, help and feedback functionalities are available online. At the top-end of the ranking we find Malta (25 % above the EU average), Italy, Portugal, Spain, Estonia, Austria and Slovenia (21–15 % above the average). Romania, Hungary, Greece, Croatia and Slovakia come out well below the average (30–26 % below). The availability of key enablers is approaching 100 % in Estonia (99 %), Malta and Sweden (both 98 %), as well as in a few other countries — Slovenia, Belgium, Portugal and Latvia (94–91 %). However, their availability is very low in Greece (6 %), Croatia (9 %) and the Netherlands (12 %), all of which are 90–80 % below the EU average.

Policy example: The Enterprise Portal in Portugal ([120])

In Portugal, the creation of a new company is entirely integrated. The availability of key enablers allows for full online services through the Public Administration Interoperability Platform (IAP), which provides cross-disciplinary electronic services to national entities.

In terms of the overall performance of e-government services for regular business operations (figure 2.10), Estonia, Malta and Denmark are the best performers in the EU (at 31–27 % above the EU average). Spain, Portugal, Latvia, France and Italy also score highly on this indicator. However, Romania and Slovakia perform very poorly (at 65 % and 53 % less than the average, respectively). While the difference between the highest and lowest scoring countries is on average 73 percentage points, it is much bigger — 95 p.p. — regarding the availability of key enablers.

At a more detailed level, the sub-components of the indicator ‘e-government services for regular business operations’ show that EU countries perform better on user-centricity than on availability of the key enablers. The EU average for online usability is 79 %, which means that for the majority of services in this life event, support, help and feedback functionalities are available online. In several countries — Estonia, Portugal, Austria, France, Ireland, Malta and the Netherlands — the online usability is above 90 %, while it is a challenge in Romania (45 %) as well as in Greece, Slovakia and Cyprus (61–64 %). The availability of key enablers for the delivery of services averages 56 %. Estonia (100 %), Portugal, Denmark and Malta (97–90 %) have very high levels of availability. By contrast, the use of key enablers is very low in Slovakia (5 %), Romania (9 %) and Croatia (12 %).

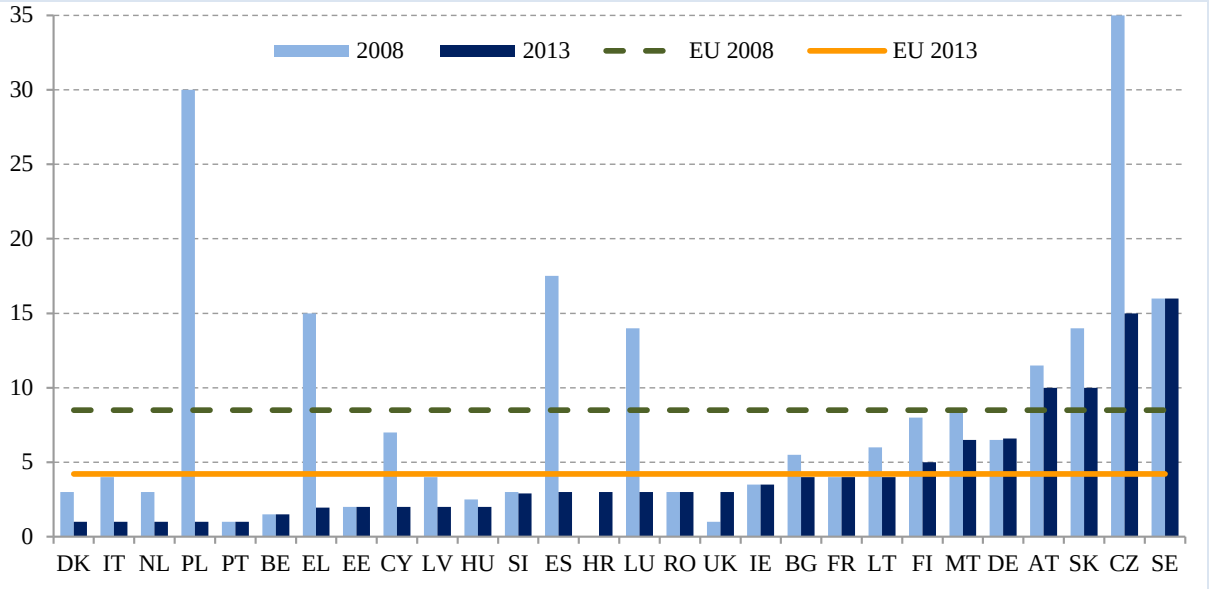
Single contact points have been established in all Member States, but their efficiency and effectiveness varies. Improving e-government services is a challenge for some countries that currently have less user-friendly systems, such as Austria, Germany, Hungary, Poland, Slovakia and Romania. Another issue is better cooperation between central and regional administrations, e.g. in Germany and the Netherlands. On the other hand, a number of Member States have been working towards setting up a ‘once-only’ system whereby information is supplied only once by businesses to a government body. These include France, Latvia, the Netherlands, Slovakia and Sweden.

Policy example: ‘Entrepreneur dossier’ in the Netherlands

The Netherlands has launched an ‘entrepreneur dossier’ which is a tool that translates legislation into concrete requirements and allows businesses to share their data with different administrative services, thus helping cut compliance costs. By 2017, all enterprises will have the right to communicate with and do business with the authorities online.

([120]) Capgemini, e-government Benchmark Report (2012).

Figure 2.11: Time required to start a company (in days)



Source: European Commission. Information provided by Member States; details of the calculation are in SEC (2007) 129.

2.3.3.2 *Starting a business and obtaining licences*

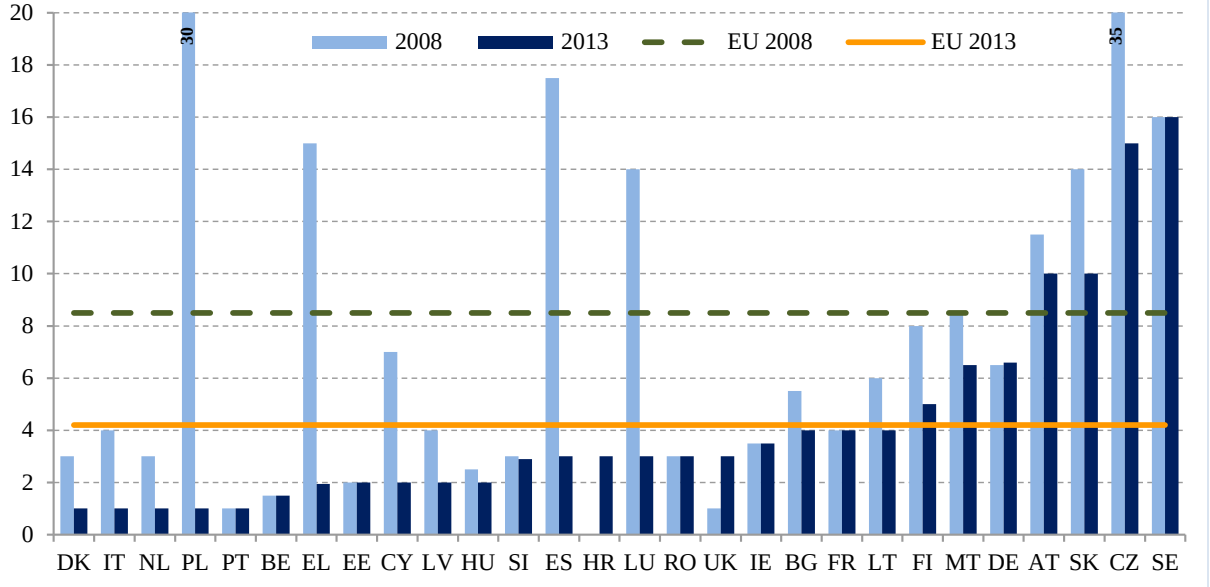
How easy it is to start a company and obtain operating licences is of major importance for a dynamic economy and for developing a climate of innovation and entrepreneurship. Limiting the number of procedures to follow and the time and cost required to start a business is important to achieve competitive firms. The EU set itself the goal of reducing the start-up time and costs for new businesses to three days and EUR 100 by 2012. ([121]) A target was also set for the time needed to obtain licences: a maximum of three months by the end of 2013, and one month by the end of 2015. ([122])

However, there are still big differences between Member States. The average time it takes to start a

([121]) The Commission monitors the progress towards these targets and collects data on start-up procedures from the Member States. For this reason, the indicators on 'time' and 'cost' to start a company used in this section are based on the data provided by the EU Member States.

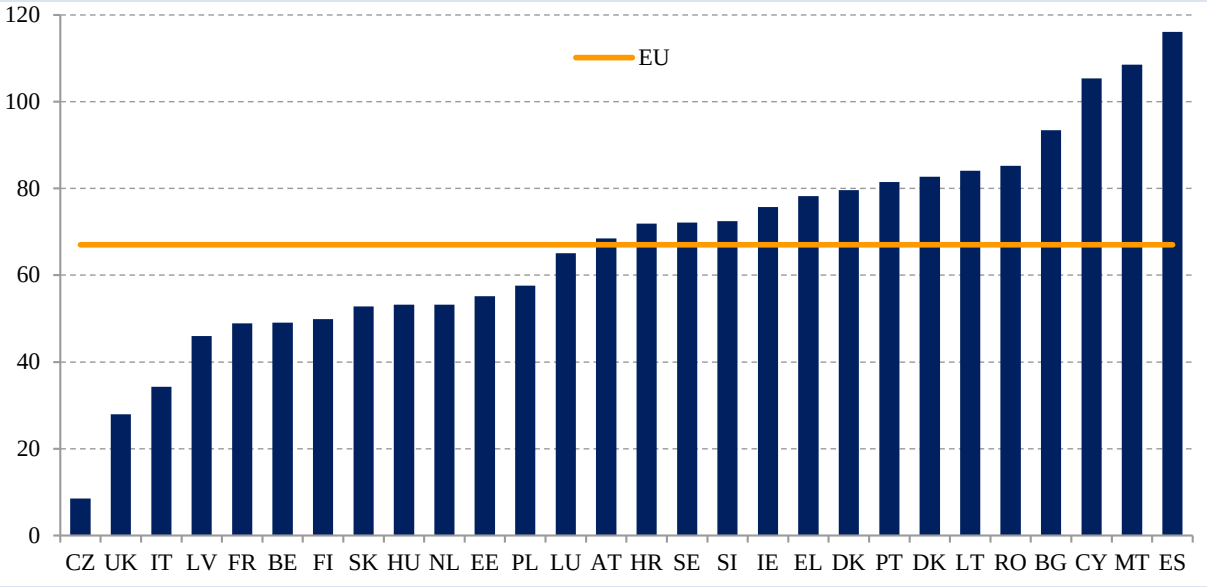
([122]) Conclusions of the Competitiveness Council, 31 May 2011.

Figure 2.12: Cost to start a company



Source: European Commission. Information provided by Member States; details of the calculation are in SEC (2007) 129.

Figure 2.13: Average time in days to obtain licences 2010



Note: The indicator is based on aggregated data concerning licences required for five different activities: manufacture of steel products; manufacture of small IT devices; a hotel with a restaurant; a plumbing company; and wholesale or retail distributor. The survey had a limited number of respondents (two in the case of Malta), which may have skewed the results. An extended survey will be carried out in 2014.

Source: European Commission, pilot survey 'Business Dynamics: Start-ups, Business Transfers and bankruptcy', January 2011.

business (figure 2.11) has been more than halved, from 9 days in 2008 to 4.2 days in 2013. The Czech Republic and Poland recorded the biggest improvements (cutting the time by 30 and 29 days respectively). In 2013, the start-up time was still more than the three days target in ten Member States: Bulgaria, the Czech Republic, Germany, France, Lithuania, Malta, Austria, Slovakia, Finland and Sweden. The time it takes to start a business is shortest in Denmark, Italy, the Netherlands, Poland and Portugal, where a company can be created in one day.

The average cost of starting a company (figure 2.12) has been cut by almost one third, from EUR 463 in 2008 to EUR 315 in 2013. The biggest reductions were in Greece (EUR 985), Italy, the Netherlands and Poland (EUR 673–615) and Germany (EUR 407). By 2013, the cost of starting a company in Slovenia had been cut to zero. In Bulgaria, Denmark, Ireland, France, Latvia, Lithuania, Romania and the United Kingdom the start-up cost is below the EU target. However, it remains particularly high in Italy (EUR 2 000).

A number of Member States, including Croatia, Greece, Lithuania and the Netherlands, have made it easier to start a business by creating new or different forms of limited liability companies with simplified procedures. Other measures have also been taken. For example: Latvia has made it possible to file applications for company and VAT registration simultaneously; Spain has eliminated the need to obtain a municipal licence before starting operations and improved the efficiency of the commercial registry; and Poland has got rid of the requirement to register a new company with several inspectorates.

Policy example: Discount for electronically registered businesses in Latvia

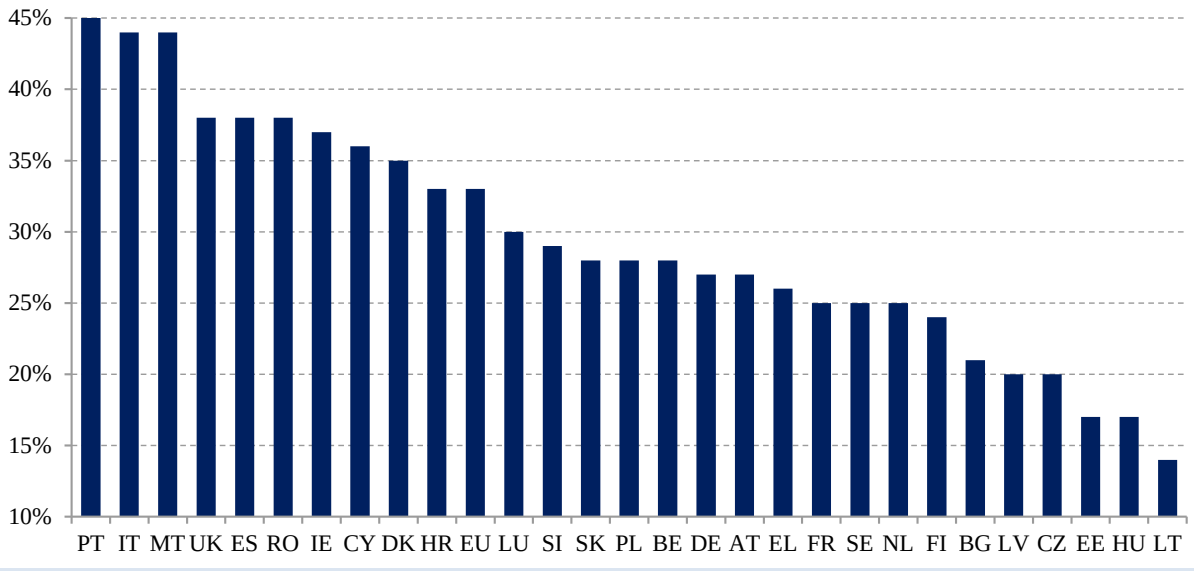
In 2013 Latvia reduced the time for new business registrations and the fees for registration services at the commercial register by introducing a 10 % discount on the state registration fee for registrations done entirely online.

In 2011, the average time needed to obtain operating licences in Europe was 67 days (figure 2.13). In Spain, Malta, Cyprus and Bulgaria it still takes longer than the three months recommended by the Competitiveness Council.

2.3.3.3 Public procurement

The economic significance of public procurement in Europe is considerable. Every year, around one fifth of EU GDP is spent by different levels of government (central and sub-central) to procure goods, works and

Figure 2.14: Government procurement as a driver of business innovation



Note: Based on replies to the question: 'Has your company been involved in the public procurement of innovative solutions since January 2011?'

Source: Flash Eurobarometre 394.

services. ([123]) This volume offers tremendous potential to drive innovation. Procurement that promotes innovation not only helps to drive modernisation of the public sector but can also create a strong market pull for business innovation and the marketing of innovative solutions.

Almost one in five companies (18 %) have won at least one public procurement contract since January 2011, whereas only a small proportion of companies (6 %) have been involved in the public procurement of innovative solutions. ([124]) Slovakia (12 %), Luxembourg (11 %) and Italy (10 %) are the only countries where at least one in ten companies has taken part (figure 2.14). In Romania and Estonia only 1 % of companies have been involved in the public procurement of innovative solutions.

E-procurement portals have been set up in a number of Member States, but the take-up of e-procurement can still be low or negligible. This is particularly the case in Spain, Luxembourg and Slovenia. On the other hand, a number of Member States have taken steps to make e-procurement mandatory. They include Spain, Luxembourg and Malta. Other Member States need to implement such services fully or improve them further: they include France, the Netherlands, Romania and Slovakia.

Policy example: Innovative competition for transport infrastructure in Sweden ([125])

Sweden launched an innovation competition to foster the development of new solutions for more efficient use of transport infrastructure. This led to 14 companies tendering initially, of which several were awarded contracts. Launch and commercialisation of the finished solutions is planned for autumn 2014.

The total cost of public procurement in Europe is also substantial — it is estimated at about 1.4 % of purchasing volume — with 75% of this falling on business. ([126]) It is therefore essential that public authorities manage the procurement process efficiently to minimise the costs for tenderers and avoid late payments.

Late payments by public authorities can cause financial problems and uncertainty for suppliers, particularly small businesses. In the public sector, the average time it takes public authorities to pay their bills lengthened between 2008 and 2013 (figure 2.15). In four Member States the time taken is a real problem: Italy (average of 170 days), Greece (159),

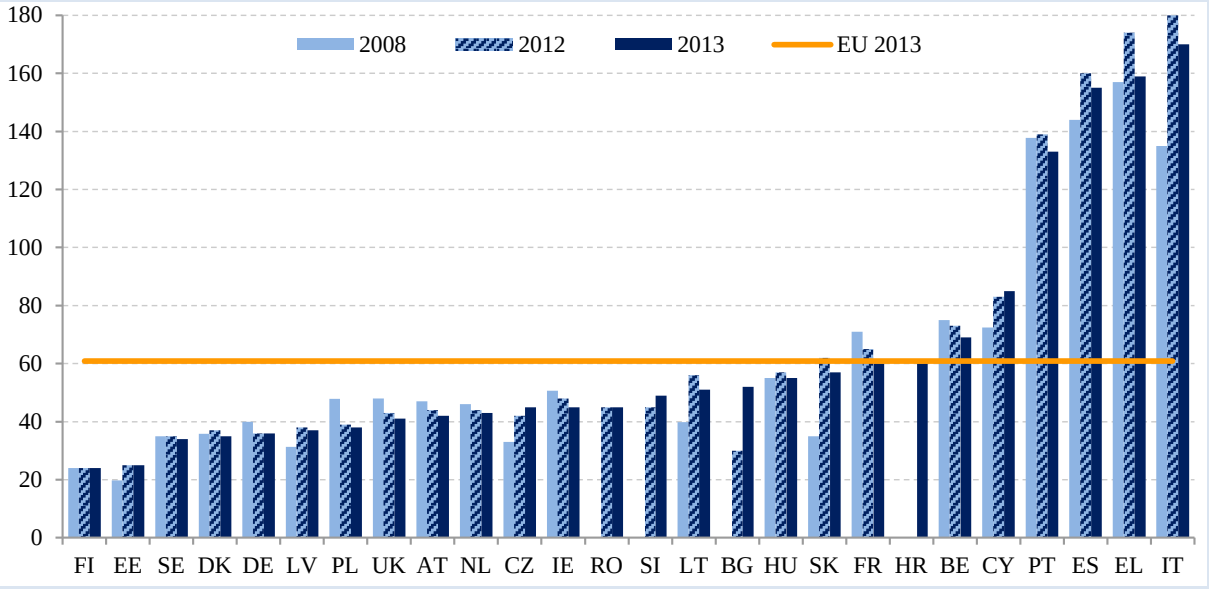
([123]) European Commission, Annual Public Procurement Implementation Review, SWD(2012) 342 final.

([124]) Flash Eurobarometer 394.

([125]) http://www.vinnova.se/en/innovationsupphandling/Projects/ITS-Innovation-Stockholm-Kista/

([126]) PwC, London Economics, and Ecorys (2011), Public procurement in Europe: cost and effectiveness, Study prepared for the European commission, March 2011.

Figure 2.15: Payment times of public authorities in days



Source: Intrum Justitia (2008, 2012, 2013)

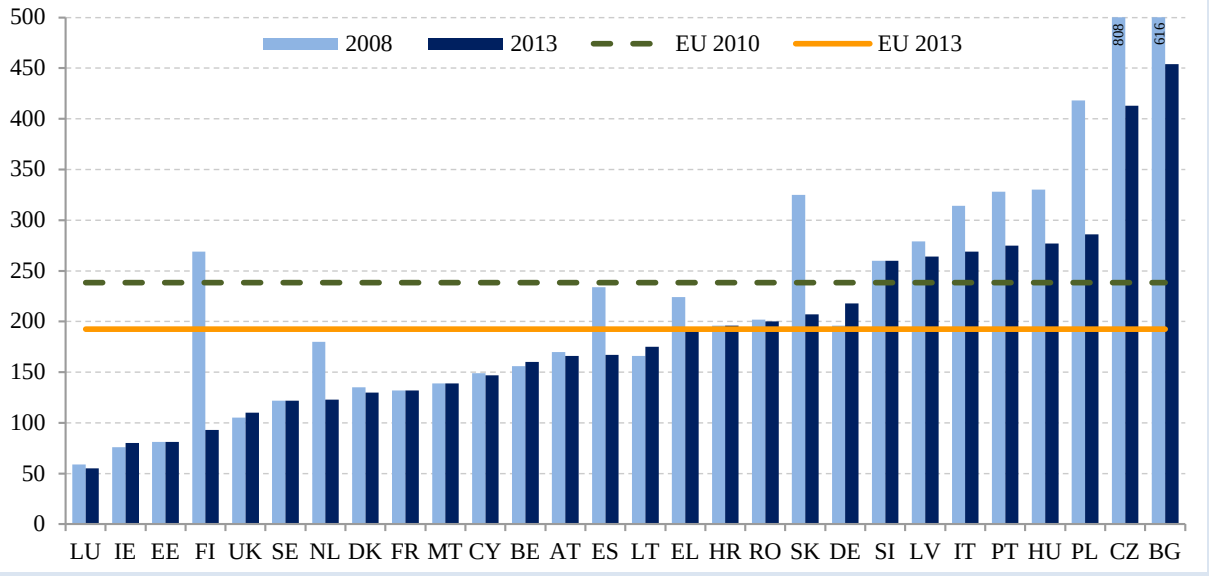
Spain (155) and Portugal (133). In all of these countries, except Portugal, the situation has worsened considerably since 2008. However, there have recently been improvements following the entry into force of the EU Late Payments Directive.

2.3.3.4 Tax compliance

Firms spend a considerable amount of time and money dealing with tax administrations. An efficient tax system should reduce the tax burden by minimising both tax compliance costs for businesses and the cost of the tax administration itself.

The indicator 'time needed to comply with tax returns' compares the average time it takes to complete returns for three major types of taxes (figure 2.16). In 2013, companies spent an average of 193 hours per year preparing, filling and paying the corporate income tax (40 hours), labour tax (93 hours) and consumption tax forms (60 hours). This was almost 20 % less time than they had spent in

Figure 2.16: Time needed to comply with tax returns, in hours



Source: Adapted by the European Commission based on the World Bank Doing Business Report (2009, 2014).

2008. There are big differences in the burden imposed by the three taxes – in a given Member State it may be very light for one tax but very heavy for the others.

Finland, the Netherlands, Spain, Slovakia, Poland, the Czech Republic and Bulgaria managed to considerably reduce the time it takes to complete the tax returns. However, Bulgaria and the Czech Republic still perform very poorly against other EU Member States, with 454 and 413 hours needed, respectively. In Slovakia, tax compliance has been made more difficult by new obligations on companies introduced in the context of the fight against fraud. These require VAT returns to be filed and the minimum rate of income tax to be paid even when losses are incurred.

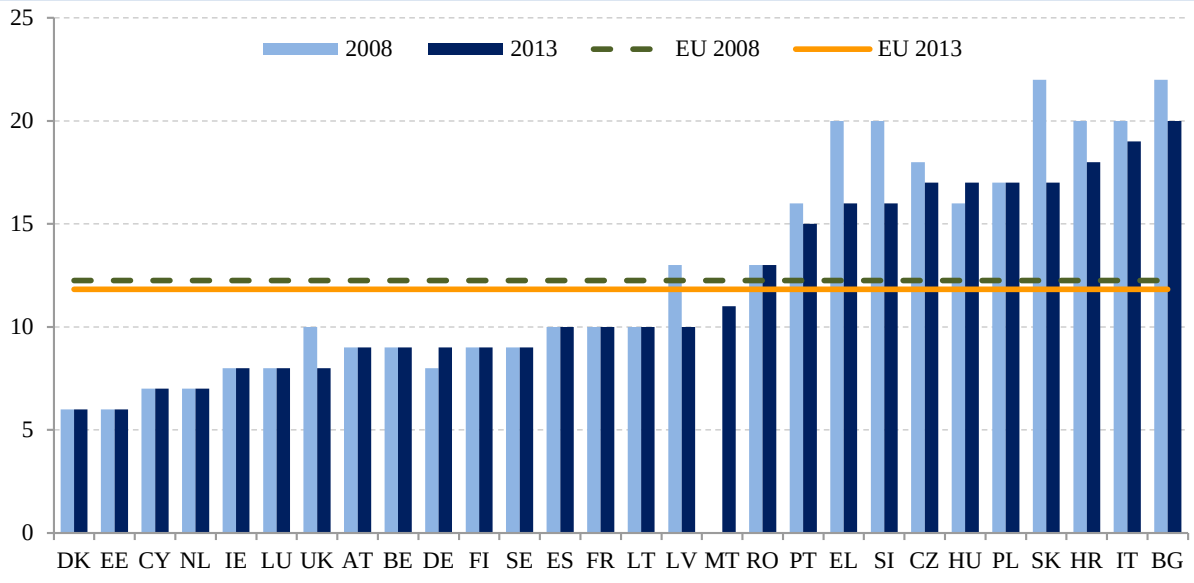
The main way in which tax compliance time has been reduced in recent years has been the introduction of some form of electronic system for filing returns. This is the case in a number of Member States including the Czech Republic, Germany, Croatia, Poland, Romania, Slovenia and Slovakia. Romania has made it easier for companies by reducing the frequency of corporate tax payments from quarterly to twice a year.

2.3.3.5 Trade facilitation and customs administration

The efficiency of import and export procedures directly affects the competitiveness of the Union's trading activities. Excessive administrative burden, delays and costs related to trade are significant impediments for businesses, particularly SMEs. The increasing globalisation of trade, the development of new markets and changes in the methods and speed of the movement of goods require customs administrations to re-engineer procedures and processes to optimise their efficiency and effectiveness, make them simpler and reduce the costs of customs compliance for economic operators.

In 2013 it took an average of 11.8 days to export something from the EU, 7 % less than the 12.7 days needed in 2008 (figure 2.17). The export time is shortest in Denmark, Estonia and Cyprus (6–7 days) but above the EU average in 11 Member States. It is longest in Bulgaria, Italy and Croatia (20–18 days) but this is still just below the world average of 21.8 days.

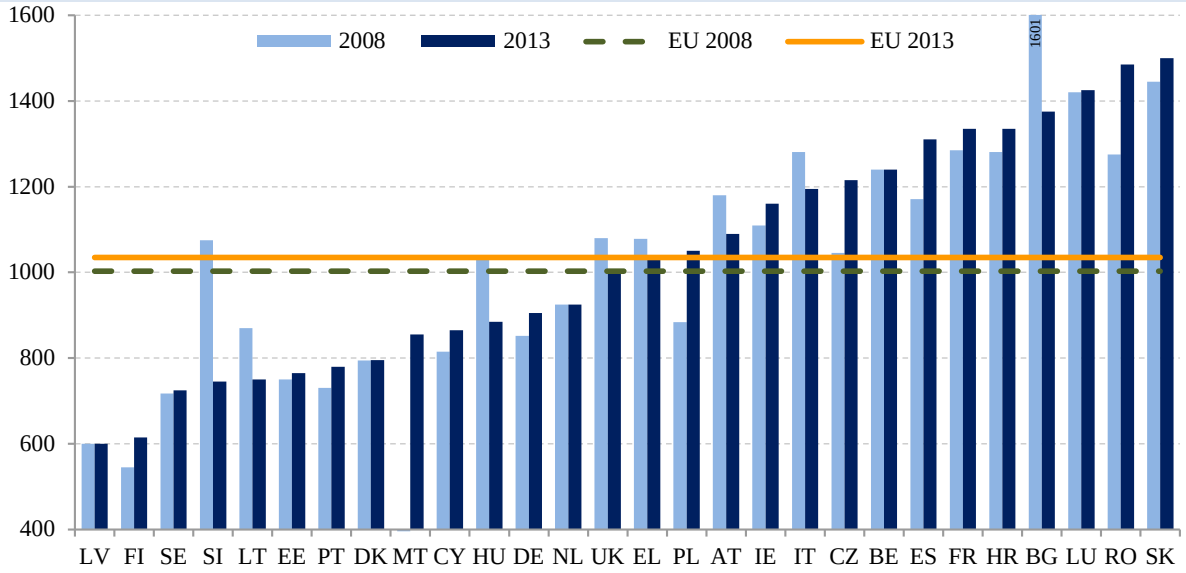
Figure 2.17: Time needed to export



Note: Measured in calendar days, starting from the moment the process is initiated and runs until it is completed. If a procedure can be accelerated for an additional cost and is available to all trading companies, the fastest legal procedure is chosen.

Source: World Bank — Doing Business Report (2008, 2014).

Figure 2.18: Cost of exporting



Note: Measures fees levied on a 20-foot container in U.S. dollars. All the costs associated with completing the procedures required to export goods are taken into account, including costs for documents, administrative fees for customs clearance and technical checks, customs broker fees, terminal handling charges and inland transport.

Source: World Bank — Doing Business Report (2008, 2014).

Greece, Slovenia and Slovakia recorded the biggest improvement over the last five years (77-80 % reduction in the export time). Of the four components of trade covered by this indicator — document preparation, customs clearance and technical control, port and terminal handling, and inland transport — the two biggest obstacles for exporters in low-performing Member States are document preparation and port and terminal handling, due to the administrative burdens they impose and poor infrastructure. This shows the areas where improvement is needed.

The average cost of exporting a 20-foot container from the EU in 2013 was USD 1034, just 0.5 % less than the USD 1040 it cost in 2008 (figure 2.18). The cost fell in only eight Member States, with the biggest reductions in Slovenia (30 %) and Bulgaria and Hungary (both 15 %). It rose in 15 Member States, and most in Poland, Romania, the Czech Republic and Spain (by 16 –11 %). The cost of exporting is highest in Slovakia, Romania and Luxembourg (45 – 37 % above the EU average).

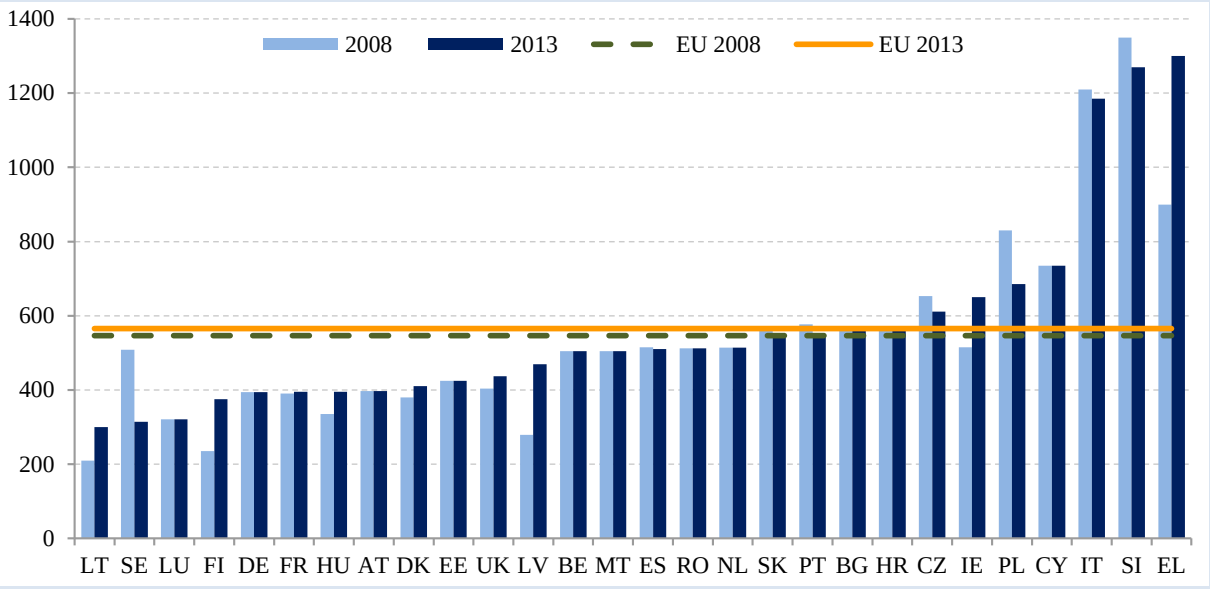
The two biggest obstacles for exporters in low-performing Member States are the costs of inland transport and handling of document preparation. The costs stemming from inland transport range from only USD 150 in Latvia to 925 in Slovakia.

For document preparation the costs range from USD 200 in Latvia to 410 in Romania. This shows that much remains to be done to reduce the administrative hurdles and 'red tape' that lead to excessive costs and delays in exports, penalising the entire economy. ([127])

In an effort to reduce administrative burdens associated with cross-border trade, Croatia has in recent years improved its physical infrastructure and information systems and streamlined customs procedures for exports. The Czech Republic, Greece, Hungary and Spain have allowed electronic submission of customs declarations and other documents for import and export. In addition, the Netherlands has introduced a web-based system to accelerate cargo release at port terminals, while Portugal has introduced a 'one-stop' online window for port procedures.

([127]) Cutting the time it takes to move cargo from production line to ship by 10 % increases exports by 4 %, all other things being equal. (Djankov and Pharm, 2010, cited by World Bank *Doing Business* Report 2014).

Figure 2.19: Time needed to enforce a contract in days



Source: World Bank — Doing Business Report (2009, 2014).

Policy example: Centralised information system in Austria

In Austria, a project is under way to switch from the current 14 trade registers at three levels of government to a single register based on a centralised information system known as GISA. This will streamline procedures for registering trade activities as well as data exchange between public administrations. Its full launch is planned for 2015.

2.3.3.6 Effective national justice systems

The quality, independence and efficiency of justice systems are crucial for competitiveness. Securing property rights, timely and correct resolution of business disputes, insolvencies, commercial claims and labour disputes, and swift enforcement of decisions EU-wide are all important elements of a business environment conducive to growth, risk-taking and investment. That is why since 2012 the improvement of the quality, independence and efficiency of judicial systems has been a priority for the European semester.

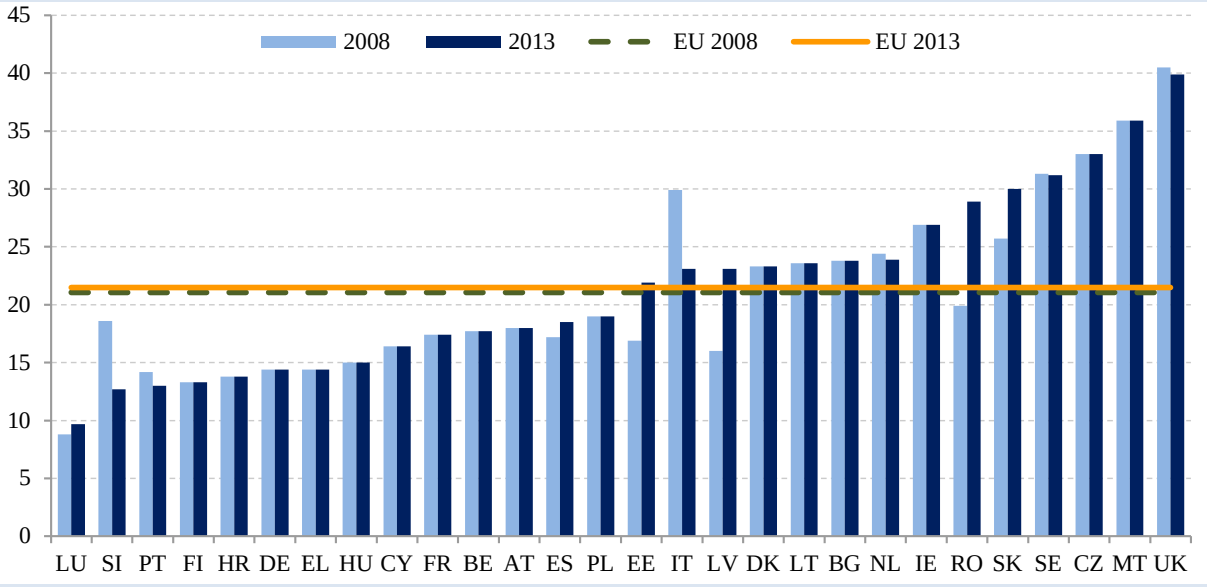
Enforcing contracts

In 2013, it took on average 565 days to enforce a contract in the EU, 3.5 % longer than in 2008 (figure 2.19). Enforcement time in Poland and Slovenia was significantly shorter than five years earlier, while it lengthened most in Greece and Latvia. The length of time it takes to enforce contracts remains a major problem in Greece (1300 days), Slovenia (1270) and Italy (1185). Of the three components covered by this indicator — filing and service, trial and judgment, and enforcement of the judgment — the last two elements are the most time intensive. In Lithuania, where the time needed to enforce contracts is the shortest in the EU, the trial and judgment and the enforcement of the judgment require 170 and 90 days, respectively. In Greece, the corresponding periods are 1 120 and 120 days.

As regards costs, enforcing contracts in the EU in 2013 cost an average of 21.5 % of the claim, 0.45 percentage points more than in 2008 (figure 2.20). Italy (-6.8 p.p.) and Slovenia (-5.9 p.p.) saw the biggest cost reductions since 2008. By contrast, significant increases were recorded in Romania (+9 p.p.), Latvia (+7 p.p.) and Estonia (+5 p.p.). Enforcing contracts is most expensive in the United Kingdom (39.9 % of the claim), followed by Malta, the Czech Republic and Sweden (35.9 %–32.2 % of the claim). A comparison between the countries with the highest and lowest costs shows that lawyers' costs and court costs are the main burden. Reducing these costs is both necessary and possible, as Italy has shown. Since June 2012 it has reduced lawyers' fees by more than any other country in the world. ([128])

([128]) World Bank *Doing Business* Report (2014).

Figure 2.20: Cost of enforcing a contract (% of claim)



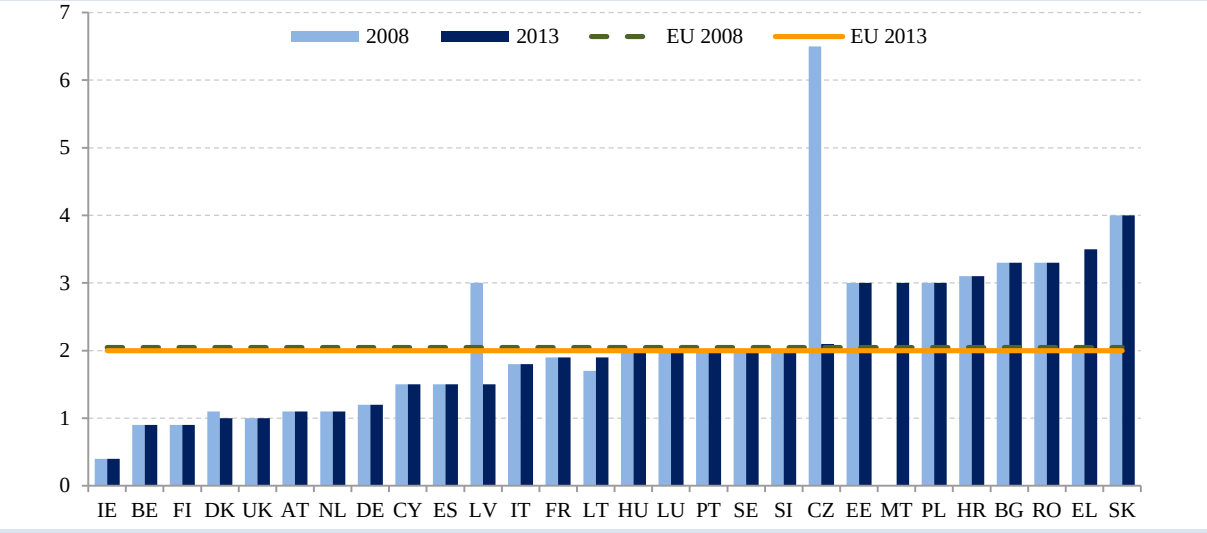
Source: World Bank — Doing Business Report (2009, 2014).

Resolving insolvency

It takes an average of two years to resolve insolvency in the EU (figure 2.21). While the EU average has remained unchanged since 2008, the Czech Republic (-4.4 years) and Latvia (-1.5 years) have made resolving insolvency much faster, while in Greece it has become slower (+1.5 years). The improvement in the Czech Republic is mainly due to the insolvency law adopted in 2008, which has allowed the streamlining of liquidation and reorganisation proceedings. The time it takes to resolve insolvency remains a challenge in Slovakia (4 years), Greece (3.5 years), Bulgaria and Romania (both 3.3 years).

As the crisis has shown, effective insolvency regimes that allow debtors and creditors to find solutions through fast and cheap procedures, including out-of–court mechanisms, are particularly important for well-functioning economies. Such reforms have been started in a few Member States, in particular in the areas of out-of-court restructuring (Croatia) and the rights of creditors (Italy). However, their effects will become apparent only in the coming years.

Figure 2.21: Time needed to resolve insolvency



Source: World Bank — Doing Business Report (2009, 2014).

The effectiveness of the national justice system is a challenge in several Member States, as highlighted by the 2014 EU Justice Scoreboard. ([129]) To improve the quality, independence and efficiency of the justice systems, various reforms of the national justice system are being implemented in Member States. In the framework of the European Semester, the Council of the EU on the proposal of the Commission adopted country-specific recommendations in the area of justice for the following Member States: Bulgaria, Spain, Croatia, Italy, Latvia, Malta, Poland, Portugal, Romania, Slovenia and Slovakia. ([130])

2.3.4 Conclusions

Analysis by three dimensions and 21 indicators…

Indicators of 'governance', 'capacities' and 'business-friendly design' shed light on how fit for purpose are Member States' public administrations when it comes to promote growth and competiveness.

Governance

The scoreboard shows that, on average, government effectiveness has not improved much across the EU over the past five years. The situation remains worrisome as regards corruption, with the data showing a worsening trend across the EU in terms of diversion of public funds and irregular payments and bribes. There is a visible difference between the EU-15 and EU-13 groups of countries, but with a large variation within these groups. Some of the countries most affected by the crisis saw government effectiveness and rule of law worsen significantly already before the crisis hit. Several Member States continue to face particular challenges with regard to the overall effectiveness of their administrations and the capacity to enforce anti-corruption rules. These Member States are defining, adopting or implementing measures for improving the quality of the public service, policy formulation and implementation. It is too early to assess the effects of these reforms.

Capacities

Member States' strategic, budgetary, regulatory and implementation capacities are highly heterogeneous. Medium-term budgetary frameworks are in place in all but two Member States, but their properties vary significantly. A large majority of Member States undertook further measures to improve fiscal governance in response to the recent EU's requirements on domestic budgetary frameworks. In terms of government investment – that is deemed to be growth-enhancing – the EU-13 countries tend cluster at the top end of the ranking due to the dynamics of 'catching up', but the country ranking is quite different in terms of productive spending.

The data shows a mixed picture in terms of strategic and implementation capacity. While a large majority of Member States improved their performance on strategic-policy making, implementation needs improvement in a number of countries. A few countries show a marked deterioration in these areas over the last five years.

Impact assessments of new regulations are being applied by all Member States, but the depth of the regulatory assessment, the methodology used and the content vary across countries. Comprehensive assessments of the various type of impact (including on competiveness) and quality control mechanisms are in place only in a few Member States.

Business-friendly design in key areas

The administrative burden on firms depends on the number of procedures and steps, involved institutions, time taken, costs and responsiveness of public bodies. Predictable, rapid and cost-effective interaction with the public administration is vital for productivity and growth.

Most of the Member States have 'e-enabled' some government services for businesses, but in most cases the provision of more advanced services is lagging behind. Data show important disparities in the user-centricity of e-government services for starting up a company and for regular business operations within and among Member States. Countries that score high on one dimension do not necessarily score well on the others. There are Member States that perform very poorly with regard to the usability of services available online and the availability of key-enablers. Improving e-government services further is also a challenge for some countries that currently have average systems. Points of single contact have been

([129]) http://ec.europa.eu/justice/effective-justice/files/justice_scoreboard_2014_en.pdf
([130]) http://www.consilium.europa.eu/special-reports/european-semester/documents-in-2014

established in all Member States, but their efficiency and effectiveness varies.

Starting a company and obtaining operating licences has been made easier across the EU. The average time to start a company has been more than halved over the past five years, but it is still more than the target of three days in ten Member States. The cost of starting a business has been cut by almost one third, but it remains high in some countries.

Public procurement is more and more used to promote innovation. In some Member States, the management of the public procurement process – i.e. the efficiency of procedures and payment duration – could be improved.

The average time it takes public authorities to pay their bills lengthened between 2008 and 2013, but there have recently been improvements following the entry into force of the EU late payments Directive.

Tax compliance burden has been reduced in recent years, but there are still big differences depending on the type of tax. A number of Member States have an excessive burden that adds to trade delays and costs. Document preparation and port and terminal handling are among the major obstacles in low-performing countries. Enforcing contracts and resolving insolvency, on average, have not improved much across the EU over the past five years.

…show that much remains to be done

The challenges require that public administrations enhance their capacities, commit unequivocally to implement agreed policies, have a clear performance orientation and a systematic approach to innovation, provide user-friendly services and adopt a culture of continuous improvement.

Building responsive public administrations requires re-engineering of processes for efficiency and effectiveness, simplification and reducing the costs of compliance. It is essential to make use of the opportunities provided by information technology to enable change. This would entail from processing documents to sharing data, with comprehensive e-government services designed and delivered in a customer-centric manner.