

# Position Paper

## UEAPME's<sup>1</sup> views on SMEs and Sustainable Development in the current economic and environmental context

### I. The right EU strategies for SMEs to respond to the economic and environmental challenges

In the current context of interrelated economic, environmental and climate challenges, it is no longer possible to think about single policies, such as environmental policy. On the contrary, policies at all levels need to be part of a more general and inclusive framework.

In this line, UEAPME supports the Reviewed **EU Sustainable Development Strategy**<sup>2</sup>, which provides for a long-term vision that involves combining a dynamic economy with social cohesion and high environmental standards. Sustainable Development regards social, economic and environmental issues as inseparable and interdependent and sees action at local and global level as necessary.

UEAPME also supports the **EU 2020 strategy**<sup>3</sup>, which sets out a vision of Europe's social market economy for the 21st century, envisaging three types of growth: smart growth (based on knowledge and innovation), sustainable growth (based on a more resource efficient and more competitive economy) and inclusive growth (based on high-employment economy delivering social and territorial cohesion).

However, UEAPME believes that all these strategies can only work if they fully take into account small and medium-sized enterprises (SMEs). SMEs represent 99.8% of all EU business according to the EU current definition<sup>4</sup>. They are considered the engines of the EU economy and competitiveness and contribute to about two thirds of total private sector employment in the EU. UEAPME therefore aims to have a permanent dialogue with the EU institutions in order to ensure that SMEs play an important role in these strategies and more in general in the EU environmental and energy policies.

### II. An SME-friendly regulatory framework in the area of Sustainable Development

UEAPME believes that the policy action of the EU in the area of Sustainable Development should be based on the Small Business Act, and in particular on the following principles:

The "**Subsidiarity principle**", under which EU legislation can only be proposed when the situation to be addressed cannot be adequately tackled at national, regional or local level and thus EU action proves

<sup>1</sup> UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](#).

<sup>2</sup> COM(2009) 400 final of 24.07.2009 "Mainstreaming sustainable development into EU policies: 2009 Review of the European Union Strategy for Sustainable Development"

<sup>3</sup> COM(2010) 2020 of 3.03.2010, Europe 2020 "A strategy for smart, sustainable and inclusive growth"

<sup>4</sup> According to the EIM Business and Policy Research report 'First Section of the Annual Report on EU Small and Medium-sized Enterprises' of January 2009 commissioned by the European Commission, Directorate General Enterprise and Industry.

necessary. In application of this principle, and respecting a good governance, organisations representing small and medium, micro and craft enterprises must be directly associated in the definition and implementation of strategies at European, national, and local level.

The other main principle is the **“Lean and better legislation principle”**. This principle aims to avoid all unnecessary legislation, simplifying and improving existing regulation, limiting new legislation to the strict minimum and better designing new laws as well as reinforcing the respect and the effectiveness of the rules. This means that new legislation should neither increase red tape nor cause additional financial burdens particularly on micro and small enterprises. Likewise, legislation should be based on reliable data and on the latest available statistics, avoiding setting targets merely based on ideology (as it often happens, for example, in the framework of the EU waste policy).

Still more important, the EU sustainable development related policies and legislative instruments should be designed by taking into account the **“Think Small First Principle”**, endorsed by The Small Business Act (SBA) adopted in December 2008. This principle requires that all new measures, legislative or otherwise are formulated in full respect of the needs and realities of the smallest enterprises in such a way that they can be easily understood and applied by all SMEs. Above all, policies and programmes have to take into account the diversity and the specificities of SMEs and have to be defined, implemented and evaluated in partnership and close cooperation with their representative organizations, especially for the smallest enterprises.

UEAPME believes that if legislation, despite the application of these principles, involves deep and structural impacts on companies (i.e. the Energy Using Products Directive), then specific measures, such as sectorial guidelines, thresholds, longer and/or staged implementation periods, technical assistance or simplified procedures have to be foreseen to avoid SMEs being placed out of the market. Moreover, all legal measures and programs which could have an impact on SMEs should not be adopted before independent impact assessments have been conducted. Such impact assessments should look at the economic, social, managerial and financial effects of the measures on all types of SMEs, including the smallest ones, taking clearly into account their sectorial specificities.

Applying the “Think Small First” principle should ease the way towards the smooth implementation of legislation at national level. Nevertheless, UEAPME strongly believes that the European Commission should monitor that Member States adhere to the above-mentioned principles in order to avoid that national laws, which are the ones business have to comply with, are burdensome for SMEs. In this respect, assistance from the Commission to the Member States should be provided.

### **III. Tools to empower SMEs in the area of Sustainable Development**

#### **III.1. Permanent forum for dialogue**

UEAPME advocates for the setting up of a permanent forum of dialogue on Sustainable Development between SME organizations and Competent Authorities at European, national and regional level. Such a forum would enable UEAPME at EU level and SME associations at national and regional level to periodically highlight to decision-makers specific legislative and policy issues of concern. At the moment, no formal strategic mechanism exists specifically for SMEs.

#### **III.2. Information and training**

Due to their smaller size, SMEs are in general more flexible and able to implement changes more rapidly than larger organizations with more complex organizational structures. However, many small companies fear rapid changes in the field of sustainable development unless they are well informed and reassured that the change

could bring about new business opportunities.

UEAPME therefore believes that information campaigns on sustainable development should be specifically targeted to SMEs in order to explain to them how a new measure would impact upon their activities and how they should adapt accordingly. The EU should promote such campaigns in cooperation with the Member States and business organisations.

The right information can convince a micro-company to make the right investment in an environmentally-friendly technology or in a less energy-consuming production process. Many small businesses fear this kind of investments since their return will only happen in the long term. To solve this problem, European legislation and programs should give the intermediary organizations the possibility to offer global service packages including advising, training, financing, etc. The Environmental Compliance Assistance Program (ECAP) adopted in 2007 has a strong potential in providing information and assistance to SMEs. The forthcoming revision of this program must also ensure that it is better implemented at national level in order to be of better use for SMEs.

In addition, the bulk of SMEs will only be able to grasp the business opportunities offered by the current turn towards a green economy, when they will be both well-informed on the laws in force and on the upcoming ones and when they will have acquired the necessary technical skills to adapt their business to the new situation. Training managers and employees of SMEs is crucial. Financial means from the European Social Fund could enhance national efforts in the area of training. UEAPME believes that such training should be specifically targeted, adapted to the sectors concerned, and disseminated through all channels of communication, in particular through SME organizations.

European policy should respect national education systems with regards to energy and climate training policy for SMEs. Experience indicates that European training-related provisions are usually qualification requirements that concern only details of a certain trade. It is important to make sure that this approach does not jeopardize the overall skills system, which is necessary for a comprehensive advice to customers on the advantages and disadvantages of different technologies and their implementation. To allow entrepreneurs and their employees to use the potential of green markets, broad and systematic qualifications are needed. Such qualifications will allow SMEs to adapt to changes, as well as offer advisory services on specific new technologies.

### **III.3. Support and advice for companies**

UEAPME demands an enhanced support and individual advice at local level. For instance, only thanks to individual support small companies and micro businesses can implement effectively energy efficiency policies.

One good way to optimize the provision of support and advice for SMEs is through the strengthening of existing independent services (such as energy and environmental consulting and auditing) within business intermediary organisations and sectorial organisations and/or by creating these services in those regions where they are not yet in place.

As discussed, most micro and small businesses are not aware of existing upcoming legislation in the area of Sustainable Development. SMEs, especially micro-business would therefore, need a permanent, affordable reference point at local level to guide them through different complicated processes such as the understanding of and the implementation of legislation, and how to apply for green investments and right subsidies. As mentioned above, a strengthened implementation of ECAP involving SME organisations would greatly contribute to a better and regular provision of support and advice to small businesses.

In the area of eco-innovation, many SMEs do not have the capacity to apply it to their products and processes and need support to do this. European Institutions should thus enlarge the scope of ECAP to include eco-innovation and foresee an important role of SMEs in the upcoming revision of the Environmental Technologies

Action Plan (ETAP).

Another way to provide support and advice to SMEs in the eco-innovation area could be through the supply of “innovation vouchers”. These vouchers are handled by national or regional agencies and are usually co-financed by the recipient companies. Thanks to these vouchers, SMEs can have quick access to technical, managerial and financial expertise and as a result can develop long-term cooperation with R&D centres. It would be important to apply this scheme in other areas. For instance an “audit voucher” could be developed for carrying out energy, water or waste audits.

The voucher scheme offers SMEs an easy and quick access to the right expertise with very few administrative requirements. However, UEAPME would like to ensure that the representative intermediary and branch organisations of crafts and SMEs are able to benefit from this scheme and thus are able to provide the necessary environmental expertise to SMEs in exchange of the vouchers. The SME organisations must be able to redeem the vouchers received with the right designated authority. In other words, SME and craft organisations should be entitled to become accredited experts in the framework of such a voucher scheme.

#### **III.4. Problems in raising investment financing**

The majority of SMEs face serious financing problems when wanting to invest in more energy-efficient systems and environmentally-friendly production processes. Currently many banks are reluctant to finance such investments since they are perceived as risky and not profitable since the sums involved are not too high (EUR 20,000-25,000). In many instances, banks also lack of specialised staff to evaluate investments projects for SMEs. The training of bank employees to objectively assess SMEs’ investments projects is therefore necessary.

UEAPME welcomes the CIP financial instruments (Risk capital for innovative SMEs and the SME Guarantee Facility<sup>5</sup>) for the period 2007-2013 as well as the funding allocated by the European Investment Bank (EIB) and the European Investment Fund (EIF). However, the financial intermediaries that benefit from these schemes should not only be commercial banks but above all SME-friendly banks such as mutual and neighbourhood/local banks. It is also necessary to foster alternative sources of funding for SMEs such as risk capital. The banking guarantee system (i.e. guarantee schemes) has to be reinforced as well, due to its concrete and adapted support to the development of small enterprises and to the promotion of their competitiveness.

In this context, the energy performance contracts with third party financing used by the Energy Service Companies (ESCOs) at national level are a very valid instrument which helps SMEs improve their energy efficiency ensuring them the corresponding financing.

UEAPME also supported the inclusion of environmental aid in the General Block Exemption Regulation (GBER<sup>6</sup>), which allows Member States to provide environmental state aid to companies without prior notification to the Commission. It is however not yet known to what extent SMEs have benefitted from this provision.

#### **III.5. Introducing a tax relief policy**

In order to encourage SMEs to invest in improving their environmental and energy performance, market incentives such as tax deductions play an important role and should be encouraged at the national level.

<sup>5</sup> The SME Guarantee Facility provides guarantees to encourage financial institutions to make more debt finance available to SMEs by reducing their exposure to risk. SMEG provides co-, counter- and direct guarantees to financial intermediaries providing loans, mezzanine finance and equity to SMEs.

<sup>6</sup> Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation).

In a number of EU countries, there are already tax incentives in place to encourage investments in renewable energy projects or eco-efficient technologies. One such initiative is the Energy Investment Allowance (EIA) in The Netherlands that gives direct financial support to Dutch companies that invest in energy-saving equipment and sustainable energy<sup>7</sup>. At EU level, the “Action Plan for Energy Efficiency”, soon to be revised, should, inter alia, give a stronger emphasis to tax relief schemes and provide clearer guidelines for the Member States in this respect.

Moreover, tax cuts can go beyond energy-related investments. UEAPME supports the introduction of tax cuts for a wider range of environmentally friendly investments such as investments on waste and water treatment or on costs linked to the adoption of environmental voluntary schemes such as EMAS or Eco-label.

### III.6. Access to EU Programmes

In order to be able to access EU-funded projects, the administrative and financial requirements of these projects for SMEs and in particular for micro and small business should be reduced to the minimum. In the framework of the revision of European financial rules, it is necessary to adapt these rules following the principles of the Small Business Act: namely adapt the guarantee provisions and payment delays and clearly precise that intermediary organizations can officially propose global projects gathering many enterprises. Moreover, feasibility awards have to be re-launched.

At the moment, small enterprises do not have the capacity to participate alone in huge programs with a specific thematic approach: SMEs should be able to enter in global projects managed by their intermediary organisations, but they should also be able to easily access and manage SME targeted programs on a wide range of areas. Moreover, information on the impact of EU programs on SMEs as well as periodical studies reporting the benefits of EU programs for SMEs would be really welcome.

It is also of utmost importance that the representative intermediary organisations of craft enterprises and SMEs are better involved in the definition and implementation of these programmes at all levels in order to facilitate and increase the access of their member enterprises to such programs.

### III.7. Structural Funds

With regards to EU funding for SMEs in the field of Sustainable Development, UEAPME sees Structural Funds as a relevant budget line, practically the most important one, whose benefits are not fully exploited by SMEs.

The weak impact of Structural Funds upon small companies is of much concern. In fact, in certain regions, only 1-2% of the funds available are used. This is partly due to inappropriate administrative and financial requirements and also to the mismanagement of the funds by regional and national administrative authorities. As a result, it is difficult for SMEs to benefit from the Structural Funds at the level they should. A position paper issued by UEAPME in March this year<sup>8</sup> underlines many political, practical and technical difficulties and proposes 105 simplification measures calling on the EU institutions and the Member States to work out the necessary simplifications with SME organisations, especially those representing small companies and micro businesses. UEAPME believes that, without these technical simplifications, it is an illusion to consider that small enterprises will be able to access the Structural Funds in the future.

Likewise, UEAPME officially asks for an easier access to the structural Funds not only by the companies but

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<sup>7</sup> The Dutch Energy Investment Allowance foresees that forty-four percent of the annual investment costs for energy-saving equipment are deductible from the taxable profit over the calendar year in which the equipment was procured.

<sup>8</sup> Proposal for simplification measures of the administrative rules and the financial management of structural funds:  
[http://www.ueapme.com/IMG/pdf/100316\\_pp\\_simpl\\_admin\\_en.pdf](http://www.ueapme.com/IMG/pdf/100316_pp_simpl_admin_en.pdf)

also by those intermediary organisations representing small business. Furthermore, UEAPME asks the EU institutions to strongly support the activity of these intermediary organizations in favour of small enterprises at regional level.

### **III.8. Dissemination of best practices and coordination**

There are good examples of best practices at national level in the field of sustainable development that correspond to the practical needs of SMEs' sustainability. This is for example the case of the specific contracts used by ESCOs, already mentioned in chapter III.4. UEAPME thinks that the dissemination and the support of best practices in framework programs should be prioritized. The exchange of best practices also seems to be particularly important for the development of alternative sources of energy, especially suitable to small and micro business, such as micro-generation<sup>9</sup>.

## **IV. The right global response**

High expectations were put ahead of the United Nations Climate Change conference that took place in Copenhagen in December 2009. The Conference came to an end with a great sense of failure since it became obvious that a final follow-on agreement to the Kyoto Protocol would be hard to reach.

UEAPME strongly believes that the right international legal framework is needed in order to embark on the transition towards a low carbon economy. A framework in which industrialised countries commit to reduction targets comparable to those of the EU since neither the competitiveness of European companies nor the attractiveness of the EU as a production location should be jeopardised. Moreover, the potential of SMEs to fight climate change should be fully exploited.

With regards to the impact of climate change on employment, UEAPME is studying the magnitude of this impact along with the other European Social Partners. Although the real impact is difficult to quantify due to the heterogeneity of business sectors, it is true that some SMEs in certain sectors will benefit from climate change while others in the same or different sectors will not. It is therefore important that the European Social Partners have the right platform to continue to focus on this issue in order to identify solutions and assist to businesses, and particularly SMEs, to better adapt to climate change and to the social and economic consequences it will bring about.

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<sup>9</sup> Microgeneration is an alternative energy production method where small power stations can use renewable sources at local level. It is particularly suitable for small companies, since it permits a more rational use of energy, which (1) reduces overall costs, (2) guarantees energy supply even in the event of power cuts, (3) boosts the level of energy produced within the EU, (4) helps combat global warming, and (5) encourages the creation of local jobs.