

Consultation document

"Small Business, Big World - a new partnership to help SMEs seize global opportunities"

1 Introduction

EU businesses face many challenges when going abroad. These range from access to market information and locating possible customers and finding the right partners to more complex issues such as adjusting to new technical regulations and standards, managing technology transfer and protecting intellectual or industrial property rights. In dealing with such challenges small and medium-sized enterprises (SMEs¹) are often less well-equipped with in-house expertise and financial as well as human resources than large enterprises. As a result, while larger EU companies are active in many world markets, most SMEs still only think, if at all about going abroad, of doing business close to their home markets, typically in another Member State within the EU. Typically also, an SME will look for business support on its doorstep when it foresees going international.

Making full use of opportunities within the Single Market is already an important step and the EU has taken action to facilitate SMEs' activities in this regard, in particular through the Small Business Act², the Single Market Act³ and the launch of the Enterprise Europe Network⁴. While important progress has been made, there is still room for significant improvement.

Having said that, much of the economic growth that opens up new opportunities for EU enterprises is taking place outside the EU, and SMEs - the backbone of Europe's economy - should benefit from it.⁵ Recent studies suggest that internationalisation improves enterprises' competitiveness in the global market, creates new jobs within the EU and promotes technology transfer.⁶ It is therefore important to help SMEs overcome obstacles to tapping the global market.

¹ The Commission adopted Recommendation 2003/361/EC on 6th May 2003 and has applied this definition since 1st January 2005; see http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm.

² Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions – "Think Small First" A "Small Business Act" for Europe COM/2008/0394 final (see <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52008DC0394:en:NOT>).

³ Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions "Towards a Single Market Act" For a highly competitive social market economy COM/2010/608 final/2 (see <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0608:REV1:EN:PDF>).

⁴ See http://www.enterprise-europe-network.ec.europa.eu/index_en.htm.

⁵ According to the OECD, developing and emerging markets would account for 60% of world GDP by 2030.

⁶ "More than 50% of SMEs that invest abroad and SMEs that are involved in international subcontracting, report increasing turnover from 2007-2008, whereas for all SMEs this is about 35%; internationally active SMEs report an employment growth of 7% versus only 1% for SMEs without any international activities; 26% of internationally active SMEs introduced products or services that were new for their sector in their country; for other SMEs this was only 8%." Report *Internationalisation of European SMEs*, December 2009; http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index_en.htm.

Business support as such is not a new idea and both at national and at EU level significant resources are already devoted to it. This involves the public as well as the private sector.

The broad rationale for this internationalisation support appears to be well-founded.⁷ This does not, however, mean that all international support programmes are equally effective. At a time when resources are limited and public finances are fully stretched, there is a case for considering how cooperation and networking in this area within the EU could increase both cost-effectiveness and impact.

The present initiative intends to establish a more coherent and effective EU strategy for supporting SMEs in international markets, to propose better ways of offering relevant information, advice and assistance to SMEs in their attempts at penetrating new markets and their search for the right partners, and to focus on a smarter use of existing resources rather than to, by default, create new, additional structures and activities. It considers how to go about delivering support to SMEs in the most efficient and effective way and what are the most useful types of support to be provided. Notably, it proposes a more cost-effective "division of labour" and closer cooperation between existing EU programmes, between the European Union and its Member States, among Member States, and between the public and private sector bodies. The given political competences in the areas of trade policy and trade promotion shall be duly respected.

As a starting point for a "new partnership", a more integrated approach, this document puts forward a set of guiding principles which should facilitate a coordinated and more efficient way to support SMEs in markets outside the EU in the short and long-term. It proposes that these principles should be followed when launching initiatives at the EU level and also introduces criteria for the identification of priority markets.

As first steps towards a more coherent and effective EU strategy, the present document makes practical proposals in order to reinforce cooperation among different offices and programmes supporting SMEs. First, it recommends that a detailed stock-taking ("mapping") of existing support services in all priority markets should be undertaken where it does not yet exist. Second, it sets out a plan for the implementation of an "International Business Portal" online, providing first-entry, business-relevant information on foreign markets and an overview of available support activities for markets outside the EU. This online portal will be easily accessible for all EU SMEs, providing them with initial information in their home country without stretching their financial or human resources.

Third, future efforts should focus on how existing service providers can cooperate more effectively and how incentives can be provided to bring this about. Giving a European dimension to the existing support infrastructure is a smart, flexible and cost-effective alternative to the proliferation of organisations and programmes for SME support. Simply adding new support institutions and organisational entities in target markets is often not in the best interest of European SMEs wanting to "go global", nor is it an efficient use of public funds. To better serve the SMEs, existing providers of business support services should consider combining their resources, competences and skills in order to maximize their impact while the EU should reinforce existing services and fill gaps where necessary. In order to

⁷ "A recent survey of EU SMEs with international experience found that over half (63%) of such companies recorded an improvement in performance following participation in an international support programme." Results taken from forthcoming European Commission report, based on a survey of EU SMEs with international experience.

achieve this, the potential for synergies between service providers at all levels, public and private, should be explored with a view to encouraging valuable – often transnational – coordination and cooperation among them. The comprehensive “mapping” of the European supply of support services will lay the foundation for this exercise.

All EU services and institutions should adhere to the priorities and guiding principles set out in this document when considering new activities in support of SME internationalisation, both in the short-term and in the long-term. Member States are encouraged to follow this example in order to bring about a more economical and more forceful support environment for European SMEs going global.

More detailed actions and market-specific measures in line with the approach set out in this document may be proposed within the framework of the 2007-2013 financial perspectives and the available financial instruments as well as of the future multiannual financial perspectives.

2 The policy context

The EU's prosperity is highly dependent on its active and healthy SMEs, which includes their presence and competitiveness in markets outside the EU. Over recent decades, the liberalisation of the international movement of goods, services, capital, people and information has led to a more integrated world economy. The share of international trade in global GDP has tripled over this period. For this reason, the development of SMEs' economic activities outside the EU has become an important part of the Union's competitiveness strategy. The further integration of European SMEs into the global economy is part of the strategy for smart and sustainable growth outlined in the EU 2020 agenda.

The Small Business Act for Europe (SBA), launched by the Commission in June 2008 and endorsed by the European Council of December 2008, emphasized that SMEs must be supported in their efforts to expand their activity in markets outside the EU. The EU and the Member States were called upon to support and encourage SMEs to benefit from the growth of markets outside the EU, in particular through market-specific support and business training activities.

The SBA Review further corroborated the need for the Commission's support in areas such as market access assistance, elimination of non-tariff barriers, guidance on regulatory issues, standardisation and conformity assessment.⁸

At national and local level, business support organisations such as Chambers of Commerce, SME Agencies and Trade Promotion Organisations have developed a wealth of expertise and instruments towards the internationalisation of SMEs. At European level, the Enterprise Europe Network is hosted by many of these structures, integrating business support organisations from all Member States. The Network supports SMEs on their doorstep to better exploit the business opportunities of the Single Market and also beyond as it can also count on partnerships with hosting bodies in more than twenty non-EU countries.

In addition, the European Parliament has provided funds to adopt "Preparatory Actions" for "promoting business, academic and scientific exchanges", part of which have already been

⁸ Commission Communication on the Review of the Small Business Act, adopted on 23 February 2011, COM(2011)78.

used to set up the European Business and Technology Centre in India and EU SME Centres in China and in Thailand. These first projects will provide valuable experience for the future. Similar initiatives are being contemplated, notably in South-East Asia and Latin America.

The EU also supports the network of European Business Organisations (EBOs), provides financial assistance to the EU-Japan Centre for Industrial Cooperation, business bodies in Hong Kong, Malaysia and Singapore as well as assistance to the EU Gateway Programmes and Executive Training Programmes for Japan and Korea and the China IPR SME helpdesk. These existing organisations and programmes differ in purpose and range of services provided; see Annexes 1 and 2 for more details.

The Commission's renewed Market Access Strategy⁹ for European exporters and investors of 2007 concluded that the EU needs a more efficient and transparent service to business and highlighted that SMEs are increasingly active in export markets and often face the greatest challenges in addressing trade barriers. The main elements of the strategy include a closer and more action-oriented cooperation between the European Commission, Member States and the business community. This is achieved amongst others through Market Access Teams in key export markets led by the EU Delegation (see Annex 1) and services like the Market Access Database¹⁰. The new EU Trade Strategy¹¹ fully confirmed this approach.

Besides these efforts at EU level, there is a broader and even more significant range of business support activity in the markets outside the EU offered by Member States (see examples in Annex 3), national Chambers of Commerce as well as by the private sector (business associations but also commercial consultants). On the business-related activities of Member State embassies, there is often some exchange of information through regular meetings. The institutionally more diverse Chambers of Commerce and similar organisations in third countries, however, are more difficult to link as it is difficult to bring their activities and divergent priorities onto a common and complementary platform, in part also because of cultural and linguistic differences.

3 Challenges

Despite the significant assistance already in place, EU SMEs still face difficulties when it comes to accessing markets outside the EU and entering into business cooperation with international partners.

First of all, many SMEs especially from smaller Member States are at a disadvantage because their government or Chamber of Commerce is not present in those markets. They therefore lack information and support. Indeed, surveys show that SMEs in general face difficulties in this regard.¹²

Secondly, the services provided by public and private organisations as well as by the EU or Member States may not address all the needs or may not be sufficient to meet the demand

⁹ COM(2007)183, 18 April 2007.

¹⁰ See <http://madb.europa.eu/>.

¹¹ "Trade, Growth and World Affairs", COM(2010)612, 9 November 2010.

¹² "44% of EU SMEs reported a lack of adequate information as an important barrier." Report *Internationalisation of European SMEs*, December 2009; http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index_en.htm. Highlighting added.

from SMEs.¹³ Here a more comprehensive analysis of the local situation within each market is required in order to be able to assess what actions might be needed and to explore the possibilities for increased efficiency and effectiveness from complementarities, Europe-wide networking and cooperation.

Thirdly, EU SMEs are often unaware of the business support services provided by the EU, Member States or private sector.¹⁴ Here special attention should be paid to the fact that SMEs look for a first point of contact for business support close to them. Easier access to information already "at home" for all EU SMEs would provide them with a better chance of finding appropriate services tailored to their needs.

The complex and sometimes uncoordinated approach to business support within the EU and the wide variety of programmes and organisations at national, EU or global level puts SMEs in a difficult position, as they lack the human and financial resources to identify or access suitable programmes.¹⁵ Given the large number of already existing services and of players in this field, the Commission maintains that what is needed is a more efficient coordination of the existing support infrastructure, better tailored to SME needs and possibly scaled up where necessary. Such a holistic approach should build upon existing structures, improve transparency, identify core competences among the various service providers and establish more effective cooperation among them to the benefit of their clients.

4 Objectives

In line with the EU Small Business Act for Europe, the EU Market Access Strategy and the EU 2020 agenda, business services provided in any particular market should help European enterprises overcome the barriers and constraints to doing business in that market. Consequently, the main objective of this initiative is to set out a coherent and cost-effective EU strategy for the supply of business support to EU SMEs to help them tap more fully the economic potential of international markets.

Improving cooperation between all existing business support suppliers should reinforce cost-effectiveness. It would be based on the identification of special competences, synergies and priorities for closer cooperation, including an appropriate division of labour. Moreover, the Commission intends to establish a level playing field for SMEs from all EU Member States with respect to information about European services in third countries and their accessibility. The language barrier smaller enterprises face has to be considered and this could be one area where services provided at the EU-level can add value. A thorough analysis of existing business support services in a given market will provide the basis for developing any initiative to optimise the support environment or add a European dimension to it.

¹³ Ibid. "In 2009 40% of SMEs reported a lack of adequate public support as an important barrier to internationalisation." Highlighting added.

¹⁴ According to a recent European Commission survey, 24% of the internationalised SMEs are aware of public support programmes for internationalisation that could be used by their enterprise. This awareness increases with the size of the enterprise: micro 23%; small 36% and medium sized enterprises 37%, it still represents a minority of SMEs. Results taken from forthcoming European Commission report, based on a survey of EU SMEs with international experience.

¹⁵ "Out of the 24% of international SMEs that are aware of public support programmes less than one third of these companies use the programmes for their activities." Results taken from forthcoming European Commission report, based on a survey of EU SMEs with international experience.

A further objective is to provide SMEs with both more accessible and more adequate information on internationalisation. An EU-wide information gateway able to become the "one-stop shop" for business support has to be identified. This online portal would provide SMEs with an initial access to up-to-date information for business decision-making in relation to target countries as well as to the support programmes available for doing business with those countries. This way "efficiency gains could be obtained by organising, at EU level, the collection of information on market developments and the legal and institutional environment in foreign markets."¹⁶ It may prove necessary in the future to provide EU financial support to particular activities, following the stock-taking of support services, the identification of gaps in the local business support "market" and the application of the guiding principles below.

5 Achieving our objectives

SMEs have limited resources at their disposal and face difficulties identifying and exploiting the opportunities offered by markets and business partners abroad, in particular outside the EU, and hence a considerable financial risk of "going international". At the same time, SMEs also lack the means to make optimal use of the vast array of available support programmes. Often, they are even unaware of relevant support services on offer.

As a first step, it is necessary to provide better access to information within the EU to all SMEs that are, or could be, contemplating steps towards international markets.

There are already many sources of business support services to help SMEs penetrate markets outside the EU. Before considering further initiatives at EU level, a review of services provided in these markets as well as an identification of missing services has to take place. This would help avoid duplication and improve efficiency and clarity from a "customer" viewpoint, containing transaction (information) costs SMEs face and thereby increasing the effective demand for such services. At the same time, the efficacy of support services in third markets should be improved by encouraging networking and cooperation between service providers and by making the best use of the available expertise.

Furthermore, a specific, if indirect, way of supporting the internationalisation of SMEs is the promotion of business clusters that are instrumental in helping SMEs to cooperate with strategic partners on a broader scale and also to reach out to foreign markets.

5.1 Delivering information to the doorstep of SMEs

SMEs should have easier access to the services and expertise related to doing business in third markets and be able to identify suitable programmes already "at home". That is to say, they should have a local point of contact in the EU, both physically and electronically.

The Enterprise Europe Network, with its 600 branches embedded in local business support organisations such as Chambers of Commerce and Industry, Chambers of Crafts, Regional Development Agencies, provides the possibility for SMEs to establish direct contact on the ground and to receive professional support services within the EU.

This will be complemented by an online portal that provides general business information about target countries and a detailed overview of the different support services available (see

¹⁶ Commission report *Internationalisation of European SMEs*, December 2009, p. 9. See http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index_en.htm.

also Annex 4). This online service will be linked with the already available "Your Europe Business" and take into account the "European Small Business Portal" and the sections on "Business outside the EU" in order to offer an online "one-stop shop". To facilitate the use and visibility of the virtual entry point, direct marketing to EU SMEs will be required in addition to a well-organised structure and implementation. The marketing could be done through the Enterprise Europe Network but mainly through other EU business associations or Chambers of Commerce at EU or national level.

Until 2014, the costs for the Enterprise Europe Network could be supported by existing budget resources. In parallel, a pilot project of the portal will be implemented which will include the gradual translation of information into all EU languages. From the outset, the portal will link existing portals at EU and national level, including the EU Market Access Database, and provide information and an overview of different services available. While conducting the stock-taking (or "mapping") of services (see below 5.2), the Commission will raise awareness regarding the concept of an interactive tool for business support providing an entry point at local level within the EU. Over time, the results of the stock-taking will be added to the portal, thereby making it more comprehensive and linking service providers directly with SMEs.

In the longer term (beyond 2014), the role of the Enterprise Europe Network should be explicitly described in its forthcoming legal base and subsequent call for proposals, including the synergies with the future "International Business Portal". The latter will be implemented providing general market information as well as a detailed overview on the type of support activities available in markets outside the EU. It will be based on the comprehensive stock-taking of services, links with existing portals and the experience from the pilot project. It will provide SMEs from all Member States, but also business organisations, Chambers of Commerce and other intermediaries, with an easy access to the necessary information "at home", in close liaison with the Enterprise Europe Network. Additionally, the portal will be marketed by local organisations with direct contact to SMEs within the Member States. They will use the portal themselves to search for necessary information on behalf of their SME clients and more importantly make them aware of the portal, thus further alleviating their access to information and markets outside the EU. Continuous updating of the portal will be vital. This will depend on the continuous stock-taking of services (see below) as well as on updates to linked portals.

5.2 Mapping the support services environment at home and abroad

An in-depth "mapping" and analysis of existing support services within the EU and in third countries is needed in order to show possible gaps as well as overlaps. This will be done for the priority countries (see 5.5 below) by applying standard criteria for assessing the scope and availability of the support services in question. This stock-taking will need to cover private and public initiatives at local, regional, national and EU level.

For that purpose, EU Delegations will be asked to provide an overview of existing local services by private and public providers in third countries, including Member States and EU-level bodies. In addition, EU Delegations could bring together local organisations, for example, Chambers of Commerce, European Business Organisations and Enterprise Europe Network branches, in order to identify synergies and gaps in SME support activities. This would improve the networking and facilitate dialogue between the current suppliers of business support leading to an increase in the accessibility of services to SMEs from all

Member States. In order to achieve a comprehensive overview, the commitment and cooperation of Member States and existing support organisations will be vital.

The mapping will provide the basis for judging the need for further action, whatever its form and responsible body. Whereas the entire mapping exercise for all targeted markets may take up to two years to complete, this may be accomplished much faster for individual markets, allowing activities to optimise the local SME support to be taken up already in the shorter term, once the necessary evidence has been gathered.

At the same time, services within the EU which are directed at supporting SMEs in foreign markets will be inventoried through contractors. Also in this case, key summary information should be provided by Member States.

In the longer term, the mapping of services within as well as outside the EU will be updated on a regular basis.

5.3 Bringing a European dimension to the supply of services for SMEs in target markets

With a view to improving both efficiency and effectiveness of the entire support system available to European SMEs in third markets, recommendations for an improved networking and closer cooperation, including a more efficient division of labour, between existing providers of SME support services should be developed. This initiative will be facilitated and reinforced by the results of the stock-taking exercise.

Under the guidance of the EU Delegation in the countries concerned, a platform or forum (European Business Platform?), making use of existing structures, could be arranged to allow business support programme representatives, including, for example, Chambers of Commerce, EBOs and branches of the Enterprise Europe Network, to meet on a regular basis. This would enable them to raise awareness about their own planned operations, define possible joint operations and introduce a smart "signposting" system between them. By means of improved networking between local organisations, expertise and competences could be pooled – known in French as 'mutualisation' – and a more effective division of labour could be achieved. As resources are scarce, the efforts by local organisations could be leveraged through this streamlining of efforts and practices.

The main advantage of this approach would be to increase the size and visibility of the operations of business support in third countries and to provide the best available skills and competences at affordable costs. Moreover, the networking of expertise would facilitate reaching out to all industrial economic sectors and also help European clusters and their SMEs to identify potential partners in third countries.

Based on the results of the stock-taking guided by the EU Delegations in third countries, the Commission should, together with Member States, promote, assess and further develop the EU portfolio of business support to SMEs in third countries on the basis of best practice. This should include not only the EU SME Centres and Enterprise Europe Network but also other well-established EU business support programmes for brokerage events (such as Invest in Med, East Invest, AL-INVEST), cluster collaboration initiatives (such as the European Cluster Collaboration Platform and the European Club of Cluster Managers), as well as networking and individual training programmes in the EU (such as Gateway to Japan/South

Korea, Executive Training Programme etc.). See Annex 1 for details on the programmes mentioned.

These instruments, which are often based on different legal bases, budget lines and geographic areas, will have to be used jointly as part of a global concept of support to European SMEs, by establishing working arrangements such as signposting, by achieving synergies and by exchanging their practices, notably on the measurement of their performance.

It should also be considered to open up existing Member State services in third countries to all EU SMEs. This would improve efficiency by making use of existing structures and expertise and provide established Member State organisations with the opportunity to reach out to a larger customer base. Appropriate incentives to do so may be required. Where necessary, top-up schemes of financing at EU level should be considered, subject to the future multiannual perspectives, as a means of facilitating (transnational) cooperation and access to complementary expertise among service providers, thereby optimising the use of public funds.

In order to govern this entire concept, to take stock of the developments, to monitor progress and to evaluate the effectiveness of the approach, a periodic discussion involving all major stakeholders should take place. This could take the form of an annual forum inviting stakeholders to share experience and exchange views with the Commission.

5.4 Promoting SME internationalisation through clusters and networks

SMEs often need to find the right partners to develop and produce globally competitive products and services. They tend to grow and innovate not alone but through collaboration by entering into strategic business cooperation with international partners.

Clusters and business networks can play an important role in helping SMEs to cooperate with strategic partners and become more internationally oriented. Recent studies have underlined that newly-created SMEs which develop new products or services within a niche market are often active from the start in international markets and their capacity to export is reinforced through their membership in a cluster.¹⁷

SMEs hosted in clusters and business networks benefit from contacts and connections (“networking”), access to formal and informal knowledge, and specialised business support services of cluster organisations, all facilitating the development of partnerships abroad (e.g. understanding the strategy of procurers, be they public or private; developing strategic alliances with international research organisations, expanding their own business individually or as a subcontractor, and getting advice on technology commercialisation or IPR issues).

Cluster and network organisations should be strengthened in their role as a catalyst for SME international partnerships by integrating them better into existing support schemes for SMEs in all Member States.¹⁸ Furthermore, intensifying transnational cooperation between cluster

¹⁷ See for example, OSEO/UBIFRANCE study (2010) on the “Link Innovation-Exports” http://www.oseo.fr/storage/newsletters/vendredi_28_mai_20102/gauche/actualites/etude_oseo_ubifrance.

¹⁸ To this extent, a specific call for proposals has been launched under CIP in March 2011 to stimulate international cooperation through regional and national cluster programmes. See http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=4968

organisations is a challenge that should be addressed at all levels.¹⁹ Special attention will also have to be paid to establishing enhanced cooperation between clusters and the Enterprise Europe Network and other interested EU business organisations, with a view to exploiting synergies in terms of knowledge, skills and competencies to provide optimal business support to SMEs.

In the longer term, a broad EU initiative aimed at making a more strategic use of transnational cluster cooperation on markets outside Europe will be envisaged, with a view to building common long-term strategies with international partners across EU member states. This cluster internationalisation initiative would contribute to promoting globally competitive clusters in Europe, especially in emerging industries where cluster cooperation has the potential to create new competitive advantages for Europe. This programme may include actions to identify strategic interests for further cluster cooperation across the EU.

Details on existing and envisaged new initiatives in this policy area are given in Annex 1.

5.5 Rationalising new actions in target markets: Guiding principles and geographical priorities

A consultation among stakeholders conducted by the Commission in 2009 revealed widespread concern about the potential disruption that can arise from a proliferation of uncoordinated publicly-funded initiatives in the area of business support. As a result, and based on broad consultations, the Commission has identified guiding principles that should be followed for the selection, planning and implementation of support initiatives at EU-level. These principles should be key elements of a common strategy and should govern any Commission initiatives both before and after 2014. Member States are encouraged to follow, as far as applicable, similar principles and priorities in their external business support.

1. *Complementarity and additionality*: Actions taken at EU level should be complementary to and not duplicate business support activities that are already carried out by Member States and/or private organisations. In compliance with the principle of subsidiarity and an appropriate division of labour, they should serve to fill gaps or reinforce existing support services where needs are not met - or are not sufficiently met – by other public or private organisations. This could be the case, for example, where not all priority countries (for instance newly emerging markets) and not all issues of access are covered by existing service providers, notably standards and regulations, and other non-tariff-barriers to doing business abroad.
2. *Sustainability*: EU-level support for business support services should be based on a demonstrated demand in the market concerned. They may be funded in the short term by public funds subject to the Financial Regulation, but the aim should be for services to be self-financed to as large an extent as feasible in the longer term in order to mitigate the risk of an unwarranted squeezing out of the market of private service providers.

¹⁹ In this respect, the European Cluster Cooperation Platform established under the European Cluster Excellence Initiative will be instrumental in promoting better cluster cooperation internationally for the benefit of SMEs. As first steps, memoranda of understanding have been signed with partners in Japan and India and further are planned. For more information see <http://www.cluster-excellence.eu/collaboration>.

3. *Efficiency in the use of public funds:* In accordance with the principle of sound financial management, public funds should be used in the best relationship between resources employed and results achieved. For that purpose, specific, measurable, achievable, relevant and timed objectives should be set for each activity. The efficient use of public funds may mean that instead of setting up a new physical structure it may be smarter to encourage existing service providers in third markets, such as national or European Chambers of Commerce or the local EU Delegations, to enlarge the scope of their activities or to pool their resources for a better service.

For new actions taken outside the EU, criteria for geographical priorities should be set and priority countries identified. This will ensure the increased effectiveness of initiatives, focussing on the actual needs of SMEs. Over time, priority countries would have to be adjusted. The identification of priorities should be based notably on the following factors:

- A. *Economic potential and size of the market:* Priority markets should include the EU's major business partners as well as markets with perspectives for strong economic growth. Emerging markets that have the potential to become valuable business partners due to increasing purchasing power and investment opportunities must be monitored to gauge the need for future actions.
- B. *Extent of difficulty faced by SMEs in accessing the market:* Some markets are more difficult than others to access for SMEs, partly due to tariff protection, but more often due to differences in the regulatory environment that can have the effect of non-tariff barriers to trade and investment. Difficulty in access to finance can also constitute an obstacle for SMEs that varies from country to country. Efforts should be directed at removing these barriers as far as possible and at assisting SMEs to overcome such barriers.
- C. *Gaps in existing business support:* The stock-taking of local services currently provided by public or private organisations will help to identify possible gaps in the local support infrastructure. Thematic areas not sufficiently covered could include the need for expertise on specific issues such as standards, conformity assessment, technology commercialisation, protection of Intellectual Property Rights, and customs regulations. Priorities may need to be established.

Any EU financial support to new SME support activities in target markets would need to be based on a demonstrated gap in the local support infrastructure and be in compliance with the guiding principles and priorities set out above. For the Commission, this includes envisaged initiatives for new SME or Business Centres and/or support to existing services in, for example, Vietnam, the Philippines, Malaysia and Indonesia, that will have to be based on a comprehensive analysis of the local support services environment. New EU-level initiatives will only be proposed where a clear need and a gap in the support “market” can be demonstrated and where the EU can add value. In addition, proposals for new initiatives will have to be based on impact assessments which focus on the needs of SMEs as much as on the efficient use of public funds. An annual call for proposals could be made to identify potential activities for funding which fulfil the above priorities and criteria. Any new initiatives post-2013 – subject to the availability of funding - will focus on individual markets to be identified, according to the criteria set out above, in a later Communication.

Obviously, a need may arise to respond with all instruments available to particular political circumstances. Currently, the historic changes underway in the Southern Mediterranean/North

Africa make a strong case for EU support to the socio-economic transformation in that region. This could include developing and/or strengthening schemes for business-to-business cooperation between the EU and these countries.²⁰ Given their vast potential for development, African countries in general should be invited to benefit from building on a strong partnership with EU SMEs.

²⁰ For example, through cluster cooperation: Cluster partnerships offer concrete possibilities for enhanced business cooperation that could be developed and customised to the particular needs of enterprises in sectors such as tourism and creative industries, which have significant economic potential in Southern Mediterranean countries. Beyond this specific case, the Commission is also considering supporting exchanges between entrepreneurs based in different countries, within and outside the European Union.