



EUROPEAN FILE

The Community and business: the action programme for small and medium-sized enterprises

At their most recent meetings, the European Community Heads of State or Government have underlined the need to develop a spirit of enterprise and to reduce the charges that weigh heavily on small and medium-sized enterprises (SMEs). The European Commission has now revised its approach, reorganized certain services and proposed an action programme which the Council has adopted. In addition, the European Parliament and the Economic and Social Committee have intensified and increased their work on SMEs. Of course measures to stimulate enterprises are to a large extent a matter for the Member States. However, it is important to ensure their coherence, in order to maintain sound conditions for competition and to give substance to the Community strategy for encouraging growth and employment in Europe.¹

Because of the persistence and scale of unemployment, the enterprise policy has itself become an essential part of this strategy. From now on, the Community will apply a more integrated approach to the business world, less directed towards separate sectors (coal/steel, agriculture, transport, new technologies, etc.). Moreover, certain specific services, intended to help the integration of SMEs into the large European market, cannot spontaneously come into being and must be the object of Community action.

The importance of SMEs

Each country has its own definition of an SME, generally based on the maximum number of employees, the number ranging from 50 to 500. It is clear, however, that too rigid an application of the criterion of employee numbers can result in misleading evaluations: a company of 500 employees may stand out as a major enterprise in a less developed region while the reverse may be the case in a highly industrialized zone. The Commission and the European Investment Bank generally use the following definition: an SME is any firm with a workforce not exceeding 500, with net fixed assets of less than 75 million ECU,² and with not more than one third of its capital held by a larger company – these three conditions being cumulative. The Commission has undertaken to improve statistics relating to SMEs, while taking account of variations in their economic importance according to sector, country or region. In any event, if the maximum workforce is fixed at 500, SMEs account for more than 95 % of companies within the Community and provide more than two thirds of total employment: approximately 60 % in industry and in excess of 75 % in services.

The Commission is mindful of all forms of SME, whatever their type of activity (companies engaged in growth sectors or traditional workshops, independent

¹ This file replaces our No 6/83.

² 1 ECU (European currency unit) = about £0.69, Ir £0.77 or US \$1.28 (at exchange rates current on 5 January 1988).

operators or sub-contractors, etc.) or legal structure: it is therefore examining possibilities of improving conditions for cooperatives involved in production and services.

As a result of their size, SMEs enjoy important advantages in today's economy: dynamism, flexibility and a readiness to innovate, which enables them to adapt more easily to new market conditions. They therefore constitute an important source of employment creation and a means of regenerating the industrial fabric. In addition, they make a significant contribution to regional activity.¹ Nevertheless, there are also disadvantages associated with the size of SMEs: keeping track of legislative developments, administrative and fiscal procedures, tariff barriers, problems regarding technical standardization – all are proportionately more costly for SMEs than for large firms. Their interest in exporting, as well as their openness to the use of new technology and modern administrative methods remain on the whole insufficient. Their access to risk capital, to public procurement contracts and to the major research and development programmes is still too weak. SMEs must be helped to overcome these difficulties while maintaining their autonomy – which is often the very source of their dynamism.

The development of Community SME policy

- Conscious of the importance of SMEs, the Commission first established a division for 'small, medium-sized and craft enterprises', which, since 1973, has been equipped with a Business Cooperation Centre (BCC) intended to assist SMEs to enter into cooperation agreements, in accordance with European competition rules. Subsidies have also been given to numerous activities of trade organizations.
- The European Parliament designated 1983 the 'European Year of SMEs and craft industry'. This large-scale initiative strengthened European awareness of SMEs and resulted, in particular, in a joint document of the Parliament, the Commission and the Economic and Social Committee, which laid down certain essential policy principles. These formed the basis for the Commission's communication of 22 May 1984 and the European Parliament's Resolution of 24 May 1984. During its 1985 and 1986 sessions, the European Council expressed itself in favour of joint action to improve the environment in which firms operate, in particular small and medium-sized firms.
- In January 1986, following the accession of Spain to the Community, the Commission formally conferred on one of its new members, Mr Abel Matutes, specific responsibility for SMEs. In June 1986, an independent SME task force (with a staff of approximately 40) was set up in the Commission. Concurrently, a full action programme was submitted by the Commission on 7 August and was

¹ See 'Report on improving Community competitiveness and industrial structures' published in 1985 by the Commission, at the invitation of the European Council.

unanimously adopted by the Council on 3 November 1986. The task force has a dual function: internal coordination (overseeing the interests of SMEs in programmes developed by other services), and the setting up of projects within the framework of a general strategy to improve the environment in which firms operate.

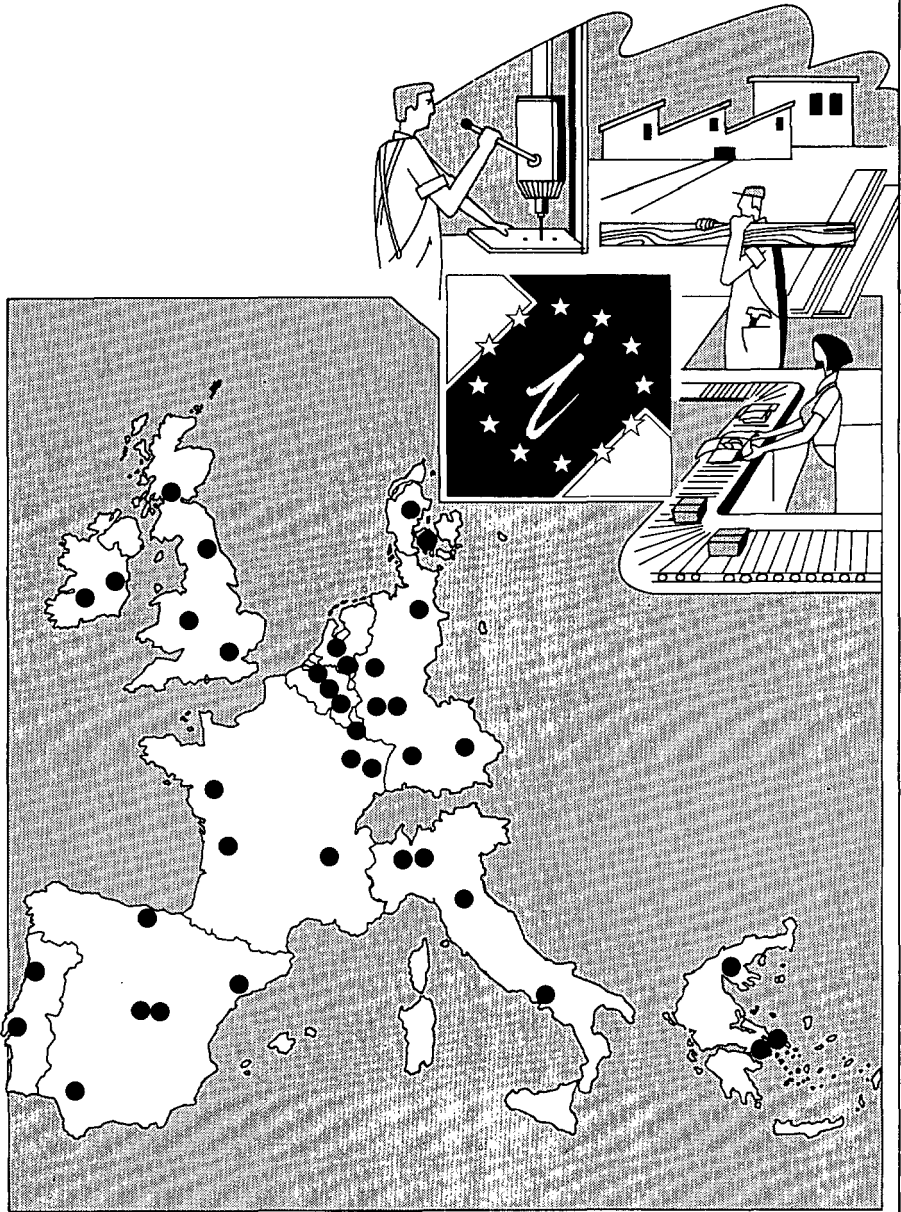
The challenge of the large internal market

The entire Community is currently mobilized to complete the internal European market between now and 1992. This represents both an opportunity and a risk for SMEs. It is an opportunity because the full elimination of barriers to intra-Community trade and access to a large market of 320 million consumers represents, for every entrepreneur, a powerful stimulant. It is a risk because, with the abolition of long-standing systems of protection, the disadvantages relating to company size may be multiplied and the reaction may be to retreat, particularly in peripheral zones and less favoured regions. In other words, it is important to ensure that measures to be taken as a result of the 'White Paper' on the completion of the internal European market should be favourable to SMEs, by preparing them for the 1992 deadline.

- This is why one of the fundamental themes of the SME action programme is to improve the environment in which firms operate. On several occasions, the highest Community authorities have underlined the need to reduce administrative formalities and to apply regulations only within the limits of strict necessity. When agreeing to the action programme, the Council also adopted a Declaration specifically along these lines. This policy must result in legislative and administrative action, at both Community and Member State levels.
- On 26 February 1986, the Commission decided that every proposal for legislative or regulatory measures to be submitted by the Commission to the Council should be evaluated with regard to its impact on firms and employment creation. This evaluation is carried out in a systematic manner in the Commission services; the task force ensures control *a posteriori*. Thus, a proposal which would result in a noticeable increase in costs for SMEs can be blocked or modified before its adoption by the Commission. The exercise has required the Commission services to consider more rigorously the economic consequences of their projects. In addition, the Commission undertook a careful study of the impact of Community legislation on SMEs. This inquiry highlighted several possibilities for simplifying matters. By codifying Community law and circulating the legal texts more widely, sector by sector, the Commission helps firms to grasp more clearly the legal context within which they operate.
- At the national level, numerous initiatives have been taken to lighten and simplify the laws and the administrative procedures which concern SMEs. The task force has undertaken a systematic exchange of experiences in this regard between Member States.

The reduction of border formalities and the elimination of physical and technical barriers to trade, which are central to the objective to be achieved by 1992,

Serving the SMEs: Euro-Info Centres



represent for those SMEs engaged in exporting an essential aspect of this policy of simplification. For example, the single customs document, to be applied from 1988, will replace some 70 different forms now in use at customs posts.

- The tax environment for SMEs is also of great importance. As regards direct taxation, the Commission has undertaken a study of specific measures taken by Member States in favour of SMEs; it will make its point of view known at an opportune time. In the short term, the Commission has decided to emphasize the harmonization of indirect taxation. In conformity with the 'White Paper' already mentioned, the Commission proposed, in July 1987, several directives concerning the approximation of tax levels. In this context, the proposal to amend the sixth VAT Directive, with a view to establishing a system particularly applicable to SMEs, remains topical. This proposal was submitted to the Council on 30 September 1986.
- As regards the social and cultural environment for SMEs, there is much scope for action by the public authorities. The social role of the self-employed worker must be respected. In addition, an 'SME mentality' must be encouraged from school age, as too many young people still do not consider the possibility of setting up their own business. The action programme envisages encouraging a spirit of enterprise in schools and taking account of the SME dimension in training programmes. Enquiries have identified a certain lack of motivation, among the managers of small or medium-sized firms, with regard to training, both for themselves and for their staff. Such a tendency has to be reversed, in order to ensure the necessary modernization of SME production and administrative methods.
- In the same context, concrete measures are required to enable SMEs to compete on equal terms in the new markets. The Community is engaged in long-term action to open up public procurement contracts. SMEs should have real opportunities to win such contracts, at the local and national level, and gradually, throughout the whole Community. This implies wide distribution of notices for tenders published in the *Official Journal of the European Communities* including at local level. The proposed directives recently submitted by the Commission concerning public works and public supply contracts should permit increased transparency. For public works, the files relating to costs will have to specify the market share eventually sub-contracted to SMEs. In addition, the task force is assessing national experiences in this matter, including those of Japan and the United States of America, which directly or indirectly favour SMEs in public procurement policy.
- The Commission is also anxious to respect competition within the Community. When examining State aid for SMEs, particularly in less favoured regions, it takes

favourable account of the needs of small and medium-sized enterprises and their economic and social role. By using simplified procedures, the Commission has been able to accelerate approval for assistance of limited impact.

A new information tool for SMEs: the 'Euro-Info Centres' network

In a world in perpetual change, in a Europe under construction, often in a quite complex way, information has become more and more important for firms. Very often, SMEs are not in a position to keep track of amendments to legislation nor aware of possible opportunities open to them.

- Having considered the experiments already launched in certain Member States, the Commission decided to establish European information centres for firms, called 'Euro-Info Centres'. These are multi-purpose information offices, situated in specified areas, and intended to assist the SMEs of these areas. The offices are linked up to a central task force team which has access to Community data banks and they manage two-way flows of information. In this way, the task force provides logistical support to existing structures (chambers of commerce, business consultants, administrative centres, etc.) selected for this purpose as part of a pilot phase. It is intended to have 39 centres distributed throughout the Community (see map). The first centres were inaugurated in October 1987 and all are now currently operational.

Each Euro-Info Centre provides Community information (legislation, aids, loans, research programmes, internal market, third country markets, etc.). In addition, when required, the centres also provide advice (for example, concerning submissions in answer to calls for tenders) and act as an internal market early warning system (complaints about barriers to trade, competition problems, etc.).

- Besides the centres, the Commission continues to deploy other means for providing information.
 - In 1983, the Commission published a practical handbook on 'the operations of the European Community concerning small and medium-sized enterprises'. This was widely circulated and has been updated several times.
 - Since December 1985, the Commission has published a monthly bulletin *Euro-info*, with a circulation of 35 000, providing the business community with information on Community initiatives which might affect SMEs.
 - In 1986, the Commission, with the technical support of specialized firms, launched a major information campaign on all Community activities concerning SMEs.

- The Commission has also implemented the Euronet-Diane system which makes more than 300 computerized data bases accessible to firms.

Cooperation between firms: an important issue for the Community

The completion of the internal market in 1992 poses a challenge for the EEC's business community. In the face of such a challenge, the strengthening of cooperation between firms seems to be one way of enabling European SMEs to exploit the Community dimension. Their productivity and competitiveness would be stimulated by a fuller integration of their activities into the European industrial structure.

The Community has a significant role to play in promoting cooperation between firms in different member countries. The Commission helps to further this objective in the following fields:

- *Research*: the Esprit and Brite programmes have positive consequences for industrial cooperation, in particular for SMEs. In addition, in November 1986, the Commission defined the connection between the Eureka programme and the European Technological Community.
- *Competition*: the Commission has always recognized the considerable role played by SMEs in the creation of an economic environment of sound competition. This is why it takes account of the specific character of SMEs in authorizing derogations from Treaty rules in favour of *de minimis* agreements, sub-contracting agreements, and agreements on the transfer of technology and research and development.
- *Innovation and technology transfer*: promoting cross-border cooperation among SME advisory services with regard to technology and innovation is one of the priority themes of the Sprint programme.
- *Training*: The Comett programme aims to develop cross-border training in order to assist firms whose industrial and technological development requires skills adapted to the European context.

In addition, the Business Cooperation Centre (BCC), now integrated into the SME task force, aims to provide a European dimension to the search by firms, particularly SMEs, for business partners to engage in technical, commercial, financial or sub-contracting cooperation. In 1987, the BCC equipped itself with a new tool: the business cooperation network (BC-Net) which became operational in 1988.

The BC-Net is a computerized network for furthering cooperation between firms. It provides a link-up between business advisers (approximately 250 during the pilot phase) and functions in the following manner. When a company seeks a business partner in another region or in another Community country, it approaches one of the advisers who are network members. The adviser introduces the company's

request into the system using a common language called 'company profile'. The BC-Net system automatically compares the request with its existing stock of offers. If the search is positive, both the requesting company and the company offering cooperation are immediately informed of the joint interest in cooperation. If the BC-Net stock of offers provides a negative response, the request is automatically distributed, in the form of a 'flash profile', to business advisers located in the specified geographical area. Such advisers then have a limited time in which to consult their portfolio and reply to the BC-Net system.

By rapidly circulating information and by its usefulness for linking up business advisers, the BC-Net system:

- Ensures a fuller participation of SMEs in Community research and development programmes.
- Facilitates cooperative activities among firms, particularly in connection with regional adaptation and development activities.
- Extends industrial cooperation to third countries.
- Contributes to the success of pilot actions aimed at testing systems of cooperation between firms.
- Determines at first-hand the nature and the importance of obstacles to cooperation among firms in different member countries.

Various financial instruments available to SMEs

In the area of finance, the share made available to SMEs has continued to increase since 1980.

- Community loans.* The European Investment Bank (EIB) reserves the major share of its global loans for SMEs. They are provided through the intermediary of financial institutions. For example, in 1986, the opening of credit for SMEs was approved for a total amount of 595 million ECU. This compares with 54 million ECU in 1977.

The Community also allocates other types of global loans: European Coal and Steel Community (ECSC) loans which aim to redevelop the coal and steel regions and which significantly help SMEs; New Community Financial Instrument (NCI) loans for which SMEs can apply since 1982.

Between 1982 and 1984, the total volume of Community loans to SMEs doubled, to represent approximately one quarter of total Community loans. Such a striking increase demonstrates how assisting the financing of SMEs is one of the pillars of Community SME policy. This approach was further strengthened by the Council decision of 9 March 1987 which specified that the NCI IV,

amounting to 750 million ECU, would be exclusively allocated to SMEs, with priority for small firms. In addition, the EIB is to make available an equivalent amount for SMEs, under the same conditions. For the first time, loans can be given in respect of certain types of intangible assets, such as patents, licences know-how, research and development costs – and to facilitate capital contributions.

- Grants.* Since its establishment in 1975, the European Regional Development Fund (ERDF) has supported numerous projects of less than 10 million ECU. The action programme envisages an increasing orientation of the Fund towards recognition for 'internally generated development' in the regions involved, and in particular towards SMEs. This especially involves helping the establishment or strengthening of services which assist local businesses or which facilitate their access to risk capital. In addition, since 1986, the integrated Mediterranean programmes (IMP) take account of the economic role played by small and medium-sized enterprises.
- Access to capital markets.* The action programme envisages promoting risk capital and secondary markets for SMEs. With this in mind, the Commission participated, with the European Venture Capital Association (EVCA), in launching a pilot project known as 'Venture consort'. The aim is to increase finance for SMEs involved in new technologies at the first stage of capital formation. The Commission allocates funds (in general, to a maximum of 200 000 ECU) on a case-by-case basis, having regard to the innovatory character and the supra-national dimension of the particular investment project. The Commission also participates in the distribution of profits.
- Commission services are currently drawing up other projects aimed at stimulating the establishment of SMEs, particularly as regards overcoming problems associated with start-up capital and with the assessment of project feasibility.

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The Commission's business policy is only in its infancy. The action programme has determined the principal themes for the work, but as it takes effect, new dimensions are revealed which show the problem in all its complexity and diversity. The Commission, and in particular the task force, is determined to reach outwards and is available to all who would like further information. In addition, the Commission is eager to make use of suggestions to improve its business policy, in order that firms, especially small and medium-sized firms, may recognize in the Commission a means to promote their development ■

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Commission of the European Communities

Directorate-General Information, Communication, Culture
Rue de la Loi 200 — B-1049 Brussels

Information offices (countries fully or partially English speaking*)

Ireland 39 Molesworth Street, Dublin 2 — Tel. 71 22 44

United Kingdom 8 Storey's Gate, London SW 1P 3AT — Tel. 222 81 22
— 4 Cathedral Road, Cardiff CF 1 9SG — Tel. 37 16 31
— 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 20 58
— Windsor House, 9/15 Bedford Street,
Belfast BT2 7EG — Tel. 24 07 08

USA 2100 M Street, NW, Suite 707,
Washington DC 20037 - USA — Tel. (202) 862-9500
— 245 East 47th Street, 1 Dag Hammarskjöld Plaza,
New York, NY 10017 - USA — Tel. (212) 371-3804

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