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SMALL AND MEDIUM-SIZED ENTERPRISES

A DYNAMIC SOURCE OF EMPLOYMENT, GROWTH AND COMPETITIVENESS IN THE EUROPEAN UNION

REPORT PRESENTED BY THE EUROPEAN COMMISSION FOR THE MADRID EUROPEAN COUNCIL

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INTRODUCTION

There is now widespread recognition within the EU that small and medium-sized enterprises (SMEs) are the key sector for generating employment opportunities and growth in the European Union.[1]

The Community and Member States at national, regional and local level, already try to unlock the potential of SMEs through an array of policy measures and support schemes, but many of these initiatives are narrowly targeted and too disparate to be easily accessible by most SMEs. The challenge is to improve their transparency, ensure better coordination between them, increase their uptake, so as to render them all more effective. <u>But there is perhaps a bigger challenge : to make the life of the European entrepreneur simpler in every respect, less burdened with costly, unnecessary bureaucracy, so as to really encourage entrepreneurship, creativity and innovation throughout the Union</u>.

At the Madrid European Council there is a real opportunity for the European Union to give fresh impetus to SMEs of all kinds (manufacturing, business services, craft industry and commerce) and so maximize their vital contribution to European society and in particular to reducing unemployment which is the Union's most pressing problem.

I. SME POLICY TODAY

All Member States have recently strengthened their policies for SMEs (see Annex I) and there is now a considerable degree of convergence between these policies. The objective of many of these measures is to both preserve jobs by supporting existing SMEs and create new jobs by supporting business start-ups and the development of firms with high growth or employment potential.

In 1993, the Commission introduced an Integrated Programme in Favour of SMEs and the Craft Sector[2] in line with the White Paper on Growth, Competitiveness and Employment which highlighted the need to improve SME policies. This Programme has demonstrated that the European Union plays an important complementary role by reinforcing the co-ordination of regional, national and Community policies and programmes.

Furthermore the EU helps to create an open and stable business environment for

1 To maximise this potential, the European Council in Cannes requested the Commission to explore ways to improve the efficiency of current SME policies (Conclusions of the Presidency, SI(95)500 of 27 June 1995, p.5). This Paper responds to that request.

2 COM(94)207 final. See also Second Multi-annual Programme to assist SMEs, OJ N° L 161/68 of 2.7.93 and Commission Communication of 26.10.95 on the Craft Industry and small enterprises, keys to growth and employment in Europe, COM(95)502 final.

enterprises through two of its major strategic goals, namely by implementing the Internal Market and establishing Economic and Monetary Union.

It is the Commission's view that, although SME policy now ranks higher than ever on the political agenda, much more can be achieved by a fresh approach focusing on a number of priority issues.

II. SMEs' CONTRIBUTION TO EUROPEAN EMPLOYMENT AND GROWTH IS NOWHERE NEAR FULL POTENTIAL

SMEs account for 99.8% of all companies, 66% of total employment and 65% of business turnover in the European Union (see Graphs 1-3). In particular, **those at the smaller end now play a key role in terms of growth and generate an above average share of new jobs.**

Net job creation in SMEs has more than compensated for job losses in large enterprises during the period 1988 to 1995. Enterprises with fewer than 100 employees have been responsible for almost all the job creation at a rate of 259,000 net jobs per year (see Graph 4). This trend is expected to continue. During periods of recession small enterprises shed jobs more slowly and absorb economic shocks better than large companies.

Despite some encouraging data concerning the recent economic performance of the Community, **employment creation in Europe has been unimpressive** and unemployment has not been reduced significantly. Furthermore, the rate of job creation in SMEs is not accelerating despite positive economic trends. By way of comparison, in 1994 employment in small businesses in the United States increased by 4.7 %, generating 2.1 million net new jobs.

Therefore European SMEs' full potential for growth and employment creation is not being properly realised. On average 50% of SMEs in the EU fail within the first five years of start-up,[3] a significant attrition rate with corresponding job losses. In addition, 30,000 enterprises and 300,000 jobs are threatened every year simply because SMEs fail to overcome the difficulties involved in the transfer of ownership.[4]

There are considerable differences in net job creation between SMEs and large enterprises, as well as in survival rates of enterprises between Member States, which demonstrates the potential for additional job creation (See Graph 5). Among the factors offering new opportunities for SMEs are the growing importance of the service sector (in particular business services), the increasing role of technologies favouring small scale

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3 Enterprises in Europe, third report, 1994, p. 230.

4 Commission Recommendation of 7 December 1994 on the transfer of SMEs, OJ N° L 385/14 and C 400/1 of 31.12.94.

roduction, easier access to global markets (including the Information Society) and the move towards outsourcing, subcontracting and downsizing by large firms. SME development is also essential for maintaining social and economic cohesion and assisting rural development.

The available evidence suggests that growth and job creation in SMEs has been inhibited by basic market and policy imperfections or failures which have not yet been adequately addressed. There is now an urgent need to develop remedial measures.

III. THE MAJOR MARKET FAILURES

A. Excessive Costs Arising from Regulation

- ***The Administrative Environment Results in a Structural Bias against SMEs***

European enterprises face an increasingly complex legal, fiscal and administrative environment. While the cost of non-regulation has never been measured, the total annual cost of administrative burdens on all enterprises in Europe has been roughly estimated to be in the order of 150-250 billion ECU [5]. Although part of this burden is unavoidable, what matters most is the relatively much higher impact on SMEs[6] than on large companies. SMEs do not have the human resources to cope with this burden and often cannot afford to pay for outside help.

According to a German study, the average time spent by businesses on administrative work amounts to over 700 man hours a year. A business with up to 9 employees devotes **62 hours per employee** to administrative formalities. For a larger company, however, this figure is much lower at 5 1/2 hours. The same study stated that the relative cost of administrative burdens per employee is **more than 20 times higher in smaller enterprises than in larger ones** (see Graph 6). Administrative complexity is particularly important in the areas of labour, environmental and tax legislation. In the UK, for example, a study estimates that the smallest enterprises pay 2 % of their turnover in VAT compliance costs whereas for larger enterprises the cost is negligible. This effectively amounts to a **2 % surcharge or penalty on smaller enterprises** (see Graph 7) negatively affecting their competitiveness. In the area of VAT, SMEs face additional difficulties and costs in intra-Community trade, mainly because of the complications of the transitional VAT system with its numerous special schemes.

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5 European Observatory for SMEs, Third Annual Report, 1995.

6 According to a 1995 study by the Institut für Mittelstandsforschung, SMEs are bearing 96% of this burden.

Such excessive compliance costs not only **discourage new business creation but also recruitment**, entrepreneurship and innovation as well. Slow and costly administrative procedures which start-ups must go through in some Member States to obtain the necessary authorizations are a further disincentive.

- ***Regulatory Barriers to the Successful Transfer of Businesses***

Regulatory barriers, in particular fiscal burdens, often prevent the successful transfer of a business from one generation to the next. Payment of inheritance or gift tax may threaten the financial equilibrium of the enterprise and even its survival. At least 30,000 businesses and 300,000 jobs a year are lost due to unsuccessful transfers of businesses in the EU.[7]

A 1992 French study estimated that, to enable the payment of inheritance tax, a business in France might have to set aside, **for a period of eight years, up to 88 % of its profit**, in Belgium 46 %, in Italy 33 %, in the UK 30 % and in Germany 21 % (see Graph 8 and Annex I).

B. The Innovation Market

- ***Limited Creation of New Technology Based Firms***

Although Europe's performance in scientific research is often excellent, its performance in converting scientific discoveries into marketable products through innovation is worse than its major competitors. The business environment in Europe (in particular, the lack of sufficient risk capital, the existence of significant regulatory barriers and a lower propensity to take risks) are not as conducive to the development of new technology-based firms (NTBFs) as in the US. As a result the EU's industrial structure does not generate new enterprises quickly enough to continuously improve its overall competitiveness and sustain employment.

- ***Restrictions on Technology-Intensive SMEs***

Technology-intensive SMEs need much better access to Community-funded R&TD programmes. One obstacle to their participation in these largely pre-competitive programmes is the fact that SMEs tend to conduct R&TD on a short term basis, aimed at developing immediately marketable products. There is a lack of networking with each other and with large companies to exploit business synergies.

But there is another problem which also needs examining - namely the complexity of the Commission's own procedures in the research area. The Commission has already

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7 Commission Recommendation of 7 December 1994 on the Transfer of SMEs, OJ N° L 385/14 and C 400/1 of 31.12.1994.

begun examining the situation with a view to making them more efficient and especially simpler.

- ***Limited Technology take-up by SMEs***

The vast majority of SMEs, who are not technology-intensive, need to make use of readily available research results in order to remain competitive, but lack the expertise and resources to do so. In particular, SMEs need to develop better access to the new information technologies which offer immense potential for improving the overall performance of their business. The flexibility of the forthcoming Information Society can be of huge benefit to SMEs - for networking, for marketing their products and services for facilitating exporting and for designing made to measure training modules etc.

C. The Labour and Human Resources Market

- ***The Cost of Labour***

The current labour market environment acts as a disincentive to job creation in SMEs. Due to their limited market influence, individual SMEs must be able to respond to changing market conditions. However, recruitment of an additional employee is frequently perceived as a liability rather than as a means to increase business. This lack of flexibility can seriously jeopardise the viability of SMEs and discourage them from recruiting.

The general trends in taxation in the 15 Member States since 1980 show that taxation of labour has increased steadily, whereas taxation of other factors of production has decreased. Relatively high taxes and social security contributions on labour hit SMEs hardest. They are a financial disincentive to take on employees, in particular for the smallest firms with very limited resources to reallocate to new tasks.

- ***Insufficient Focus on Training in SMEs***

Although qualifications are a key to competitiveness, training in SMEs is undertaken significantly less often than in large companies, partly because the training available does not meet SMEs' needs. Initial training programmes do not always provide for the necessary multidisciplinary skills and core competences they need. Traditional away-from-the-job training is often unsuitable for SMEs and the training infrastructure is notoriously weak in sectors dominated by SMEs.

- ***Training Barriers to Employment in the Craft Sector***

The craft industry and small enterprises can make a significant contribution to employment and economic development, a fact highlighted in a recent Commission

Communication.[8] However, there is still insufficient creation of businesses and jobs in this sector, due to a still inadequate level of vocational and management training for apprentices and potential new entrepreneurs.

D. The Financial Market

Compared to larger firms, SMEs are much more dependent on internal sources of funds (i.e. owners' own capital and retained profits) than external sources of finance. They clearly have problems accessing bank loans at reasonable rates, or equity raised on the markets, frequently relying on informal sources (family, friends) for external funding. The major problems are:

- ***Under-Capitalization of European SMEs***

European enterprises are under-capitalised in comparison with their counterparts in the US partly because **national tax systems in the European Union discriminate in favour of debt financing and against equity financing.** This discourages enterprises from building up their own equity base and reinvesting the retained profits in their business. SMEs are particularly affected, since they have fewer financing options than large enterprises.

> For example, an entrepreneur who invests a given sum from his business' earnings in his company is being taxed, whereas if he borrows the same amount from a bank, this operation will not only be tax-free but he will be able to deduct interest from his tax bill. In other words, the natural behaviour that should be encouraged by all Member States, i.e. re-investment of savings in one's own enterprise, attracts a **tax penalty,** whereas the economically less efficient and more costly option of debt financing attracts a **tax bonus.**

This system produces a clear bias that leads all enterprises, in particular SMEs, to neglect, even reduce, their equity base, while accepting a high proportion of debt financing. In addition, this causes cash flow problems since debt repayments must continue even in times of recession whereas dividends can be temporarily suspended. Moreover, the present adverse tax treatment discourages entrepreneurs and managers from going into business and providing equity finance.

- ***Difficulties in Obtaining Loans***

Compared to larger enterprises, SMEs, with their limited assets, encounter greater difficulties in obtaining loans. In any case, SMEs typically pay an interest rate two to

8 Commission Communication of 26.10.95 on the Craft Industry and small enterprises, keys to growth and employment in Europe, COM(95)502 final.

five percentage points higher than large enterprises.[9] While this interest rate differential is due to factors such as higher administrative costs and higher perceived risks of bank loans to SMEs, this additional burden has a negative impact on the potential of SMEs for growth and job creation.

- *Absence of European Capital Markets for SMEs in Europe*

An important weakness in the present European financial system is that, in most Member States, there is no market in the equity of SMEs This means that there is no interface between SMEs who need equity capital and investors who are willing to provide it.

> The US NASDAQ (National Association of Securities Dealers Automatic Quotation) electronic stock market (the world's second largest capital market in terms of dollar volume of equity trading) provides upwards of 400 suitable smaller companies each year with ready access to equity capital through a public offering of their shares. In Europe, only **10 to 20 % of this number** tap the secondary markets and many choose a NASDAQ listing instead with a corresponding reorientation of their strategy towards the US markets. The number of companies newly listed on US stock markets represents **more than 200 %** of the number in the EU (See Graph 9).

The lack of such a capital market for SMEs in the EU retards the development of fast-growing European companies, particularly those engaged in high technology activities, needing regular injections of equity capital. The difficulties in creating successful secondary markets on a national scale demonstrates the need to create the right regulatory framework necessary to encourage a pan European-wide initiative.

E. The Product and Services Market

- *Distortions of Competition*

Under Community competition rules, SMEs benefit from certain procedural advantages aimed at reducing the administrative burdens upon them. Moreover, in the application of competition rules, the Commission has always taken account of the more limited effects on competition of state aids or agreements among SMEs due to their size.

However, within the EU, SMEs are often hampered by legal and de facto monopolies or other anti-competitive practices,[10] such as distortions arising from State aid. It is significant that only 9% of the total volume of State aid to the manufacturing sector in

9 European Observatory for SMEs, First Annual Report, 1993.

10 1994 Study by McKinsey Global Institute on employment performance.

the EU (**which amounts to more than ECU 93 billion over the period 1990-1992**) is granted with SME development as a primary objective.[11] While SMEs may also benefit directly under other schemes, large businesses tend to receive more government support in particular in the areas of rescue and restructuring aid as well as aid for R&TD purposes. On balance, this support does not filter down and benefit SMEs. There is therefore an evident need to look much more closely at the opportunity cost of state aid expenditure.

- ***Barriers to Accessing the Internal Market***

Despite clear evidence that the Internal Market legislative programme has already begun to reap benefits for business, SMEs in particular are still having difficulties in gaining access to significant parts of the market. The remaining problems include:

- Delays in national transposition and differences in compliance, interpretation and enforcement of Community law. Over-bureaucratic implementation, so-called *"gold plating"*, often negates the beneficial effects of Community-wide harmonized legislation, creating unnecessary bureaucratic barriers.

- Persistence of technical barriers to trade resulting from a lack of acceptance of the mutual recognition principle, the slow pace of the European standardization and certification procedures, unnecessary local transfrontier barriers, and the lack of SME involvement.

- Barriers to participation in public procurement : **Public procurement markets across the Union are worth approximated ECU 930 billion on an annual basis (i.e. 15 % of EU GDP)**. But only a minimal share of cross-border public procurement contracts is currently awarded to SMEs. A major reason for this is SMEs' lack of awareness of the possible opportunities, particularly those in other Member States. This arises partly because existing EU legislation only requires larger contracts, which are of limited interest to SMEs, to be advertised. There are particular difficulties for SMEs arising from pre-qualification requirements, the need for a trading record or financial guarantees and the requirement to conform to national technical standards (in the absence of European-wide standards).

- Lack of compliance with agreed payment terms : SMEs are reluctant to engage in cross-border trade since it is often more difficult to recover debts abroad than in the national market.

- ***Lack of Comprehensive Global Market Intelligence***

Success in the global market place requires long term commitment. But a starting point is to have access to the essential market information with which to make strategic business plans.

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11 Fourth Survey on State Aid in the EU in the manufacturing and certain other sectors, COM(95) 365 final of 26.07.95.

European SMEs lack access to global or regional market intelligence compared to their US counterparts. Additional barriers to internationalisation include limitations on capital, management weaknesses, lack of specialised human resources and difficulties in identifying suitable partners.

IV. THE REQUIRED POLICY MIX

Based on the analysis in Section III, the Commission considers that the following policies and concrete actions are essential to strengthen SMEs' job creation and growth potential in the European Union.

A. The Regulatory Environment

- ***"Think small first" : Reduce the Structural Bias against SME Creation and Development resulting from Excessive Bureaucracy***

Major administrative reforms to cut bureaucracy and to simplify the legal and fiscal environment for SMEs need to be implemented.

Member States should develop a bold strategy for administrative simplification, based on work programmes **which set concrete dates and targets in terms reductions of cost and time for SMEs**. These should include measures such as:

. Drastically cutting administrative work resulting from SMEs' dealings with tax and social security administrations by harmonizing and simplifying definitions and procedures at national level.

. Developing a full service approach by setting-up *"first-stop-shops"* providing information and advice to SMEs and implementing simplified start-up procedures for new SMEs (e.g. the French *"déclaration unique de création d'activité"*).

. The automatic granting of licences or authorizations failing reaction from the administration in a given time period following receipt of an application.

. Developing (in a concerted action with Member States) methods for benchmarking in the area of administrative simplification.

. Setting benchmarks in the area of support services for the creation and development of SMEs.

The Commission for its part will similarly step up its efforts to reduce administrative and regulatory burdens on businesses. Concrete measures will include:

. Simplifying and improving the quality of Community legislation and reinforcing policy coordination.[12]

- Proposing a simple VAT system as requested by the Council.[13]

- Strengthening the role of the Euro-Info-Centres (EICs) as a *"first-stop-shop"* by co-ordinating all SME-relevant Community networks in the new multi-annual programme.

- ***Facilitate the Successful Transfer of Businesses***

  Given the high number of jobs lost in transfers or handovers of businesses each year, the legal and fiscal framework should be adapted to make transfers easier and less burdensome.[14] Member States should now urgently consider to adopt further measures in order to increase the survival rate of business at this crucial point in their life cycle.

- ***Ensure better SME Representation in Policy-Making***

  Member States and the Commission should take steps to improve the consultation of SME organisations when preparing policy action which directly affects them and should encourage their full involvement.

B. The Innovation Market

- ***Encourage the Creation of New-Technology-Based Firms (NTBFs)***

  NTBFs open entirely new areas for growth and job creation but the high risks involved in early stage venture capital for NTBFs have made this segment unattractive for the majority of European investors. In view of the cross-border nature of the two main markets involved (finance and technology), there is a strong case for a pilot action to be taken at European level. Actions should also focus on researchers and engineers employed in research institutes in order to encourage them to market their inventions by creating their own companies (inter alia by providing certain financial safeguards in the area of social security). As the second Ciampi report says *"...the main challenge is the ability to ensure the results of successful research are translated into marketable innovation..."*.

- ***Facilitate Innovation and Research by Technology-Intensive SMEs***

  While progress has been made in facilitating access by SMEs to Community research programmes, the Fourth Framework Programme has not addressed the issue of

12 *"Legislating better"*, Commission Report on the Application of the Principles of Subsidiarity and Proportionality, Simplification and Codification, COM (95) ...

13 Conclusions of the Council of 24.10.94.

14 Commission Recommendation of 7 December 1994 on the Transfer of SMEs, OJ N° L 385/14 and C 400/1 of 31.12.94.

alternative financing incentives specially adapted to the needs of SMEs. This could be examined in the context of the Fifth Framework Programme. In the meantime, the Community should launch a pilot action to provide soft loans for short term development work undertaken jointly by SMEs of different Member States.

Experiences in some Member States show that clustering and high-level customer-supplier relations may help to realise scale effects, upgrading and learning processes. Collaborative projects between SMEs and large companies or universities and research institutes with complementary technologies should be encouraged, together with other actions promoting innovation which will be proposed in the Commission's Green Paper on this subject.

- ***Promote the Use of Information Technologies by SMEs***

The Community and Member States should promote the use of information and communications technologies in a way which is suited to the needs of SMEs. Networking with other businesses, including those which create or disseminate such technologies, should be stimulated by pilot actions.

C. The Labour and Human Resources Market

- ***Ensure Lower Non-Wage Labour Costs***

The Essen European Council identified the reduction of non-wage labour costs as one of the five priorities for an improvement of labour market policies, recommending that these reductions be large enough to ensure a noticeable effect on decisions concerning the taking on of employees, and in particular unqualified employees. Such a move would have a particularly strong effect in SMEs and should be vigorously pursued by Member States

Simplifying labour legislation and introducing more flexible working time are other essential elements to encourage employment generation in SMEs.

- ***Encourage an Entrepreneurial Culture***

In the medium and long term, education and training should aim to encourage an entrepreneurial culture which will lead to business start-ups and job creation as envisaged in the White Paper on Education and Training.[15]

- ***Adapt Training to the Needs of SMEs and Encourage good Management Practice***

Member States should put in place easily accessible training programmes and an infrastructure which take into account the special needs of SMEs. Specific actions should focus on:

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15 COM (95) 590 Commission White Paper on education and training.

- Encouraging apprenticeships which combine school and college-based training with work experience (*"sandwich courses"*).

- Promoting management training prior to business start-up.

- Improving access to training for women, who currently manage or own 30 % of all enterprises.

- Encouraging continuous training in new technologies.

- ***Introduce Incentives for SMEs to Invest in Training***

  Policy measures should seek to promote a change of attitude of entrepreneurs towards training through a range of measures so that training is integrated into SMEs' investment decisions. Such measures could be, for example, tax incentives or equivalent allowances for training and reduced social security contributions for trainees.

D. The Financial Market

- ***Reduce Tax Discrimination between Debt and Equity Financing for SMEs***

  If the existing under-capitalization of SMEs is to be reduced, tax treatment of equity and debt financing should be even-handed,[16] recognizing that a step-by-step approach will probably be necessary because of the overriding necessity to reduce public deficits. A number of Member States have moved in this direction. A starting point could be for Member States to provide tax relief for enterprises to use part of their profits to build up their own capital. The ultimate goal, however, should be to provide the same level of tax relief for the cost of equity or own investment as for interest payments on debt.

- ***Improve Access to Credit through an Extended Edinburgh SME Facility***

  The Edinburgh SME soft loan facility has already proven its worth by creating at least 42,000 new jobs at very low cost to the tax payer (ECU 2,250 on average per job created). However, a one-off operation does not sufficiently address the financing and unemployment problems which largely remain. Now that a network between the European Investment Bank and participating banks has been established, it would be wasteful not to continue exploiting their full potential. The fact that the initial scheme was oversubscribed by more than 50% demonstrates its utility and powerfully underlines the need for its prolongation. The Commission should be invited to present a proposal along these lines, with particular attention to the needs of small and craft enterprises. In such a scheme, participating banks could be invited to report on organisational and structural changes they have introduced to ensure a better partnership with their SME

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16 This tax incentive could consist of a deductible allowance which reflects the cost of raising equity. Mediocredito Centrale, Report on "Tassazione e Riequilibrio Finanziario delle Imprese Italiane", 1995 and M. DEVEREUX and H. FREEMAN, "A General Neutral Profits Tax", Fiscal Studies, 1992.

clients.[17]

- ***Facilitate Access to Credit through the European Investment Fund Guarantees***

  The European Investment Fund (EIF) has been in operation since June 1994 but thus far its interventions in favour of SMEs have been limited. In view of the difficulties faced by SMEs, in particular the smaller ones, in gaining access to sources of bank finance, the EIF could play an important role through the extension of direct or indirect loan guarantees in favour of this category of borrowers. The cost of the guarantee premium would be borne by the Community budget. Such an initiative could be made complementary to the Edinburgh facility, in the sense that small enterprises (less than 50 employees) participating in the SME Facility would enjoy the supplementary benefit of a partial (50 %) loan guarantee extended by the Fund or other guarantee schemes.

- ***Increase the Supply of Equity Capital through the European Investment Fund***

  While the EIF's Statute covers both guarantee and equity operations, the latter can only start at the earliest two years following the formal establishment of the Fund (June 1994), subject to a favourable decision by the Fund's General Meeting. As a decision on equity provision is likely to come up in June 1996, the Commission strongly recommends that the Community, as well as the other shareholders of the Fund, take a positive attitude towards equity operations.

- ***Facilitate the Creation and Operation of European Capital Markets for SMEs***

  Private initiatives are underway to launch a European capital market for SMEs (e.g. EASDAQ[18] and the *"Nouveau Marché"*) in 1996. The Commission and Member States should ensure that their creation and operation are facilitated by removing **all remaining barriers by the end of 1996.**

  . Urgent and accurate transposition of the Investment Services and Listings Directives in all Member States is required and is a prerequisite for such markets.[19]

  . Existing legal, regulatory and fiscal barriers both to investors (such as pension funds) and to small firms wishing to enter these European capital markets should be identified and removed by the end of 1996.

E. The Product and Services Markets

17 For instance, by making use of a Technology Rating scheme such as the one initiated by the ING Bank in the Netherlands or a management rating scheme (e.g. developed by the European Foundation for Business Qualification).

18 European Association of Securities Dealers Automatic Quotation (EASDAQ).

19 Commission Communication of 25.10.95 on the feasibility of the creation of a European Capital Market for smaller entrepreneurially managed growing companies, COM(95)498 final.

- ***Remove Entry Barriers to Markets and Reduce Distortions Resulting from State Aid***

  In order to ensure open and competitive markets for SMEs, Member States and the Commission should step up their efforts to:

  . Introduce competition in those fields which are still protected by legal or de facto monopolies and other anti-competitive practices, whilst respecting public service obligations.

  . Reduce the level of State Aid, taking account of regional differences and other Community objectives, by subjecting it to tighter control (as recommended by the Council).[20]

- ***Improve Access to the Internal Market***

  . Opening up cross-border public procurement opportunities for SMEs, publicizing more widely contracts which are currently below the existing advertising thresholds and improving the access to information concerning the tender processes and documentation for contracts between Member States.

  . Stimulating cross border trade by removing local trade barriers, thereby promoting new cross frontier regional economic areas in the European Union (e.g. the France-Belgium cross-frontier INTEREG initiative).

  . Combating late payment by taking urgent measures along the lines of the Commission Recommendation[21] on this subject. National administrations and the Commission itself should increase their own efforts in this domain and lead by example.

- ***Help SMEs to Internationalize***

  Helping SMEs to internationalise is a key factor in enhancing their competitiveness in the Internal Market and beyond. This will be one of the main objectives of the Multi-Annual Programme in favour of SMEs and the craft sector (1997-2000) which the Commission will propose early in 1996. This programme will include measures in the field of business support focusing on, inter alia, improved access to market intelligence, networking, business co-operation networks, exporting assistance and industrial cooperation programmes.

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20 Council Conclusions of 6-7 November 1995 on competition policy and industrial competitiveness.

21 Commission Recommendation of 12 May 1995 on payment periods in commercial transactions, OJ N° L 127/19 and C 144/3 of 10 June 1995.

V. PRIORITY ACTIONS FOR MEMBER STATES AND THE EU

The importance of encouraging entrepreneurship at all levels must now be given full recognition by policy makers throughout the Union. The primary goal must be to recreate and stimulate a truly entrepreneurial culture, based on values such as self-reliance, risk-taking and a sense of personal commitment. This refocused effort is required above all to create more jobs across all sectors of the European Union's economy.

This requires action to change attitudes, starting from the educational and training systems and covering the relationship between the entrepreneur and public administrations, financial institutions and large businesses.

But to create a more open and stable business environment for SMEs will require a very significant effort by all concerned. Furthermore, boosting SME competitiveness, both internationally and domestically, will also require a sustained policy effort over a number of years.

With this in mind, the Commission has identified a number of priority policy objectives and measures among those identified in Chapter IV which are outlined below linked to the major problem areas.

The Commission considers that these policies should form the basis of the next multi-annual programme for SMEs and the craft sector for the period 1997-2000. Progress towards achieving these policy objectives should be monitored. The priority policies and measures are:

1. Reduce Red Tape which Hampers European Entrepreneurship

- Member States and the Commission should develop a bold strategy of administrative and regulatory simplification based on benchmarked cost-reduction targets and including a simple VAT system.

- Access to all SME programmes must become simpler and streamlined. Member States and the Commission should work towards the principle of *"one stop shops"*. In this context the role of the Euro-Info-Centres (EICs) as a *"first-stop-shop"* for Community programmes will be promoted.

2. Ensure Better Involvement of SME Organization(s) in the Decision-Making Process

Member States and the Commission should improve consultation of SME organization(s) when preparing policies of relevance to them, and should encourage their full involvement.

3. Help Finance SMEs which Create new Jobs

- Tax discrimination between debt and equity should be reduced (and eventually eliminated).

- The Commission and the Member States should take the necessary steps to encourage the creation of capital markets for SMEs in Europe; in particular they should ensure that the creation and operation of the pan-European capital market for SMEs (EASDAQ) is facilitated by removing all remaining barriers, legal, regulatory or fiscal, by the end of 1996.

- The Edinburgh SME Loan Facility should be extended by ECU 2 billion, with interest subsidies for SMEs creating new jobs. There should be additional encouragement from the Community budget for small enterprises in the form of cost-free loan guarantees extended in particular by the European Investment Fund.

4. Reduce Market Distortions and Inefficiencies

The Commission and the Member States should ensure that competition should be progressively introduced in protected markets and market distortions from State Aid minimized. Public procurement opportunities for SMEs including cross border procurement should be expanded.

5. Vigorous Action to Promote Research/Innovation/Training to Assist SMEs

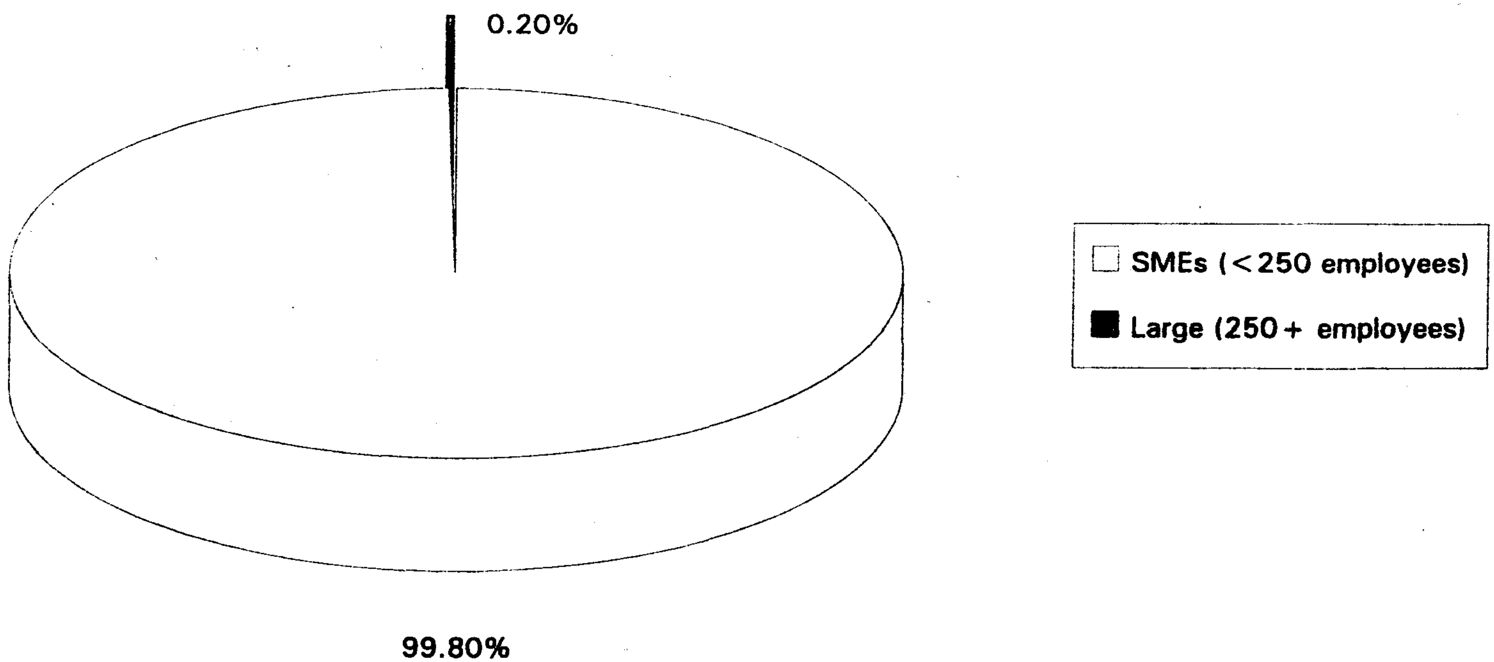
The Commission and the Member States should encourage the creation of new technology based firms by all appropriate means, ensure higher participation of SMEs in the Community's major research and training programmes so as to stimulate innovation, the application of new technologies and entrepreneurship across the Union.

6. Enhance Competitiveness and Internationalization of SMEs

Building on existing policies, completing the Internal Market, improving networking, export assistance and industrial cooperation are key axes for reinforcing the internationalization of SMEs and will form part of the next SME multi-annual programme.

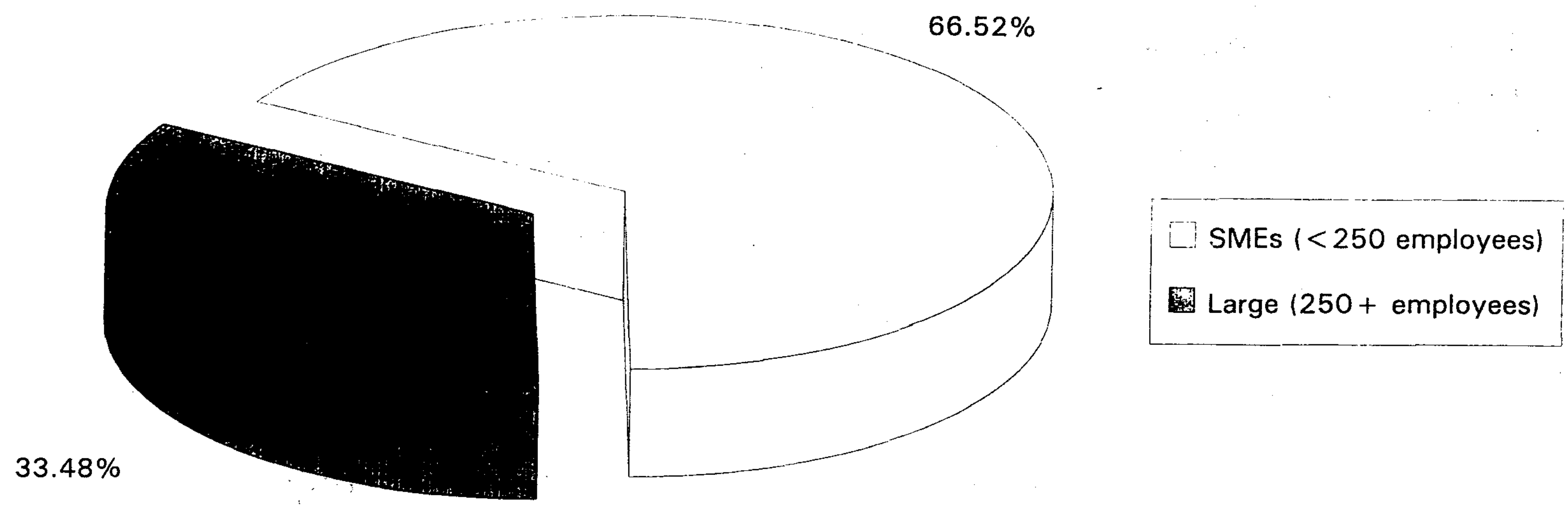
GRAPHS

Graph 1: Share of SMEs in the Global Number of EU Enterprises



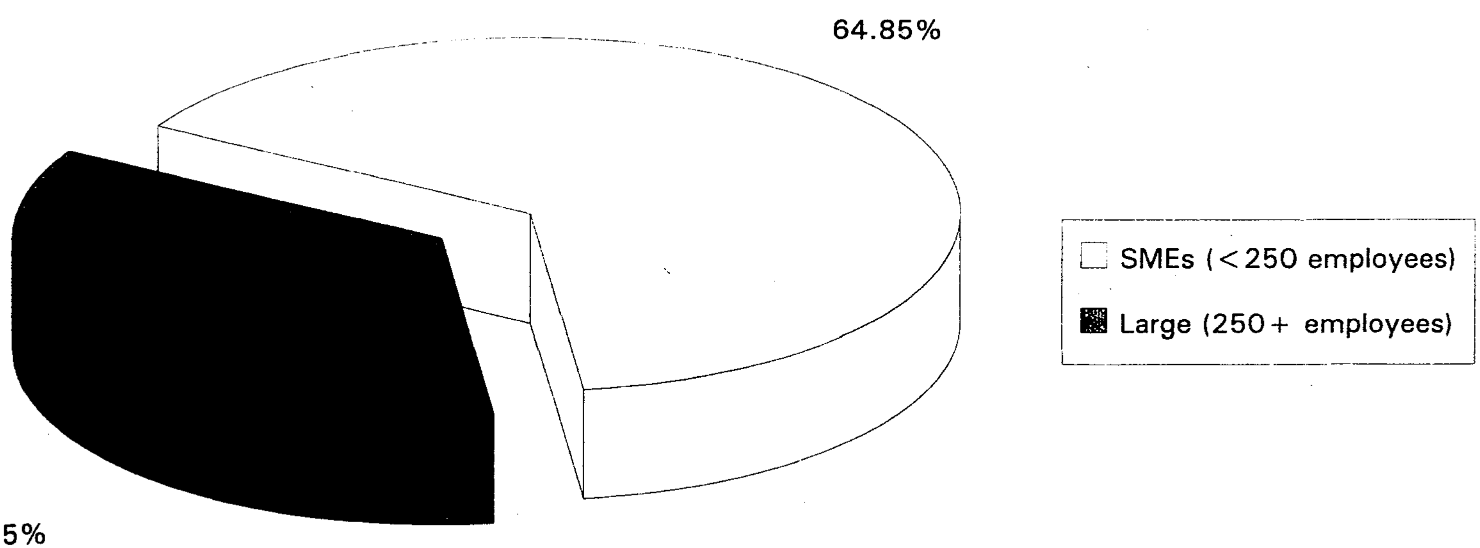
Source: Eurostat, SME Project database, 1995.

Graph 2: Share of SMEs in Overall EU Employment



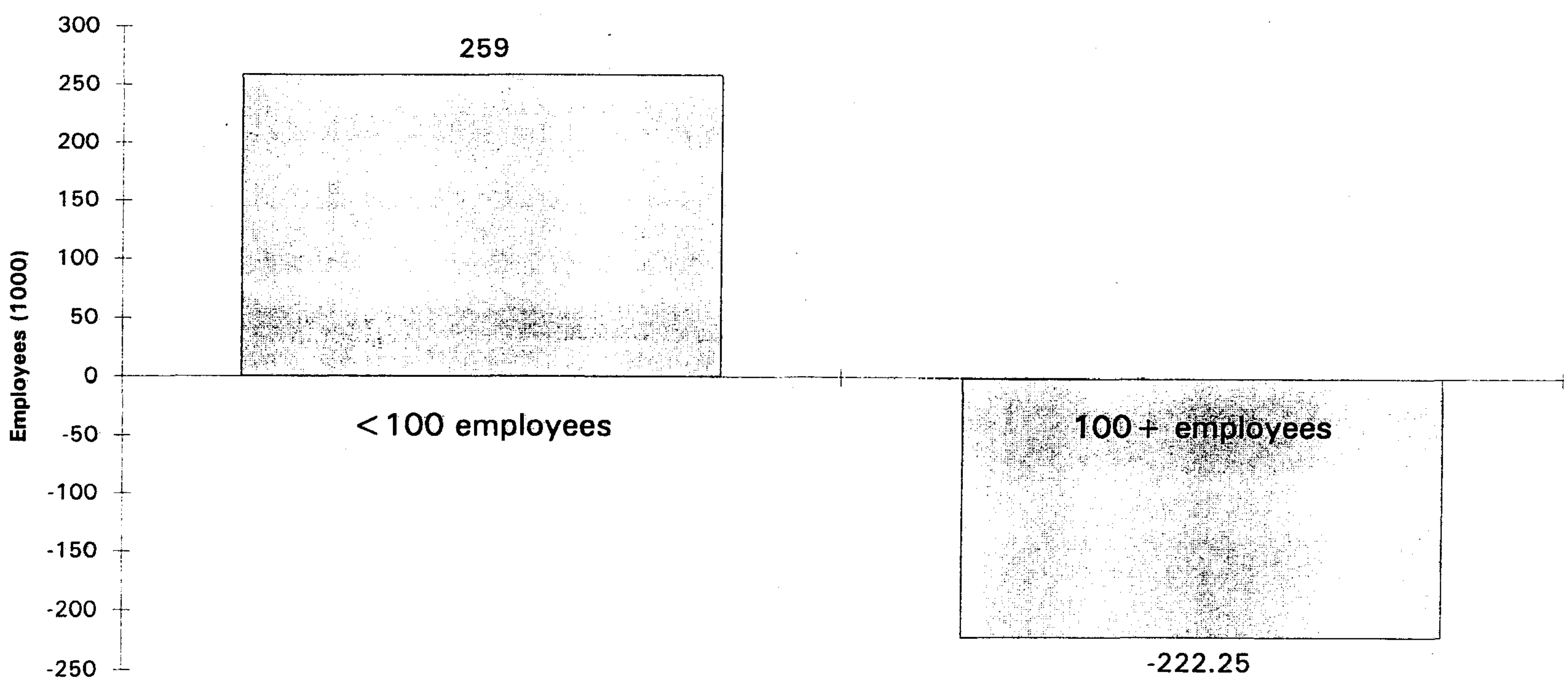
Source: Eurostat, SME Project database, 1995.

Graph 3: Share of SMEs in Overall EU Turnover



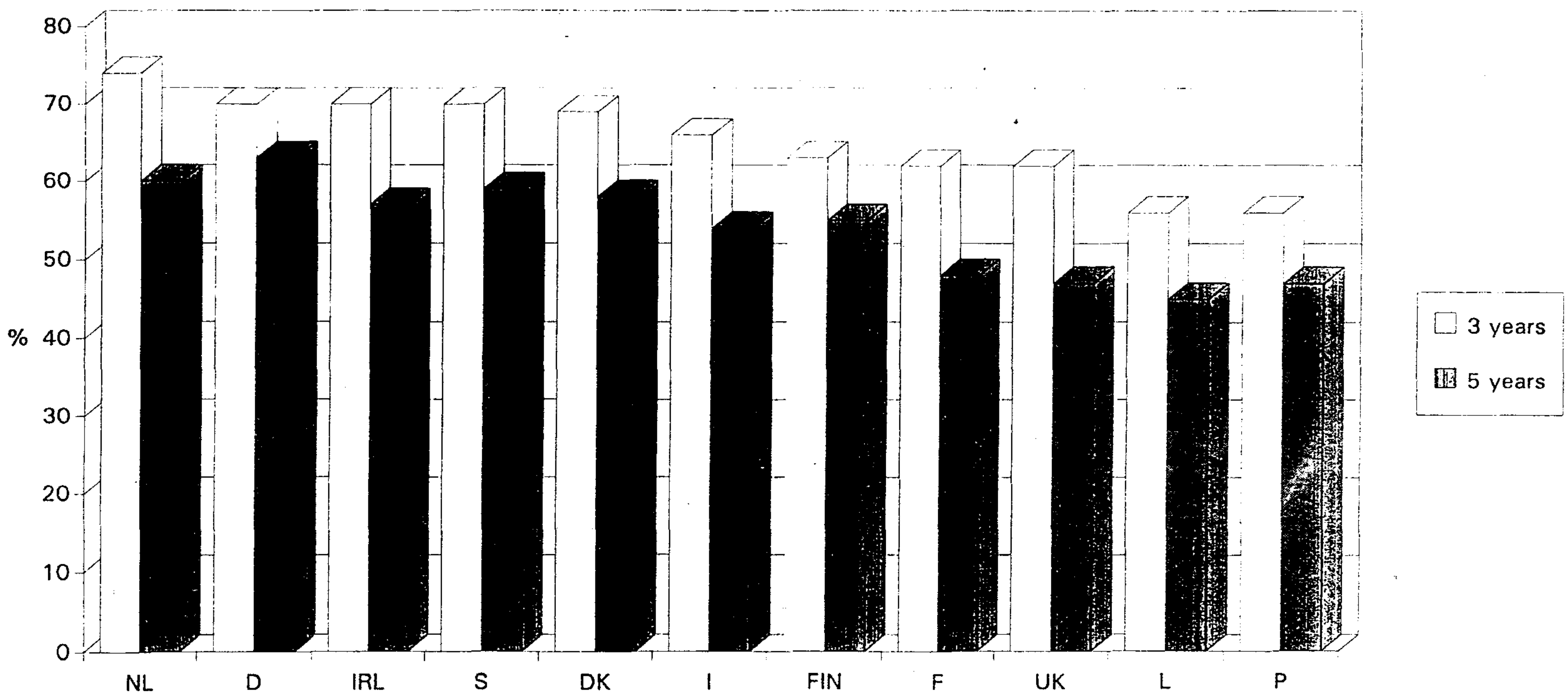
Source: Eurostat, SME Project database, 1995.

Graph 4: Annual Net Job Creation by Enterprise Size in EU and Norway (1988-1995)



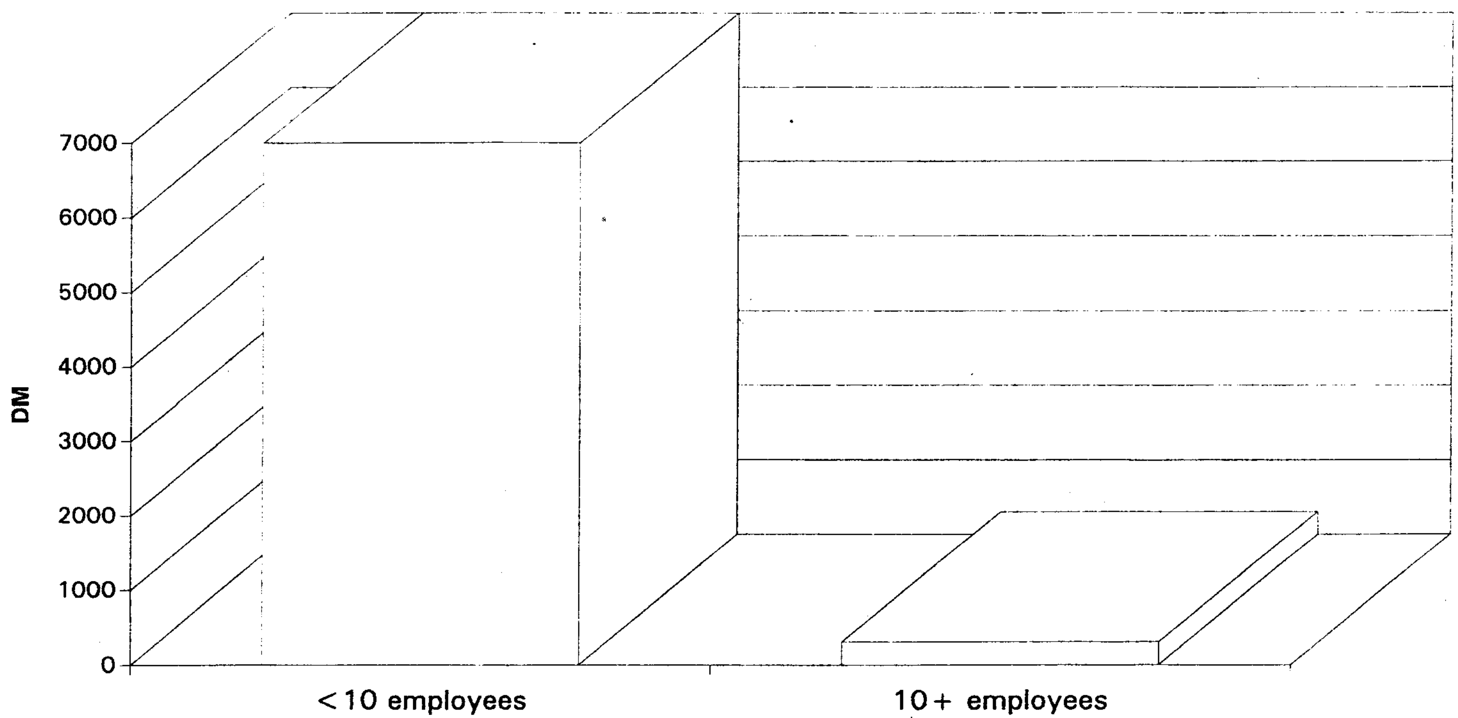
Source: The European Observatory for SMEs, Third Annual Report, 1995.
Remark: the figures in this graph have been corrected for the so-called «size distribution fallacy».

Graph 5: Survival Rate of Newly-Registered and Newly-Established Firms after Three and Five Years



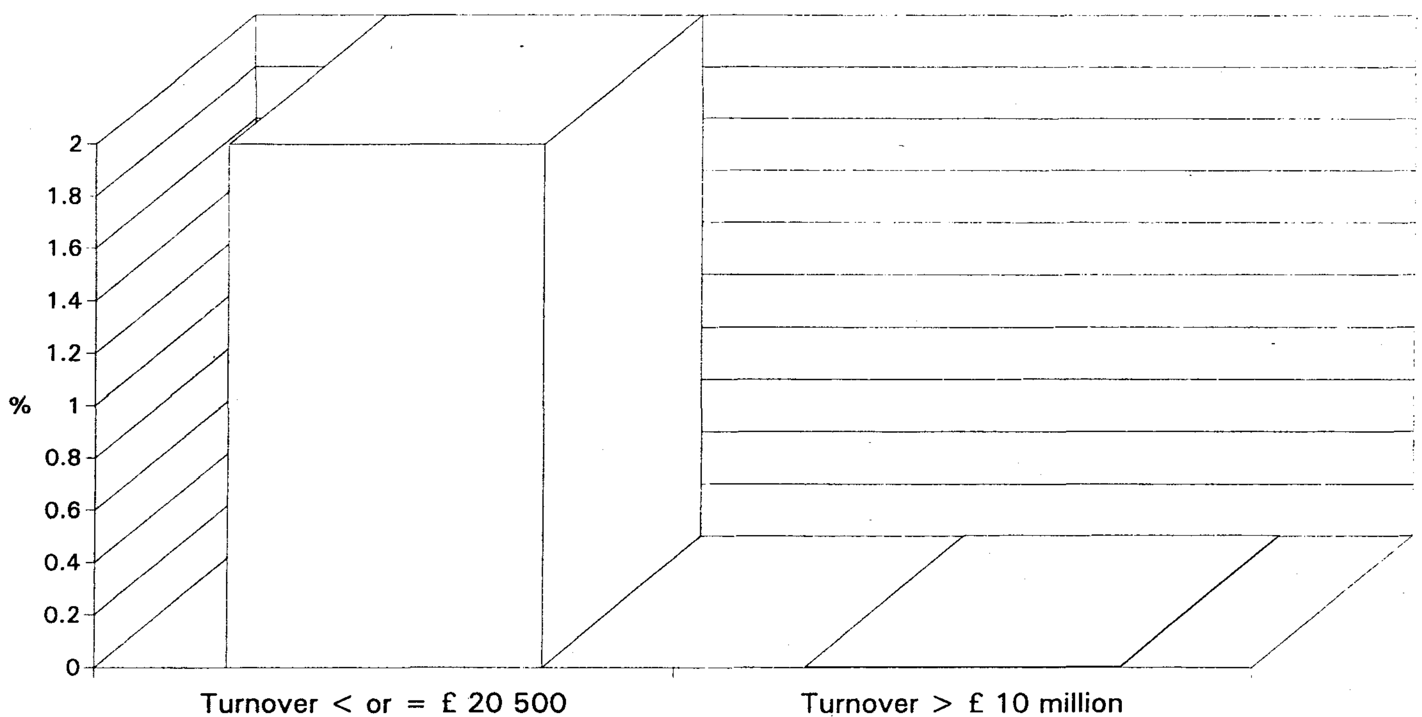
Source: EIM Small Business Research and Consultancy, The State of Small Business in the Netherlands, 1995.

Graph 6: Cost of Administrative Burdens per Employee in Germany (1994)



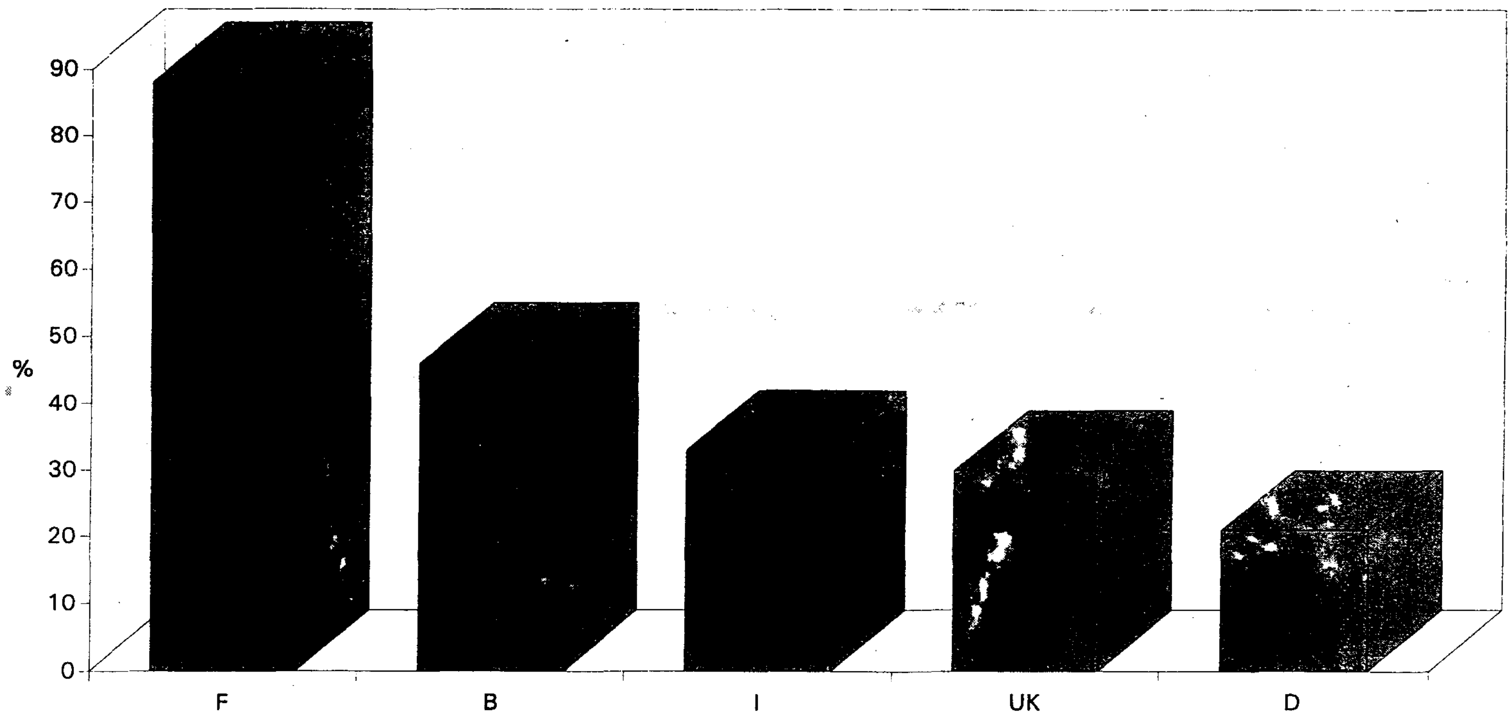
Source: Institut für Mittelstandsforschung, Bonn, Bürokratie - Ein Kostenfaktor für den Mittelstand, 1995.

Graph 7: VAT Compliance Costs as a Percentage of Turnover in United Kingdom



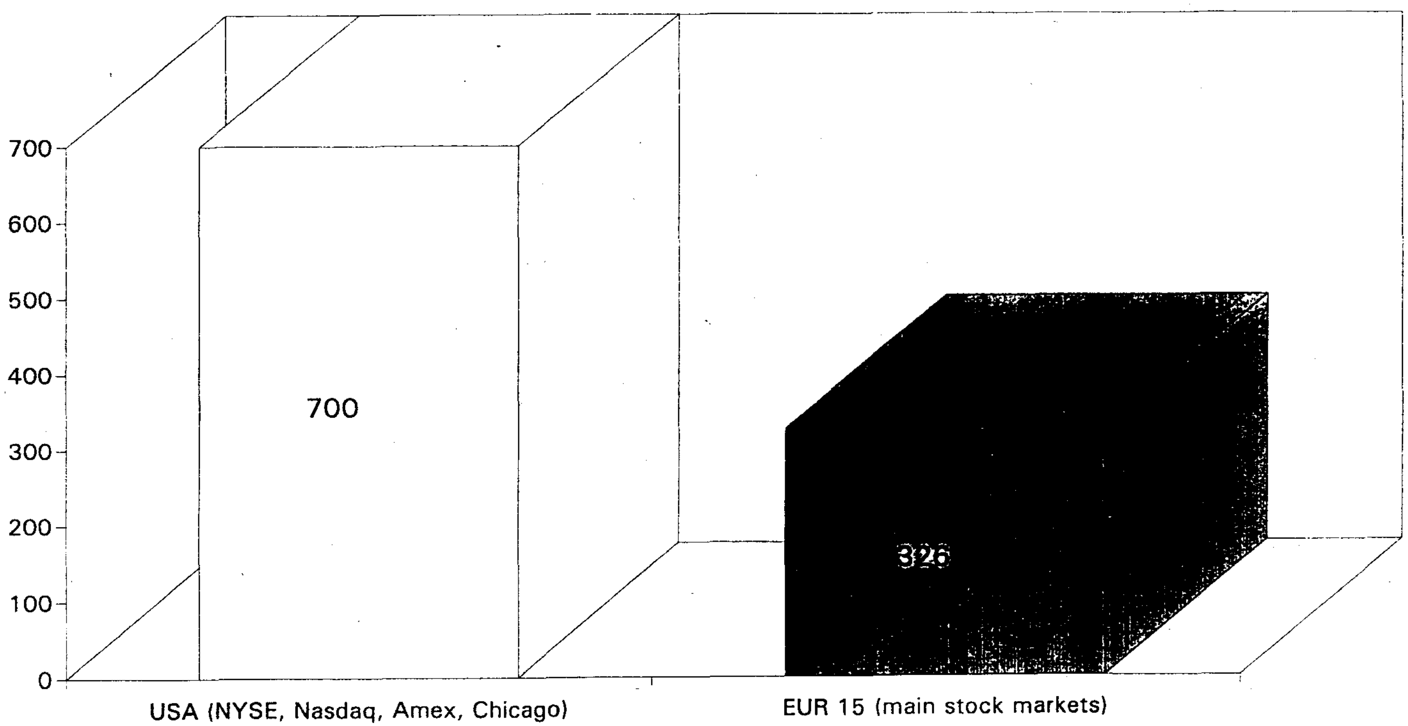
Source: Cedric Sandford et al., Administrative and Compliance Costs of Taxation, 1989.

Graph 8: Share of Profit Per Annum Committed to Funding Succession Rights (1991)



Source: Association pour la Pérennité de l'Entreprise, Fiscalité de la transmission d'entreprise à titre gratuit: comparaisons européennes, 1992.

Graph 9: Number of Domestic Companies Newly Listed in the USA and in Europe



Source: Fédération internationale des bourses de valeur, Rapport annuel, Federation of European Stock Exchanges, Annual Report, 1994.

ANNEX I

COMMISSION REPORT ON RECENT POLICY INITIATIVES AT MEMBER STATE LEVEL FOR SMALL AND MEDIUM-SIZED ENTERPRISES

SUMMARY OF SME-RELATED MEASURES
TAKEN AT MEMBER STATE LEVEL

Contents

Introduction

This note presents a summary of measures taken at Member State level in the course of the last two years or currently envisaged which aim to promote the creation, development and transfer of SMEs.

The note is structured under seven headings as follows:

A. Support for the development of employment in SMEs
B. Facilitating the creation and development of SMEs by reducing administrative, fiscal, social or other constraints
C. Improving management quality in SMEs
D. Support for R+D efforts of SMEs
E. Improving SME access to finance
F. Helping SMEs to integrate better into the Internal Market and to internationalise
G. Other measures

The note is based on replies to a questionnaire sent to all Member States. **No reply to the questionnaire was received from Belgium.** For this country, the information included is based on the Commission's own research only. **For a number of other countries, the replies to the questionnaire were very general.** Here also, where possible, the information provided has been supplemented by internal Commission analysis.

A. SUPPORT FOR THE DEVELOPMENT OF EMPLOYMENT IN SMES

The majority of initiatives under this heading are not targeted exclusively at SMEs, but, given their predominant role in employment creation in all Member States, SMEs are intended to be prime beneficiaries.

A.1. Social Measures

The main emphases in Member States' social policies in this area include on the one hand increasing demand for labour by improving the flexibility of the labour market, by reducing the costs of recruitment, by incentives to recruit unemployed people and by improving the skills of those seeking work and, on the other hand, improving the supply of labour by facilitating access to qualified people and by making recruitment easier.

A number of Member States have improved the **flexibility of the labour market**. In Germany, the limited contract employment provision has been extended to the year 2000 and a new law permits more flexible working hours. In Belgium, the procedure for modification of working time has been simplified and consecutive fixed-term contracts are now permitted. In Belgium also, instruments are being developed to redistribute available work, particularly by promoting different forms of temporary work and career interruption. In the Netherlands, dismissal procedures have been shortened and made more flexible, particularly as regards the preventive test on dismissal, working time regulations, extension of probation and conditional periods and extension of temporary contracts. In Spain, the maximum duration of temporary employment contracts has been extended from three to four years and enterprises receive a subvention if they make a temporary contract permanent.

A number of countries have introduced measures to **reduce the costs of creating employment**. In Spain, new subsidies have been introduced for permanent part-time recruitment. In France, the new government has indicated its intention to reduce non-salary costs by 10% for low-skilled workers earning up to 1.2 times the minimum wage (SMIC). In Belgium, under the "Plan Plus Un" an enterprise employing its first worker receives a reduction of 100%, 75% and 50% of employer social charges for the first three years and there is a reduction of employer charges for low-paid workers in both Belgium and France. In the UK, the Netherlands, Spain, Italy and Ireland, employers' social insurance contributions have been reduced in general. In Luxembourg, employer social charges on salaries have been abolished and replaced by a State scheme. In Germany, SMEs have been relieved from the cost related to parental leave.

Austria, the Netherlands and Belgium have introduced measures to increase the attractiveness to enterprises of **recruitment of unemployed people**. In Austria, where a person has been unemployed for more than a year and is difficult to employ, the public employment agency can pay two-thirds of the wages to an employer. In the Netherlands, 57 pilot projects are to be launched, mainly aimed at SMEs, to provide 20.000 subsidised jobs for unemployed people who keep their unemployment benefits for two years with a view to maintaining these jobs unsubsidised thereafter. In Belgium, an action focused on SMEs with up to 20 employees allows for employer social security charges to be reduced when an employee is engaged through an unemployment support programme. There is also support for the remuneration and social security contributions of unemployed people engaged in the framework of support for SMEs. In Portugal, there is a three-year exemption from social contributions and a subvention equivalent to twelve times the minimum monthly wage for enterprises which recruit first time young workers and the long-term unemployed. In Spain, there is a reduction in social charges for recruitment of unemployed people over 45 and the handicapped. In Finland, subsidies are provided for recruitment of the unemployed.

To improve the supply of labour, some countries have focused on the **skills of those seeking work**. In Austria, the "Arbeitstiftungen" keep people in contact with work who would otherwise be unemployed and offer them continuing education or vocational training while at the same time helping SMEs to find qualified employees. In Belgium, the Employment-Training Convention for unqualified young people under the age of 25 alternates work in a company with professional training in an agreed centre. In Sweden, there are programmes to train and re-educate the unemployed.

Germany and Austria have sought to **improve access of SMEs to qualified personnel** by establishing independent employment placement services. In France and the UK, the emphasis in this regard is on improving information for employers. In France, a "one-stop-shop" is to be established to simplify administrative procedures relating to taking on employees, particularly in SMEs. In the UK, comprehensive guidance on employing staff has been produced to address lack of knowledge of entrepreneurs in this area.

A.2. Fiscal Measures

Tax-breaks to encourage recruitment are the main form of fiscal measure used by Member States.

In Finland, for family-owned SMEs and small companies, income for consumption is separated from income for investment with the latter taxed at standard company tax rates instead of personal tax rates. In Italy, firms which employ additional workers can claim tax relief and reinvested profits are exempt from taxation. In Ireland, a lower VAT rate has been introduced for labour-intensive service industries. In Germany, VAT thresholds have been raised. In Spain, national and regional incentives include reductions in tax levels and free depreciation related to employment creation.

B. FACILITATING THE CREATION AND DEVELOPMENT OF SMEs BY REDUCING ADMINISTRATIVE, FISCAL, SOCIAL AND OTHER CONSTRAINTS

B.1. Reduction of Administrative or Legislative Constraints

Simplified and more transparent procedures, derogations from reporting requirements, one-stop-shops, business impact assessments and deregulation are the main areas of administrative simplification facilitating SME creation and development pursued by Member States in recent years.

With regard to **administrative procedures**, France, the Netherlands and Finland have reduced substantially the number of documents and regulations applied in setting up an enterprise. While in Finland collection and coordination of company information is concentrated in the National Statistics Office, France uses the "Centres de Formalités des Entreprises" (CFE) for that purpose. In Italy, one fixed tax has replaced six former taxes, and there is automatic approval of an authorisation request if the relevant authority does not react within the specified time period. In Finland, the company approval process has been simplified, a single advance payment procedure has been introduced for all taxes and local tax offices are empowered to issue binding precedents. In Ireland, a single registration form for all tax purposes has been introduced. In Austria, a uniform date for return of all taxes has been introduced. In France, three simplifications are due to be introduced in 1996: the single social and recruitment declarations and the single apprenticeship contract. In Germany, licensing procedures have been simplified. In the UK, introduction of an annual return form with pre-printed details and three line accounts for low turnover companies have cut down on paperwork for SMEs and facilitated prompt delivery of annual accounts. In Spain, more flexible administrative procedures allow greater transparency and more rapid responses, and standard and simplified forms are being planned. In Portugal, enterprise associations have established protocols with the National Companies' Register to facilitate company creation from an administrative point of view.

Changes in **legal procedures** have widened the scope for formation of SMEs and made the rules governing their operation more flexible. Germany has enlarged the range of trades eligible for certification by the Handelskammer. In Greece, it is now possible to create a limited company consisting of one person. In Spain, the new private limited companies law simplifies and makes more flexible the legal framework for companies and takes special account of SMEs. In France, broadening of the legal definition of a company has created a level playing field in the tax and social treatment of different forms of business entity. In Portugal, notaries have been given a wider role in the legal formation of companies, so simplifying the process.

Among **derogations** applied, in Austria greater flexibility has been introduced so that businesses with lower turnover are not required to keep records by double entry but can use the cost book principle of accounting. In the UK too, Companies' Act dislosure requirements have been simplified. In the UK and Ireland, VAT return thresholds are being increased to reduce reporting burdens.

One-Stop-Shops to promote start-ups are to be launched in Germany by the chambers of commerce and in Sweden by the regional support organisations, the ALMI. In Belgium and Spain, it is intended to establish a single point of contact for all SMEs' dealings with public services.

The **deregulation** initiative in the UK aims to improve existing legislation, simplify new legislation and improve sensitivity of enforcement. This initiative involves a consultation phase with business on all legislative proposals and application of the principle of "think small first" at all stages from drafting to implementation. Future development of this initiative will include greater use of contracting out. Other countries are at various stages of introduction of similar Business Impact Assessments and deregulation initiatives. In Germany, the emphasis is on reviewing the impact of new consumer protection provisions on SMEs. Sweden is undertaking a systematic overhaul of all business regulations. Greece has created specialised units in each Ministry to examine simplification. In Ireland, a parliamentary committee has been established to scrutinise the impact of new and existing legislation on SMEs. Business Impact Assessments are about to be introduced in the Netherlands and are under consideration in Spain.

B.2. Improvement of the Fiscal Environment for SMEs

Tax reform, various tax derogations and reductions of corporation tax rates are the main fiscal measures pursued by Member States.

Tax reform in Germany has focused on mergers and reorganisations, with the possibility now available of a fiscally neutral change of corporate form from a company to a partnership, a development with particular importance for SMEs. In Sweden, limited companies, partnerships and the self employed are treated equally for tax purposes. Italy has exempted operating income which has been reinvested from corporation or income tax, whichever is applicable. In France, investment in an enterprise less than three years old, or in an unquoted SME with a turnover below FF140 million, attracts a tax credit equal to 25% of the investment. In Belgium, it is intended to revise the fiscal regime to reinforce the own resources of enterprises. In Ireland, it is planned to streamline existing legislation on income, corporation and capital gains tax.

Among **derogations** applied, in the Netherlands, Portugal, Spain and development zones of France, there is a reduction in taxes for the early years after start-up. In the Netherlands also, the tax deduction for new start-ups is to be increased, while in Spain there is also a tax deduction for investment in RTD. In Austria, the tax exemption for small enterprises has been increased. In Finland, property tax on SMEs has decreased and in Ireland, the thresholds which qualify a company for quarterly rather than monthly tax returns have been increased. In the new German Länder, the municipal trade capital tax ("Gewerbekapitalsteuer") has been suspended and the municipal trade earnings tax ("Gewerbeertragsteuer") has been lowered to benefit SMEs; tax relief on the sales profits of manufacturing SMEs has also been extended. Corporation tax rates have been reduced in Germany, Spain, France, the Netherlands and Ireland. In Germany also, the top rate of personal taxation of enterprise income has been reduced; the enterprise tax threshold has been enlarged and the base to which it is applied reduced; and the wealth tax threshold has been increased. In the UK, businesses are entitled to claim tax relief for training, and employees can claim tax relief on vocational training they pay for themselves. In Finland, the rate of corporate income tax, the rate of tax on investment income and the rate of withholding tax are being increased.

B.3. Reduction of Constraints resulting from Social Legislation

There are two main areas of action under this heading. First, there is the **maintenance of welfare benefit entitlements for unemployed people starting up a new business,** which apply in Belgium, the Netherlands, Denmark, Finland and Spain. Secondly, there are **simplified health and safety compliance procedures** for small firms in the UK and Ireland.

C. IMPROVING MANAGEMENT QUALITY IN SMEs

C.1. Facilitating SME Access to Training Programmes

Provision of finance for training, specific and general training programmes, coordination of training services and wider recognition of qualifications are the key emphases in Member States' policies in this area.

Finance for training in Germany takes the form of subsidised, guaranteed loans to the craft, industrial and distribution sectors. In the UK, workforce training is regarded as an important business investment and loans are provided to small firms to support this. In the UK and Ireland, there are special provisions for training programmes involving ten or more SMEs. In Spain, public funds are available for training programmes for groups of SMEs. In Luxembourg, funding is provided for training centres of the Chambers of Commerce.

Among specific **training programmes**, in Austria the emphasis is on management of the quality process, in France key areas include maintenance, the environment and quality, and in Spain the focus is on increasing understanding of industrial design techniques. In the UK, the focus is on World Class Manufacturing and on a programme to update the skills of key workers in SMEs. General training programmes are provided in Finland through post-graduate institutions and in Belgium, through a mix of in-company experience and courses in specialist training centres. In Denmark, training is coordinated through technical schools and the SME federation. In France, a new orientation in training programmes is focused on managers and chief executives.

Coordination of training services in the UK is the particular responsibility of the Training and Enterprise Centres. In Sweden, the co-ordination role is filled by the regional support organisations, the ALMI, which have subsidiaries in each region jointly owned with the County Councils; improving management quality is a major aspect of their work. In Portugal, the Programme for Enterprise Creation provides integrated support to improve the capability and competence of young entrepreneurs. In Ireland, the integrated approach is delivered through the PLATO Network.

In Germany, a recent initiative has broadened recognition of qualifications and means that employees in SMEs enjoy increased opportunities to improve qualifications as, for many professions, a university training is no longer required. This initiative could also increase the supply of qualified outside expertise, thus making it less costly to SMEs.

C.2. Improving Information for SMEs

Understanding best practice, improved access to information and more comprehensive information services are the key aspects of Member States' policies in this regard.

In the UK, the emphasis on **best practice** promotion is spearheaded by business links with the emphasis on self-help and learning from others. In Ireland, guides on best practice have been prepared for key management areas.

In Belgium, Sweden and Ireland telephone hotlines are being set-up to **improve access to information**. In the UK, Spain and Portugal, computer data-bases are being developed for this purpose.

More comprehensive information services are being provided by means of Enterprise Houses in the Netherlands, through the Technological Information Centres in Denmark and by a network of regional government offices in Finland. In Austria, a programme to tackle management difficulties with understanding new technologies involves SME managers visiting leading-edge companies.

C.3. Improving Advice to SMEs

Provision of advisory services and financial support for advisers are the main aspects of Member States' policies.

General advisory services tend to focus on provision of comprehensive advice. The "Supernet" system in the UK introduces small firms to national and international networks of centres of excellence. In Finland, general programmes are provided on the one hand to help entrepreneurs evaluate the feasibility of their ideas and their own suitability to act as entrepreneurs; these programmes also provide external consultancy support to help existing SMEs to analyse their present position and prepare a development programme. In Ireland, retired business managers act as mentors to SMEs, and the PLATO Programme provides SME owner-managers with access to expertise in large companies.

In the Netherlands, the key initiative is coordination of networks and consultancy services; a number of pilot projects have also been established to provide advice and support to unemployed people starting up a business.

Specific advisory services focus on counterfeiting and strategic management in France, knowledge and quality systems and environmental management in Denmark and technology and exporting in Finland.

Financial support for hiring advisers is provided in Germany, Spain, Denmark, Greece, the UK and Ireland.

D. Support for R+D Efforts in SMEs

D.1. Facilitating the Participation of SMEs in Research Programmes

National policies focus on promoting cooperation between SMEs and Research Centres to facilitate innovation in SMEs, and on direct and indirect financial support for R+D.

In Germany, the federal **research cooperation** programme promotes links between enterprises and research establishments, including cooperative research and exchanges of research personnel. Austria has also established a programme for industry-research cooperation. In the UK, the LINK programme supports collaborative R+D between higher education institutions and SMEs. In France, the Technology Diffusion Network links SMEs with specific research needs to the research centre best able to address their need. In Finland, the TEKES national network coordinates contacts between SMEs, universities and research institutes and a world-wide network of technology centres; the network is focused on marketing of programmes and projects to targeted SME groups. In Greece, national policy encourages SME cooperation with specialised R+D organisations. In Ireland, campus-based technology centres have been set up to bring SMEs closer to research programmes.

Promotion of innovation by SMEs in Germany is through a programme to encourage market-orientated innovation leading to commercialisation. In the UK, the SMART programme promotes technological feasibility studies for small firms while the SPUR programme offers support to SMEs for development of new products and processes. In Ireland, an inventions service assists entrepreneurs in developing patents. In Sweden, the National Board for Industrial and Technical Development supports SME R+D efforts. Greece also provides support to SMEs for research on applied technologies and innovative products.

Austria provides **finance** for searches for R+D partners. In France, the Technology Services Institute co-finances development work carried out in a joint development project between the institute, a research centre and an SME. In the Netherlands financial support is more indirect : under the "Techno-starters" programme, technology brokers select high technology seed projects and offer them to financiers for support.

D.2. Encouraging the Distribution of Results of R+D to SMEs

Technology counsellors, personnel exchanges between research bodies and SMEs and technology transfer initiatives are the main means used to encourage the distribution of the results of R+D to SMEs.

In the UK, innovation, design and **technology counsellors** provide advice to SMEs on how to absorb the results of R+D. In Denmark, the role of the Technology Service Institute has been extended to make it the key link between domestic and foreign research centres and SMEs. The ATOUT initiative in France is focused on advanced materials and informatics. In Sweden, the ALMI network provides counsellors to support the R+D efforts of SMEs by improving the standards of technology and innovation resources and has recently taken the initiative to improve coordination and collaboration between the different bodies working with technology diffusion. In Sweden also, the Innovation Centre has been set up to finance early stage innovation and other related measures, including a network of innovation advisers. Portugal also supports demonstration actions on the use of innovative technologies in certain sectors.

Personnel exchanges between research bodies and SMEs in Denmark are promoted under the Icebreaker Programme which gives grants to small companies which employ an academic to bring new knowledge to the company through participation in a development project. In the UK, the Teaching Companies Scheme enables highly qualified graduates to work part-time in SMEs for two years with joint academic/industry supervisors.

Technology transfer initiatives in Spain are carried out via the Interministerial Commission on Science and Technology which runs a programme to transfer the results of research to industry. In Finland, TEKES promotes SME involvement in technology transfer activities with national, regional and international programmes. In Belgium, there is a programme to improve SME access to patents and to commercialise prototypes and new products.

E. IMPROVING SME ACCESS TO FINANCE

E.1. Financing Business Creation

New business creation is encouraged by state support, either tax-based or subsidy-based. In addition, some countries have measures to encourage business creation by the unemployed.

Tax-based **state support** takes the form in Ireland of refunds of tax paid by an entrepreneur in previous employment to be invested in the business. Subsidies are provided for start-ups in Germany, Spain, Portugal, Greece and Ireland. Loans schemes are provided in Ireland, Sweden, Spain and Greece. Loan guarantees are provided in the UK and France. In addition, in the UK, the Growth Start Programme focuses support on fast growth start-ups. Sweden and Ireland provide seed capital for start-ups. The Netherlands is considering a scheme to improve access of start-up entrepreneurs to "business angels". For **the unemployed,** in Germany, unemployment benefit may be continued at a daily rate for six months while the unemployed person seeks to become established. The ACCRE Initiative in France is also focused on support for the unemployed. In Sweden, an unemployed person with a business plan can receive 50% of unemployment benefit for a certain period. Luxembourg provides special aid to enterprises started by people who are difficult to employ.

E.2. Financing Business Development

Facilitating loan finance and private investment in SMEs are the priorities in Member States' policies.

In Germany, **state investment funds** have been refocused on SMEs. In France, SOFARIS guarantees loans to SMEs during their growth phase.

In Sweden, **subsidised loans** are available for SME development projects, while in Belgium, regional investment companies underwrite SME loans.

Private investments in SMEs in the UK are being facilitated by the launch of the Alternative Investment Market for unquoted companies with growth potential, by providing additional tax relief for Venture Capital Trusts and by the Enterprise Investment Scheme which helps unquoted companies raise equity capital. The "Business Angel" system has been introduced, according to which profits from investments in shares of unquoted companies may be rolled over if reinvested in such shares.

Italy has recently adopted a new law which provides that operating income which has been reinvested cannot be taxed. This exemption extends beyond the corporation tax system and includes other enterprises (such as partnerships) which are subject to income tax.

In France, a scheme has been introduced under which any investment in an enterprise less than three years old, or in a unquoted SME with a turnover below FF 140 million, attracts a tax credit equal to 25 % of the investment.

In Ireland a measure has been introduced whereby new entrepreneurs and other investors in a new business can reclaim income tax paid in their previous three years' employment (up to certain limits). The Belgian and German governments have likewise shown interest in measures designed to terminate the fiscal discrimination of equity.

Schemes are also under discussion in the UK and Italy designed to achieve neutral tax treatment of debt and equity financing for enterprises. The key feature of the proposals is that enterprises would be given an "Allowance for Corporate Equity" (ACE), a relief against corporation tax based on the value of the shareholders' funds in the business.

In France, approved development companies receive 50% state guarantees of their investments in growth companies, while Sweden offers tax breaks for investment in unquoted companies. In Luxembourg, tax relief is provided on profits reinvested in the business. In Denmark, state support is provided to venture capitalists specialising in SMEs.

E.3. Financing Business Transfer

Favourable tax treatment of inheritance and subsidised loans are the main measures used to facilitate the financing of business transfer.

Transfers and bequests of unincorporated businesses and share holdings in SMEs are eligible for full **exemption from inheritance tax** in the UK. **Subsidised loans** to facilitate the transfer of businesses are provided in Belgium and Spain. In France, SOFARIS provides loan guarantees to facilitate the transfer of businesses. The proposed law for 1996 provides a 50 % reduction of gift tax for the transfer of a business, as long as the beneficiaries continue the business for the next five years. In Ireland, a new law allows companies to purchase their own shares out of undistributed profits for the "benefit of the trade" and 50% of all business assets transferred are now exempted from inheritance and gift taxes. In Denmark, there is a substantial reduction in death duty in the case of business transfer and succession taxes are deferred and reduced. In Finland, agricultural entrepreneurs can obtain special financing arrangements for the transfer of assets between generations. In Germany, the transfer of business is faciliated by the extension of the time frame from 7 to 10 years during which the inheritance and the gift tax can be paid, free of interest. Moreover, businesses benefit from a 25 % reduction of the unit value of the working capital before succession tax is levied. This applies also to shares of finance companies. In the Netherlands the interest-free period for payment of inheritance tax will be extended from 5 to 10 years.

F. HELPING SMEs TO INTEGRATE BETTER INTO THE INTERNAL MARKET AND TO INTERNATIONALISE

It should be noted that a number of Member States cited initiatives aimed at both integration into the Internal Market and at internationalisation. Where these initiatives are of a general nature, they are described under the internationalisation heading.

F. 1. Integration of SMEs into the Internal Market

Programmes to promote Internal Market penetration, advisory services and studies are the main measures employed by Member States in relation to the Internal Market.

In the UK, "Opportunity Europe" **Programmes** are designed to encourage SMEs to broaden their market base in Europe. In France the "Partenaires pour l'Europe" initiative is focused on standards and quality in this regard. Greece offers support for Internal Market cooperation projects while Portugal cofinances European tendering efforts.

The UK operates a Single Market Compliance Unit which provides an **advisory** service to firms experiencing obstacles to internal market trading. The UK also carries out detailed sectoral **studies** of internal market trade opportunities.

F. 2. SMEs' Exports to Third Countries

Financial support, advisory services, better coordination and delivery of export promotion services and export risk reduction measures are the main features of Member States' recent policies.

In Spain, **financial support** takes the form of investments in companies which are establishing themselves abroad. Finland provides special support for internationalisation of technology-based SMEs. Denmark provides finance for cooperation with East European enterprises.

In the UK, **advisory services** help SMEs to identify export needs and potential and provide support to help ensure successful implementation of export strategies. In Germany, advice is given on development of business cooperation programmes, such as with Asia and Latin America. In Greece, development of export consortiums is facilitated.

In the Netherlands, the emphasis is on **greater coordination** of the services of government, the chambers of commerce, the banks and the SME representative organisations to improve the distribution of information on internationalisation. In Belgium, greater coordination of the federal bodies for export promotion is being undertaken, including greater collaboration of the Foreign Trade Office with other relevant bodies and better utilisation of foreign credit insurance facilities. German embassies now have specific responsibility for assisting SMEs entering foreign markets.

To seek to **reduce the risks associated with exporting**, in Denmark 50% subsidies are available towards establishment costs of doing business in Eastern Europe. In Finland, subsidies have been introduced to promote export diversification. In the UK, experienced exporters are being recruited as Export Development Counsellors to SMEs. In Ireland, formal links are being established with key European market regions.

G. OTHER MEASURES

G.1. Promoting SME Access to the Information Society

Programmes to stimulate use of information technology and access to the INTERNET and other infrastructure are the primary means of promoting SME access to the information society.

In Finland, an SME-tele-programme has been started to encourage SMEs to use **information technology** for networking to present co-operation projects in computer hardware, software and services. In the UK, training courses are run jointly with IT suppliers to train SMEs in the use and benefits of information and IT. In Greece, SMEs are supported in the application of information and networks.

In the UK, the Advanced IT Service assists clients to access information via the **INTERNET**. In the Netherlands, and Austria, the Chambers of Commerce are being given the possibility to provide information via the INTERNET. In Ireland, leading-edge telecommunications infrastructure is being provided in less developed areas to facilitate establishment of remote information industry SMEs.

G.2. Facilitating SME Access to Public Markets

Provision of databases and familiarisation campaigns are the main means used to facilitate access of SMEs to public markets.

In Austria and Finland (on a regional basis), the TED **database** is used. In France, calls for tenders are available via Minitel. In the UK, public and specialist databases, video conferencing and national supplier databases are available through regional supply offices.

In the UK also, **familiarisation** is promoted through advice given to public sector purchasing officers on the benefits of using small business suppliers. In Ireland the focus is on information directories, seminars and "meet the buyer" exhibitions.

In Ireland also, specialised consultancy support is being provided to improve SMEs' access to public procurement and preparation of public tenders, and it is planned to establish a national procurement and sub-supply database and to develop an advisory service for SMEs and procurement officials. In Belgium, legislation has been amended to guarantee cooperatives better access to public markets.

G.3. Development of an Enterprise Culture

Promotion of entrepreneurship is the primary means used to develop the enterprise culture.

Promotional programmes are run by the Chambers of Commerce in Germany, Austria and Luxembourg. In Finland, the "Decade of the Entrepreneur" project aims to create a favourable attitude to entrepreneurship and self-employment as a voluntary method of creating employment. In Ireland, an Enterprise Preparation Programme has been introduced for senior business managers considering launching their own venture and Enterprise Boards have been established at local level to support start-up of micro-enterprises.