

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT BY THE COMMISSION TO THE COUNCIL

ON THE REALIZATION OF THE OBJECTIVES OF THE COMMUNITY
ACTION PROGRAMME FOR SMALL AND MEDIUM-SIZED ENTREPRISES

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OBJECTIVES OF THE COMMUNITY ACTION PROGRAMME FOR
SMALL AND MEDIUM-SIZED ENTERPRISES

I. INTRODUCTION

1. Background to the Report

The Commission proposed an Action Programme on Small and Medium-Sized Enterprises (SMEs) to the Council in August 1986. The Programme was also sent to the European Parliament and the Economic and Social Committee.

In October 1986, the Council unanimously adopted a resolution on the Action Programme which approved the main lines of the policy and the strategy in the Programme. In that resolution the Council invited the Commission to report periodically on the realization of its objectives.

At the same meeting the Council also agreed a statement on reducing the administrative burden on business. This statement invited the Commission to report on the operation of the system establishing impact assessments on business for each legislative proposal made by the Commission to the Council. It also noted the intention of the Commission to report on its links with business organisations.

This report is a reply to all of these different requests.

2. Recapitulation of the main points of the Action Programme

The SME Action Programme was built around two objectives ; the first the creation of a favourable environment for businesses in the Community ; the second the provision of services to SMEs to help their creation and development particularly in the light of the completion of the internal market.

The strategy proposed was one of action based projects with the objective of obtaining relatively rapid and concrete results. In line with this strategy an SME Task Force was established by the Commission to coordinate the implementation of the Action Programme and to initiate new measures within the terms of that Programme to improve the business environment and promote the provision of services to business.

The Commission has made it clear that the Action Programme should be implemented on the basis of the following principles :

- action at Community level should not duplicate action taken by Member States;
- direct operating subsidies to enterprises are not part of the policy.
- as far as possible existing structures should be used rather than creating new ones.

II. IMPLEMENTATION OF THE SME ACTION PROGRAMME

The Action Programme covers a very wide range of activity. The Commission has had to choose priorities and to tackle some projects ahead of others. This choice has naturally taken account of the discussions which have taken place in the Council, the European Parliament and the Economic and Social Committee.

A. IMPROVING THE ENVIRONMENT OF BUSINESS

Improving the environment in which business operates in the Community is a necessary condition for the development of the European economy. Rapid adjustment to continuous technical and economic change is required if the Community's competitiveness is to be improved. This adjustment can only be carried out in an environment which is supportive of change and is not encumbered by complex administrative regulations.

The European Council has repeatedly stressed the necessity of taking action in this area, the last time in its meeting in London in December 1986.

The Commission has already taken action in some of the areas cited in the Action Programme and in others it is preparing projects for implementation in the near future.

1. The control of administrative and legal constraints on business:

The Commission feels strongly that its proposals for legislation should not impose unnecessary burdens on firms. It has been aware of the concern in some quarters that some of the legislation which has been designed to pursue various different Community policies has been focussed too narrowly, without sufficient attention being given to the possible consequences of the legislation for business competitiveness and employment. The Commission attaches great importance to the establishment of new enterprises and to encouraging businesses to grow and take full advantage of their capacity to create wealth and jobs. The provision of a favourable administrative environment which is both simple and stable is an important part of the process of encouraging business development.

The Commission decided in early 1986 to introduce a system to evaluate the impact of its own proposals on business. The impact assessment statement was introduced as an internal document within the Commission in June 1986 and, in November, it was decided to transmit the statement to the Council with each legislative proposal.

The Commission is satisfied that after this relatively short period, the impact assessment system is working well. Where a measure imposes unwarranted burdens on business, changes in the legislation are required. The Commission ensures that any proposal which does not have an impact assessment statement attached is not forwarded for a decision.

These "fiches" should not be a mere administrative requirement which must be fulfilled before the proposal goes forward. The Commission sees its current priority as encouraging their preparation at an earlier stage in the development of proposals. This will allow the implications for employment and for business of legislative proposals to be considered while the proposal is being formulated, when there is scope for making changes to reduce any negative impact on business. The Commission is also keen to encourage its services

to consult business and business organisations which may be affected by proposals for legislation. Again, consultation should be at an early stage rather than on the basis of the statement prepared on the final version of the proposal.

The control of proposals for new legislation is of particular importance in the light of the results of a study (1) made for the Commission of the burdens on business imposed by existing regulation. The transposition of Community legislation into national law, which takes place in different and sometimes divergent ways in the different Member States, makes it difficult to assess whether burdens on business are inherent in the Community directives or have been introduced at the national level. The remedy for many of the problems for business which have arisen may therefore lie at the national level. Changes in existing Community legislation might not have the desired effect on business in this case. The complexity of the problem of changing a measure agreed by the Community and implemented at national level points to the necessity of assuring that Commission proposals do not themselves pose a burden on business nor leave the possibility that national implementation measures will do so.

2. Taxation and Company Law

The Commission regards the simplification of the fiscal and company law environment of business as a priority. Action in this area is important for all enterprises but especially for SMEs which suffer disproportionately more under complex administrative procedures than larger companies.

A proposal to amend the 6th VAT directive, which reflects these priorities, was sent to the Council in October 1986. The measure proposes a simplified system of reporting for small companies and an increase in the exemption threshold for companies which wish to be excluded from the VAT system. The Commission has also had discussions with Member States' representatives on a possible amendment to the 4th directive on company accounts which would lead to a further simplification in some countries in the presentation of balance sheets by smaller companies.

(1) Ec Legislative Obligations in respect of Small and Medium Sized Enterprises : Belmont European Community Law Office, Brussels, 1986.

The Commission believes that the tax system should be broadly neutral between firms of different sizes. It is studying to what extent existing systems are really neutral in the Community; sometimes the neutrality exists on paper, but owing to complex administrative procedures or the particular constraints imposed by size on small businesses, systems are not neutral in fact.

The Commission's services are also evaluating the various methods, fiscal and otherwise, to promote the creation of firms and their expansion. A specific part of this work which is underway is an evaluation of the legal and administrative problems in the creation and development of cooperatives in the Community. This work is part of a more general study of the relationship between public policy and small business development.

The Commission is also very actively promoting the use of the European Economic Interest Grouping (EEIG), created by way of a Regulation in 1985 and available to all enterprises from the 1st of July 1989. The first legal entity established by virtue of Community Law, it constitutes a very useful instrument for SMEs wishing to cooperate across frontiers.

3. Internal Market

The Commission has noted that the "1992 objective" is already influencing the strategies of enterprises throughout the Community.

It is clear that the implementation of the Action Programme for creating the internal market will involve an increase in Community legislation which will alter considerably the business environment. It is therefore essential that the objectives be attained with the greatest transparency possible so that enterprises are kept informed and allowed to adopt their strategies to take account of the single market. The Commission intends to use three principal channels to ensure adequate information and transparency :

- the annual report on the implementation of the Commission's White Paper;
- the codification of Community law in fields which are frequently adapted;
- the Centres for European Business Information in the Member States (referred to later).

As regards work of particular significance to SMEs in specific areas of the internal market, reference should be made to progress already achieved in the field of foodstuffs and in relation to public procurement. The Commission put forward a series of important proposals relating to foodstuffs in 1986. These are aimed at implementing the new approach to harmonisation policy. Harmonisation in the Community and the removal of technical barriers to trade are considered to have particularly beneficial results for trade expansion amongst SMEs taking account of the strong concentration in the sector of small and medium-sized enterprises.

Some other recent decisions of the Council in the fields of telecommunications and information technology, construction products, the hotel trade and the easing of border controls, are, amongst others, of relevance to many SMEs.

As regards public procurement policy, the Commission proposals for improving the existing Directives on the coordination of procedures for the award of public contracts (Directive 77/62/EEC) and on works contracts (Directive 71/305/EEC), submitted to the Council in 1986 introduce an advance information procedure to advise undertakings in good time of the main features of the contracts that are to be put out to tender. Concerning public works a new article has been included in the Commission proposals in order to ensure that information is available on making the division of labour as between general contractors and SMEs in the execution of public contracts more transparent.

Moreover the Commission has decided to bring out a vademecum for the use of all interested parties in order to facilitate and encourage businesses to participate in public contracts in all Member States. The vademecum will set out in particular in simple language for businessmen the terms and conditions for participating in public supplies and works contracts, the Community rules in this area and the means of redress.

In addition to its general policy of normalisation to reduce the problems resulting from the multiplicity of technical standards, the Commission carried out the ICONE project (Comparative Index of National Standards in Europe) in the context

of the SPRINT programme. This aims to promote the dissemination of information on standards to European industry with the help of the National Standards Institutes. A questionnaire on the practical utility of ICONE has been sent to SMEs and the replies received show a great interest.

4. Promoting the spirit of enterprise

The Commission's action to render the business environment more supportive of enterprise and the completion of the internal market are both major steps in the promotion of the spirit of enterprise in the Community.

There are however numerous initiatives in the Member States which are attempting to introduce this spirit into the schools and universities. The Commission is organising an exchange of information in 1987 between those institutions involved in this area of work with the objective of promoting best practice in the Community.

5. Future work and contact with the Member States

The Commission considers its work to improve the business environment to be of great importance. It is looking at ways to improve its monitoring of the impact of Community policies on firms and is undertaking a methodological study prior to proposing new initiatives.

In its statement attached to the resolution on the SME Action Programme agreed in October, the Council requested the Commission to establish a regular exchange of information on action undertaken by Member States and the Commission to improve the business environment. The Commission has invited the Directors General of Industry to establish a group within their own structure to discuss this subject. The first meeting took place at the end of April on the subject of reducing the administrative burden on business. These meetings will offer national administrations the opportunity to suggest future directions of work in this area.

B. PROVIDING SERVICES TO BUSINESS; INCREASING THE ADAPTABILITY OF FIRMS IN THE INTERNAL MARKET

The SME Action Programme proposed a series of projects to improve the flexibility of enterprises. This aspect is important in the light of the need to help firms, and especially SMEs, to meet the challenge of the completion of the internal market and to maximize the benefit they derive from it.

The Action Programme on Employment Growth adopted in December 1986 also emphasized the need to promote the creation of self-employment and of SMEs in order to create the conditions necessary to increase employment in the Community.

1. Information

The SME Action Programme identifies access to information as crucial to the success of SMEs.

The Commission is proceeding with a pilot project to establish Centres for European Business Information in the Member States. A working paper on this project was sent in April to the Council, the Parliament and the Economic and Social Committee.

These Centres have the role of actively providing information about the Community to businesses in the regions and providing a channel for the business sector to communicate with the Community. They will make use of existing structures rather than leading to the creation of new ones; they will be established within organisations which already have close connections with the business community and which have experience in providing information and advice to firms.

The Commission is completing the preparation of its information and training package, which will give the employees of the host organizations structured access to information on Community R and D and other programmes, the internal market, sources of Community finance and all other relevant areas.

The selection of Centres is being made through a call for proposals which has allowed all interested organisations to manifest their interest in participating.

It is intended to start the main phase of this project, where a network of such centres is envisaged throughout the Community, as rapidly as possible, after the evaluation of the pilot project phase.

An information campaign has also been launched, the objective of which is to bring information directly to the small businessman in the regions of the Community. This campaign, again using organizations representing business in the regions, consists of well over 100 seminars throughout the Community, which have been held very largely in the first half of 1987.

2. Business cooperation

The need for greater cooperation between firms across national boundaries especially small and medium-sized firms, within the context of the completion of the internal market, is recognised in the SME Action Programme:

The Commission's Business Cooperation Centre, now part of its SME Task Force, is developing concrete projects of cooperation between firms in different Member States. The aim of these initiatives is to develop generally applicable systems to foster such cooperation.

A major tool to promote this work, announced in the SME Action Programme is under construction in the Commission. The Business Cooperation Network (BC-net), a computerized system based on a network of business consultants located in all the Member States, will be ready for testing in Summer 1987. It will permit the rapid identification of potential partner firms in other Member States or regions in response to a specific offer of cooperation. This system has considerable development possibilities for future years in other areas of activity.

The BC-Net project arouses considerable interest also from third countries. The countries of the Mediterranean Basin, ASEAN and several EFTA countries have all expressed interest in joining the Network and have asked for technical advice in setting up the required links.

Cooperation between SMEs in the field of technology transfer on a transnational basis has been also promoted within the framework of the "plan for the transnational development of the supporting infrastructure for innovation and technology transfer". Within two years, more than 100 cooperation agreements between firms (commercial and technological agreements, joint ventures, licenses ...) have been or are about to be concluded. The continuation of the programme under a new name "SPRINT" has now been agreed in the Council. The Commission considers SPRINT to be a most important further step in fostering technological cooperation and innovation.

The Commission also promoted cooperation between Community SMEs and third countries, notably those which have agreements with the Community. The Commission is helping for instance to attract SMEs from the Member States to participate in an international partnership fair in Tunisia in mid-1987 ("Partenariat").

3. Regional development and Business and Innovation Centres

It is now widely recognised that SMEs have a key role to play in the growth of output and employment in regions whose development is lagging behind or which are in need of conversion because of industrial decline. For this reason the European Regional Development Fund offers special measures for SMEs in order to exploit the potential for internally generated development of less favoured regions, by supporting financial and business services in favour of SMEs. In particular, there are provisions to help SMEs obtain access to new technology, to facilitate their access to the capital market and to assist their expansion through aid in other areas, such as the appreciation of market opportunities and advice to management.

Such measures also constitute a significant part of the Integrated Mediterranean programmes and other integrated operations being set up with joint participation from the different structural funds, as set out in the Action Programme.

The Community programmes to improve access to telecommunications services (STAR) and to promote the use of endogenous energy resources (VALOREN) in the regions, which were adopted in October 1986, also envisage the participation of SMEs in particular.

The Action Programme highlighted the programme of business and innovation centres (BICs) as an important instrument for promoting entrepreneurial ability and innovative SMEs in the regions. Results from the centres already established are very encouraging with respect to the number of business initiatives and jobs created. The Council has recently been asked to decide to extend the BICs and their network, by establishing a further 70 centres over the next four years.

4. SMEs and training

The COMETT programme (Community Action Programme for Education and Training for Technology) was launched in 1987 and has already elicited considerable response from universities and industry. The managers of COMETT have made considerable efforts to interest SMEs in the programme, and especially in the two topics of joint university-enterprise projects in the fields of continuing training and the development of multi-media training systems.

In February 1987, the Commission submitted a communication to the Council on the contribution of local employment initiatives to combatting unemployment (1). The Communication contains proposals for priority actions which are largely in accordance with those of the SME Action Programme in particular improving the LEI environment, improving access to existing sources of finance and providing or improving access to specialised support agencies.

On a more general level, the Commission published a discussion paper in January 1987 on the strategy for adult training in the Community. Following these consultations and further work on the specific problems of training in SMEs, the Commission expects to make proposals to the Council in the second half of the year.

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5. The relationship between large and small firms

The Commission is working to develop the active involvement of large companies in the creation and development of small business. Many initiatives exist in the different Member States, which cover a wide range of activities such as the provision of services to start-ups, training and advice to SME managers and the funding of seed and venture capital.

The Commission is interested in making known the best practice in these areas throughout the Community. To this end it is organising two conferences in 1987 specifically on the relationship between small and large firms and will be sponsoring some projects aimed at the creation of new firms.

Sub-contracting is a specific part of this relationship. The Commission is working on further sub-contracting terminologies; those already completed are very widely used in industry today. The guide to the legal aspects of sub-contracting in the Community, and aimed at the businessman, is expected to be ready in 1988. The Commission is studying the experience which exists in the Community and elsewhere on quality control systems in sub-contracting. This is a subject which will become increasingly important for the competitiveness of European industry.

6. Financing SMEs

Small and medium-sized enterprise are a heterogeneous group of firms (hi-tech, low-tech, in different economic sectors etc.) which all have different financial requirements. These requirements also vary according to the stage of development of the firm; developing businesses require ordinary credit which can be met by loan guaranty companies and by EIB/NCI/ECSC loans, start-ups need venture capital and seed capital. The Commission will shortly be submitting a communication to the Council on this subject.

Since the SME Action Programme was published the Council has authorised a fourth series of loans under the New Community Instrument (NIC IV). These loans are destined to finance capital investment in industry and other productive sectors. Priority will be given to small firms, though medium-sized firms can also be eligible.

Although in some cases, loans can be made directly to the SMEs concerned, in most cases, loans will be made through local financial intermediaries such as banks etc. The Commission wishes NIC loans to be more easily available to SMEs and is therefore seeking to increase the number of intermediaries.

A new feature of the NIC scheme is that where the loans are made through a financial intermediary, it can use the funds to provide finance to the SME in the form of permanent capital.

The Commission is studying the availability of seed capital in the Community. Seed capital is understood here to mean the finance required by a potential entrepreneur to bring his idea through to the stage where a new firm can be created. It considers that the lack of seed capital is restricting unnecessarily the creation of new firms. There appear to be a large number of potentially commercial ideas which cannot be developed for lack of small amounts of money. The Commission is investigating, together with operators in the financial markets, what action could be taken to improve this situation.

The availability of venture capital poses a problem especially when small amounts of capital are required, especially at the time of start up, and when the firms in which the investment is being made are situated far from the main financial centres. Part of the problem is the high cost for venture capitalists of evaluating each project and providing the necessary follow up services. The Commission is particularly keen to investigate ways of overcoming these problems, the availability of venture capital being one of the keys to regional development.

The "Venture Consort" pilot project provides, on a small scale, repayable advances to projects cofinanced by members of the European Venture Capital Association. Up to now, it significantly contributed to the europeanisation

of venture capital activities by supporting the expansion of 18 young technology-oriented fast growing SMEs. This pilot project is also being continued. The financing of transnational projects is becoming more significant as the degree of business cooperation increases.

Finally the Commission is studying the particular problem of financing co-operatives, which owing to their special corporate form, often experience difficulty in raising capital.

C. COOPERATION WITH ORGANISATIONS REPRESENTING BUSINESS

The Commission considers that cooperation with those organisations which represent enterprises, especially small- and medium-sized enterprises, is essential if the objectives of the SME Action Programme are going to be accomplished. It is clear that the opinions of the business community need to be heard if the initiatives which are being designed within that Programme are to correspond to the real needs of firms.

Most of the organisations at European level have come together in two "contact groups", which cooperate with the Commission in the examination of policy areas of internal interest. The Community also helps these contact groups and the individual organisations financially by supporting seminars or studies. Meetings between the Commission's SME Task Force and the organisations are held to inform them of progress made in the implementation of the SME Action Programme.

Cooperation with business interests (and indeed with the social partners in general) has become particularly important in the context of the impact assessment exercise for new Commission proposals. It is the intention of the Commission to consult with business as widely as possible before it decides on legislative proposals. The impact assessment statement already includes information on the consultations which have taken place with the social partners.

The Commission's programme to establish Centres for European Business Information will lead to closer cooperation between it and business organisations in the Member States and will enable the business Community to make its opinions felt in the Commission in a very direct way.

D. FUTURE WORK

The priorities for future work within the SME Action Programme lie in seven main areas :

- the effective coordination of Community policy towards SMEs.
- further simplification of the fiscal and company law environment;
- monitoring the effect of Community policies on business through the establishment of groups of experts. A preliminary methodological study is underway.
- promoting the creation of information services relevant to SMEs; this includes the development of the network of Centres for European Business Information after the evaluation of the pilot project;
- developing the cooperation between firms including the relationship between large and small businesses; this will include further developments in the BC-NET system and the SPRINT programme;
- within the context of the general Community strategy on professional training, the promotion of specific actions in favour of SMEs, including those aimed at managers of these firms;
- developing the availability of equity capital for SMEs and of services to small businesses requiring finance.

As foreseen in the Council Resolution on the SME Action Programme, the Council, Parliament and Economic and Social Committee will be kept informed of progress in the further implementation of the Action Programme.