

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 726 final

Brussels, 18th November 1980

## SMALL AND MEDIUM-SIZED ENTERPRISES IN THE COMMUNITY

(Communication by the Commission to the European Parliament)

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I. INTRODUCTION

1. Small and medium-sized enterprises are not only an essential component of the industrial and commercial structure of the Community but also and above all a source of vigour and drive in the Community economy. The present crisis has highlighted their importance as providers of employment and sources of innovation, but has at the same time exposed their vulnerability to short-term fluctuations in the economy (1).

This is why those responsible for framing the relevant policies must bear in mind the specific features peculiar to this sector and many national and Community agencies have in fact been studying the special situation of small business. The Commission itself, in its various proposals, has tried to take account of the problems the SME have to contend with because of their limited size; but these efforts have been uncoordinated and have not so far been properly dovetailed into an overall framework.

Parliament drew the Commission's attention to this in the Resolution (2) which it adopted following the "Report on questions relating to small and medium-sized undertakings in the Community" (3); the Commission's reply (4) provided the basis for a dialogue between the two Institutions.

2. As part of this dialogue, the Commission feels that the work being done in the Community to help the SME should be reviewed at regular intervals, and that the conclusions drawn should be used to provide material for Community initiatives.

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(1) "Report on some structural aspects of growth" COM(78)255, 22.6.78.

(2) Doc. 220/78, 20.2.78

(3) Doc. 518/77

(4) COM(78)137 final, 4.4.78

Since this is the first report of its kind, the Commission introduces it by defining the general framework, both institutional and economic, in which the Community action as distinct from national measures should be set and stating the criteria and objectives which Community action will serve. In this context the Commission will indicate, among the steps the Community could and should adopt, those it thinks should carry priority and which it intends to examine more thoroughly in the course of 1981.

## II. FRAMEWORK FOR COMMUNITY ACTION

3. Small and medium-sized enterprises operate at a level remote from that of the Community authorities, and this constitutes a considerable hindrance to Community action.

This obvious fact suggests that a great deal will depend on the methods the Community uses in its approach to the problems specific to the SME.

What the Community must do is identify the special characteristics of the SME and the obstacles they have to overcome. Taking suitable measures will be the task of those agencies best equipped to implement them. These agencies operate at various levels (local, regional, national or Community).

4. Small and medium-sized enterprises, because of their number and diversity as well as their presence in all sectors of production and distribution of goods and services, form the matrix of the Community's economy. The salient features of this multitude of business units are their unceasing development and constant renewal. Among them, the SMEs in distribution - wholesale and retail trade - are in a special and important position as they account for no less than 70% of the total turnover of this sector.
5. The industrial system cannot work soundly unless the firms making it up can compete - for unless they are competitive, the economy can neither grow nor change. Although the ability to compete is expressed in terms of products, it is anchored in production structures, changes in which are of great importance.

The competitiveness of the SME in particular is founded on many factors: human, social, legal, economic and technical; these all contribute - now as in the past - to the adjustment of the production mechanism to new conditions in the economic and social environment.

6. At regional or local level the concentration of these factors can provide the right conditions for the establishment and development of small and medium-sized enterprises. And the pooling of the technical, financial or management interests at this level of groups of SME can give them sufficient competitive muscle to stand up to larger competitors. In the distributive sector, the need to compete with big companies has led to concentration in the retail trade and to the creation of joint purchasing organisations and other forms of cooperation, so that the SME have successfully weathered a period of major structural change.
7. There also seems to be a recent general tendency in the Community towards deconcentration of firms, and this natural movement has meant that the growth of big companies has been slower while the number of small firms - not all completely independent - has increased sharply. This tendency is being encouraged in many industries by technological progress, which often results in the creation of new SME.

Small and medium-sized enterprises thus represent a factor of growing importance in the Community economy in the face of changing markets, in particular because they represent a potential source of new jobs.

8. It is, however, no easy matter for the authorities to build up a dialogue with - or even identify - the small and medium-sized industrial enterprises. The very qualities that give them their vitality are at the same time a barrier to any detailed, objective and composite evaluation of their characteristics and the problems peculiar to them. The situation is different for SME in the distributive sector, owing to the sector's greater homogeneity and the greater similarity of the problems retail and wholesale traders have to contend with.

This difficulty is compounded by a terminology which in fact conceals a broad range of heterogeneous structures. Indeed, whatever the point of view taken, it is clear that the "problems of small business" are perceived very differently by the various types of enterprise, which in turn vary from country to country.

- A firm with 25 employees but highly capital intensive can hardly be compared with an enterprise with a staff of 900 but relatively little equipment.

- Firms employing fewer than 20 people are generally not included in national statistics.

As it happens many recently-formed enterprises, especially those created to exploit new technologies, are in this class.

- Alongside the genuinely independent SME, there is a large number of firms which have the marks of independent management but which are in fact linked to large enterprises via subcontracting in varying degrees of closeness from country to country. Thus, there are fewer independent firms in the Community than the statistics suggest.

This is why measures to stimulate growth through small and medium-sized enterprises are more difficult to frame and apply than are the traditional kinds of policy.

9. Experience shows that the most effective way of supporting the SME is to encourage them to help themselves. Respect for the independence of entrepreneurs is essential because it is an attribute to which they are strongly attached and is the source of their peculiar dynamism. Support of this kind constitutes at the same time the main guarantee that official action will be effective because it induces entrepreneurs to share responsibility for its success.
10. On the other hand, the traditional types of SME, being small, are highly sensitive to local conditions - geographical, cultural, economic, commercial and social - as these affect their interests and problems. This feature makes them a vital tool of regional development. Small retail and wholesale firms are even more sensitive to local conditions than other SME, and their development has been directly influenced by the urbanisation of society and the drift from the land.

At the same time their restricted field of action puts many difficulties, both managerial and commercial, in the way of expansion by the most dynamic SME outside their local area.

11. These various factors explain the scale, diversity and frequency of action by member governments to support the SME in a general way as a class of business and more particularly in the different fields mentioned in the European Parliament's report (1).

They also constitute a bar to any centralised effort to support the SME; in the case of the Community, a centralised effort would not only be blocked by insurmountable methodological barriers but would also be all too inefficient because the SME operate at a level so remote from the Community agencies. These circumstances in themselves define the natural limitations on Community action.

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(1) "Report on questions relating to small and medium-sized undertakings in the Community", op cit.

12. Nevertheless, the Community level offers the possibility of listing comprehensively the various measures undertaken at national level (1); the Commission ought to take advantage of this situation to carry out a comparative study of the experience gained by those authorities and agencies which have been implementing such measures. This will entail contacts not only with the national departments concerned but also and above all with the beneficiaries with a view to in-depth analysis of the effects and particularly the effectiveness of support measures for the SME.

The first aim of this analysis would be to compare experience gained in the various countries and especially to inform all those concerned of what is happening elsewhere; but this analysis and exchange of information should also encourage relevant organisations in the Member States, whether governmental, semi-governmental or private, to adopt measures whose results have been found satisfactory in another Member State while adapting them to their own local or regional situations. Such a study could also point to appropriate specific measures to be taken by the Community.

In the view of the Commission, the aim of the exercise would be to enhance the efficiency of instruments employed by the Member States - not to harmonise them. For the study itself to be effective, the resources committed to carrying it out must take account of the diversity and complexity of the sector to be supported and the wide range of measures being taken to help it.

13. Given the above, the Commission believes that action by the Community itself should have a two-fold thrust.

- In the context of providing the right environment and overall support for the work of the SME, whether through the policies, the programmes or the instruments forged and managed at Community level, it is important that those preparing the measures should study carefully the actual structures which the Community action is intended to influence.

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(1) "Report on some structural aspects of growth", op cit. Chapter II, para 9 and Chapter III, para 24.

While respecting the principles of "subsidiarity" and "complementarity" vis-à-vis the measures taken by the Member States, specific Community action to support the SME may be taken to the extent that economic logic and the institutional framework allow of this.

Whatever the type of action proposed, it can only be effective if the right structures - with their own instruments - ensure a proper link-up between the Community and the firms, at national and, particularly, regional level.

Similarly, the Commission considers that in the context of economic relations with non-Community countries greater emphasis should be laid on measures which help small and medium-sized enterprises to find foreign markets and sources of supply.

14. This double thrust of Community action to support the SME is fully in accord with the outline set out by the Commission in its "Report on some structural aspects of growth" (1).

On the fundamental role of enterprises, the report states that "it is for the firm to reply to the challenge of the profound changes in the conditions in which, from now on, European industry must operate" (2).

It further states that "the Commission suggests that a strategy for recreating an economic climate and the confidence favourable for growth be aimed at providing the right environment and general measures of support for the individual firm" (3).

Seen in the context of a Community encompassing a market of more than 250 million people, small and medium-sized enterprises can benefit from but at the same time contribute to the gradual integration of the internal market and the convergence of the economies. They should be encouraged and assisted, as sources of innovation and competitiveness with respect to the rest of the world.

(1) COM(78)255 final of 22.6.78  
(2) op. cit. Chapter I, paragraph 4  
(3) op. cit. Chapter III, paragraph 11.



It ought not to be forgotten either that the relative importance of the SME will increase as and when other Mediterranean countries join the Community.

### III. STATUS OF WORK

15. To put the options chosen into practice the Commission, working with representative organisations from the member countries, has drawn up a list of the measures taken to support the SME by the Member States. The number and variety of the measures, their direct and more often indirect effects and the inadequacy of available information have made it a difficult operation and it is not possible at present to establish a complete picture. Nevertheless the Commission has attempted, in producing a tentative list, to distinguish some significant developments which may serve as the basis for a common effort by the Member States to obtain a more representative and accurate survey of the situation.

The Commission has also listed the measures recently taken at Community level, classifying them according to objective.

#### A. Measures taken by the member countries to support the SME (see Annex)

16. The most important measures, both public and private, which affect the SME can be classed under three headings depending on their objective.

The first two cover general objectives aimed on the one hand at supporting firms in their business activity and on the other at improving skills and encouraging employment; the third category covers measures with specific objectives.

Not all the measures have been taken solely with a view to the SME; many measures are blanket schemes with special arrangements facilitating access for small firms.

17. Support for firms in their business activity takes the form of measures aimed at improving structure and stimulating technological innovation.

In the first place, the Member States influence the location of enterprises with a view to making better use of regional potential and encourage adjustment of industrial patterns in sectors where restructuring and conversion are necessary.

Secondly, the authorities take measures to support the development of new technologies and the transmission of innovations throughout industry.

The policy instruments employed are generally of one of four types:

- a. tax concessions - reductions or exemptions;
- b. financial;
  - direct aid (premiums or subsidies);
  - easier borrowing (interest-rate subsidies and guarantees);
  - encouraging the strengthening of the firm's own capital (temporary minority equity) participation - creation or up-dating of mutual guarantee systems);
  - creation of funds of different kinds with specific objectives;
- c. special arrangements for SME in laws and regulations;
- d. services offered by the authorities or the private sector:
  - assistance, advice and information on fiscal, financial, economic and legal matters, provided through chambers of commerce and industry and other channels;
  - creation of regional centres or centres for individual industries, offering technical services;
  - encouragement of R and D and innovation through joint research. Support for pilot projects in specific fields such as energy, recovery and recycling of raw materials, research into new products and new technologies.

18. The efforts to improve vocational skills and encourage employment cover problems of conversion, training of managers as well as the workforce, and of employment itself, especially of young people.

The policy instruments most often used are relief from social insurance contributions and funds designed to support traineeships and seminars as well as training courses in fields involving new technologies, modern management methods and marketing (especially exporting).

19. The third category of measures covers specific activities such as subcontracting, cooperation between enterprises, exporting and intra-Community trade, public contracts.

Most usually the policy instruments employed in this final category are of a legal nature covering, among other things, company law and contractual relationships between enterprises or between customers and suppliers.

Services provided include the development of export back-up from assistance from private as well as public sources; banks and management consultancy companies - having networks of agencies extending over large areas - supplement the services already established by the public authorities. General legislation dealing with the SME frequently also applies to small and medium-sized enterprises in the distributive sector. But specific measures (1) are also taken for this sector, applying for instance to certain sections of it (e.g. hotel trade), particular ways of doing business (retail group purchasing) or within a more general framework such as the French law of 27 December 1973 on the distributive trades and the "artisanat".

20. An analysis of national measures reveals first and foremost the important role which the Member States assign to the SME, both in their regional policies and in policies designed to facilitate adjustment of individual industries. The SME are seen, too, as a particularly suitable vehicle for the development and dissemination of new ideas within industry.

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(1) All these measures appear in the synoptic tables of specific measures taken by the Member States of the European Communities in the distributive sector which have been published by the Commission.

Support schemes make use of a wide selection of instruments ranging from the more traditional - such as tax and financial measures - to the more individual - such as the direct provision of services.

The Member States' schemes are embedded in laws and regulations and for the most part consist of integrated sets of measures whose effectiveness is more easily and accurately evaluated in qualitative than quantitative terms.

The most marked characteristic to emerge from a comparative analysis is the wide diversity of national schemes and the methods employed to implement them, in spite of the similarity of the aims being pursued by each Member State.

B. Community action

21. The Community's policy towards the SME is set in the framework already described, the aim being to take account of the fact that many of the most intractable problems the SME have to contend with are problems peculiar to them. This is why the Commission, pursuing the policy goal of creating a genuine domestic market in the Community, has felt that it could take the view that preference given to this type of firm, by certain Member States, when awarding public contracts could be compatible with the Treaty provided such preference is extended to the SME of the other Member States. Again, the Commission has tried to ensure in its draft directives on approximation of legislation that a form of harmonisation is not introduced which would unduly hamper SME essentially serving local products, where such firms predominate in the relevant industry.

Under its competition policy the Commission adopted in April 1978 a new notice of blanket application but of special importance to the SME. This is the Commission Notice concerning its assessment of certain subcontracting agreements in relation to Article 85 of the EEC Treaty (1). Its aim is to clear up doubts about the compatibility of this type of agreement with the Community's rules on competition while encouraging the development of a practice in industry likely to strengthen the position of the SME.

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(1) O.J. 1 of 3.1.1979, p.2.

In its current work on drafting or amending various texts of general application which deal with licencing agreements, exclusive distribution and selective distribution, the Commission is seeking to ensure that SME interests are promoted.

22. Under the regional policy, there are two avenues by which to encourage the development of the SME.

- Under its quota section, the ERDF can provide assistance in the traditional form of investment aid. The maximum rate of assistance from the Fund is 20% and may not exceed 50% of aid awarded nationally to a project. In order to facilitate SME access to ERDF assistance a special arrangement was introduced in February 1979, when the Regulation on the Fund was revised (1) which provides that small-scale projects may be aggregated so as to meet the uniform eligibility thresholds laid down in the Regulation (minimum investment of 50 000 EUA, at least 10 jobs created or maintained).
- Under the non-quota section, also created when the Regulation was revised, five specific Community actions proposed by the Commission are of particular relevance to SME. Their aim is to contribute to the development or conversion of regions affected by the regional consequences of Community policies or alternatively to contribute to solving problems in the most needy frontier areas. Under these schemes, the SME and artisan firms may, on the basis of five-year programmes, apply for Community aid to implement a set of fairly new measures designed to help adjustment to the evolution and restructuring of markets in the regions concerned. Specifically, these are measures to promote the development of advisory services and joint services between enterprises; the mustering and passing on of information on innovations; the improvement of access to venture capital; sectoral studies and market research; the improvement of communications infrastructure between enterprises and their surrounding economic area, including telecommunications and data processing networks, etc.

(1) Council Regulation (EEC) No 724/75 of 18 March 1975 establishing a European Regional Development Fund, amended by Council Regulation (EEC) No 214/79 of 6 February 1979 O.J. C 36 of 9.2.79.

The European Parliament endorsed these proposals by a very large majority on 11 March 1980. Should these new instruments prove effective, the Commission may propose their inclusion in the quota section of the Fund when the ERDF Regulation is next revised.

23. In the field of energy the Commission is encouraging the development of direct assistance to enterprises, especially small and medium-sized ones; aimed at carrying out on-the-spot analyses of energy consumption and making estimates of potential savings to be made.

What the Commission has in mind is the "energy bus" system, that is vehicles carrying specialised teams and equipment which can visit industrial plants and are able via computer to link up with a service for gathering and retransmitting data and programmes generated by the Joint Research Centre at Ispra.

Following very good results from this system in Canada, the Commission recently organised a demonstration exercise in various Community countries with the help of the Canadian authorities; the success of the scheme is shown not only by the interest it aroused among industrial executives in the countries visited but especially by the fact that practical initiatives in the same direction have been taken in several Member States.

Community programmes are also currently running to give financial support to demonstration projects involving energy conservation (2) and projects to utilise alternative sources of energy (geothermal energy, liquefaction and gasification of solid fuels, solar energy) (3). These programmes are also open to the SME.

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(2) O.J. L 158 of 16 June 1978, p.6.

(3) O.J. L 158 of 16 June 1978, p.3.

The aim is to demonstrate the industrial and commercial viability of these processes so as to encourage their general application.

Two tender procedures have already been held and a third invitation will be published towards the end of 1980 or early next year.

24. Certain improvements have recently been made in the access of the SME to the Community's financing agencies and funds.

For example, the SME are now eligible under Article 56 of the ECSC Treaty for global loans carrying an interest-rate subsidy for investments which create other jobs in declining steelmaking areas (1).

Again, the European Investment Bank has made improvements to its system of global loans, entailing greater flexibility in its arrangements with intermediate financing agencies. The minimum loan has been reduced from 100 000 to 50 000 EUA and in some cases to 25 000 EUA; the maximum EIB involvement has also been raised from 40% to 50% of the total investment.

25. The Community is constantly concerned to lighten the burden of administrative formalities which are particularly troublesome to small firms, and is taking appropriate action in this direction. Generally speaking, these charges bear all the more heavily on enterprises that are too small to have sufficient resources to meet them. The Commission is therefore trying to take account of this either by including specified exceptions in regulations or, where appropriate, by selectively improving the conditions under which the SME operate.

The following examples may be cited.

- The work being done at a general level within the Customs Union Service, in close association with agencies working on simplification in the Member States, to introduce standard customs documents based on a single Community layout (export forms, transit forms, EUR 1 certificates etc.) now allows firms trading internationally, including the SME, to obtain such Community documents using a simple and cheap reproduction system.

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(1) O.J. C 82/8 of 29 March 1979

- Special exceptions were made for the SME in the 4th Directive on company law of 25 July 1978. Similar exceptions are provided for in the draft 7th Directive on group accounts.
  - Questionnaires sent to industrial and artisan firms in the Member States on behalf of the Statistical Office of the European Communities have been simplified for small enterprises.
  - Various measures of general application taken by the Commission concerning rules of competition applying to enterprises have also helped to reduce the administrative formalities for the SME by relieving them of the need to apply for negative clearance or notify the Commission of certain agreements.
26. A set of measures has been introduced to facilitate SME access to information; these measures are mainly designed to help firms that owe their existence to new technologies. Here the accent is on establishing cooperation between national systems of information and advice for this class of enterprise and on encouraging the use of data bases such as Euronet Diane, a new high-speed computerised information system. Operational since end-1979, Euronet Diane commissioned for commercial use on 13 February 1980.

Another project is to improve access to licensing offers in the Community; this will be based on existing national systems and involve appropriate arrangements with the Member States.

In the area of government procurement there are sectors of some economic significance, e.g. medical supplies, educational equipment or scientific apparatus, where the best suppliers are usually highly specialised and efficient SME, often highly capital intensive. Improved access to government contracts in all the Member States will provide an opportunity for these firms to strengthen their structures and expand.



For this class of enterprise the existence of Community arrangements for the publication of government contract (particularly supply contract) notices above a certain value in the Official Journal, common rules in the technical field and common rules for participating in and awarding contracts are definitely of special value because of the limited resources these firms must work with and the wide variation among national procedures before the Community scheme was adopted.

Because so many SME managements are unaware of or do not properly understand the benefits available to them under these two Directives, the Advisory Committee for Public Contracts held a wide-ranging exchange of views at its fourteenth meeting in April 1979 on steps that might be taken in this area. The Commission for its part feels that the SME cannot possibly make the most of Community advances in the field of government procurement unless the flow of information to them is improved.

27. As to innovation itself, the Commission has been pursuing an analysis of the functioning and operational environment of innovative SME which is contributing to greater knowledge about enterprises of this kind and the special problems they have to cope with in the Community.

With the assistance of national experts, several studies have been carried out. They include an expanded list of national measures intended to stimulate industrial innovation in the European Community with particular reference to small and medium-sized enterprises. An enquiry into some barriers to innovation among SME has begun in all the Member States and a study designed to secure improved statistical data on the "rate of innovation" in the Member States is also in hand.

A number of studies have been started to obtain a better understanding of the various aspects of innovation both within the Community and in comparable non-member countries. The Commission has also taken steps to promote the exchange of information on innovation through periodic forums organised at Community level.

In addition, the Commission has submitted proposals to the Council (under the non-quota section of the ERDF) to make it easier for innovating SME to obtain venture capital. It is also investigating other possibilities in this connection within the framework especially of the Advisory Committee on Industrial Research and Development, which is looking, too, at issues involving joint research organisations.

28. In 1978, the Commission set up its Advisory Committee on Industrial Research and Development to obtain the views of industrial managements directly concerned on all aspects of research and development involving horizontal relations between the Commission and industry in the Community. It was one of the priorities in the Committee's first work programme to examine the position and role of R and D in industrial SME. Studies on specific aspects of this subject have been completed and a seminar was organised towards the end of 1979 with the aim of exploring ways in which the Community could promote R and D among small firms breaking new ground. The Committee, in summing up its findings, indicated its interest in support measures at Community level, especially of an indirect kind. It recommended that the Commission adopt an approach involving progress by stages.

With reference to direct intervention by the Community to support R and D, mention should be made of the Commission's proposal for a second research and development programme in the field of textiles and clothing to be spread over three years. The programme is to be implemented in the form of a cost-sharing research contract with COMITEXTIL (50% to be borne by the Community) and will cover the acquisition of knowledge about new technologies, new products and services. Since the textiles and clothing sector is made up of a large number of SME which are not themselves in a position to implement large-scale research programmes, these enterprises will be the primary beneficiaries of the research results.

The Commission has further proposed a programme of research into technologies involving clay minerals and industrial ceramics, a sector of industry largely made up of SME.

Finally, the research programme on leather and footwear adopted by the Council on 14 February 1977 is now being implemented.

29. The Commission is aware that relations between SME and their business partners in non-Community countries call for structural adjustment, subject as they are to the fundamental changes taking place in all producer/customer relationships. However, with regard to the special obstacles facing small and medium-sized enterprises in the export field, there is at the present time no broad consensus among the federations and organisations concerned.

However, several organisations consider that Community support for exports to non-Community countries would not be justified and that SME efforts should concentrate instead on trade within the Community. In this context, small and medium-sized enterprises should have a special interest in the removal of barriers to trade and cross-border activities. The impending extension to the new Member States of the Brussels Convention of 9 October 1968 dealing with jurisdiction and the enforcement of judgments in civil and commercial matters, will be helpful here. One of the aims of the Convention is to strengthen the position of creditors by establishing uniform rules and procedures to facilitate the recognition of judgments within the Community.

30. Action by the Social Fund - financing pilot projects in vocational training tailored to the needs of small and medium-sized enterprises - is now of growing importance.

The European Centre for the Development of Vocational Training has also embarked on a study of ways of helping to improve management and vocational training in the SME and artisan firms. Differences of opinion among the federations and organisations concerned, however, are causing the Centre some problems; without actually jeopardising the work, this is slowing it down to a significant extent.

31. The Business Cooperation Centre has maintained its efforts to promote inter-firm cooperation.

Since its creation in 1973 its main objective has been to help bring about transnational cooperation or integration between enterprises from different Member States (Commission Directives of 21 June 1973). The Centre broadened its scope in 1977 to include links between Community and non-Community enterprises fostering industrial cooperation (supplementary Directive of 20 July 1977).

Cooperation between firms in Community countries and firms in non-member countries - especially with a view to improving structures in the countries which have applied for membership of the Community - is an area in which the Centre may well have considerable scope for increased activity.

32. Like the Member States, the Commission has been taking specific measures in the area covered by the distributive sector, some of which will benefit the SME.

a) The first of these tasks is to draw up mutually consistent statistics on the distributive trades in Europe, providing improved understanding of structures so that their weak points can be identified and on current trends so that schemes and other measures can be devised on the basis of an adequate flow of information. This task is being undertaken by the Statistical Office of the European Communities.

- b) Another objective is exchange of information about the distributive sector. This is being effected within the Commission's group of government experts on commerce and distribution, whose sub-groups are working on studies covering the sector's most pressing problems. The SME in this sector are being looked at from the point of view of both the difficulties they encounter and the measures taken to help them by governments.

These working parties are also the forum for a systematic exchange of studies being carried out in each of the countries.

- c) Next there are the ways in which distributive SME might gain access on appropriate terms to technological advances affecting trading and management methods.

The first stage of this work was carried out in Luxembourg on 29 February 1980, when a study day for retail and wholesale SME was organised in liaison with the Directorate General for Scientific and Technical Information Management, in the course of which possible ways of accessing information were discussed and tried out. A questionnaire was distributed to executives present with a view to eliciting guidance on firms' actual needs. The results of the replies will provide a foundation on which to base more general considerations regarding the setting up of a data bank.

- d) It has also been necessary to organise the dialogue with the SME. By creating the Committee on Commerce and Distribution in 1978, the Commission provided a forum for managements from all sections of the distributive sector in Europe and particularly from the SME, the latter being well represented on the Committee.

This makes it easier to associate those actually working in distribution with Community activities and facilitates the identification of general and specific problems.

IV. WORK PRIORITIES FOR 1981

33. By study and discussion, the Commission has discovered and confirmed ways and means of using the Community framework to improve the environment in which small and medium-sized enterprises operate and has also identified the constraints which determine or limit the measures taken by the Community.

On the one hand, the Community must encourage an ongoing exchange of information among the Member States on their schemes to help the SME and the experience they have gained in the process, so that it can take a lead from the most promising instances and, where appropriate, generalise these on a Community scale.

On the other hand, the Community, when framing and implementing its policies, must continue to take account in a systematic way of the specific nature of the SME and do everything it can to support their development.

34. In 1981, the Commission will be pursuing the action it has already begun (see Chapter III). It intends nevertheless to emphasise some points which it feels deserving of priority treatment, giving due consideration to the role the Community is able to play and the relevance these measures have for the SME.

35. Finance

As one of its priorities, the Commission will be giving added attention to the problems of financing the SME and industrial innovation. Although they look different on paper, these two objectives do in fact overlap: on the one hand, if it were easier for the SME to obtain funds, they would be able to contribute even more flexibility and adaptability to the economy, while, on the other hand, it is inside dynamic SME that many innovations (particularly those likely to create new jobs) are conceived and tried out. In both cases the basic problem is the same. This is to safeguard and stimulate investment which is thinly spread, of restricted scale and involves a high risk. There is hence a need to survey and catalogue the channels through which capital - of which adequate amounts are in fact available - can be tapped for investment in the production system and to choose those whose Community-context offers the best prospects of effective implementation.

36. Another problem that must be solved is the reluctance of banks and other credit institutions to take account, in lending to the SME, of the real growth potential of the borrower, and not only of collateral offered. The geographical spread of banking networks and the wide distribution of small local banks are an asset in channelling finance to even the smallest enterprises. The Commission has organised a symposium in Luxembourg on 30 September/1 October dealing with certain aspects of this question.
37. The Commission feels that there is a case for a Community initiative aimed at inducing a consensus among banking institutions on the need for a common evaluation of methods of approaching the SME.

The Commission aim should be to stimulate contacts among the parties involved and an exchange of information on experience they have gained; as a rule it should not intervene in the contractual relationship between lenders and borrowers. More particularly, the Commission would like to interest local banks and cooperatives in exchanges of information about financing experience at regional and local levels. These institutions could hardly be better placed to understand the real requirements of SME and are in any case often faced with the problem of investing their excess liquidity. The aim must be to improve the use of capital savings at the point where they accumulate.

This approach is of particular importance in the context of the enlargement of the Community since access by the SME to the banking network is of considerable significance in the countries which have applied for membership.

38. The Commission may also consider the possibility of establishing a legal framework enabling promising experience that has already been made in some Member States to be propagated throughout the Community. This applies in particular to finance guarantee cooperatives, which offer borrowing facilities on the best terms for the SME and economically sound avenues of investment for banks, especially local banks.

39. While the banking system is clearly the right instrument for channelling capital right down to individual SME, it is hampered by problems of expertise and training: those proposing projects and those providing the funds for them must not only respect each other's specialist knowledge but also have some understanding of it themselves, whether it be financial or technical. Yet among SME and small banks particular such expertise is inadequate.

Thus, it is clear that a better exchange of information between credit institutions and enterprises would constitute a medium through which their differing experience in dealing with the same problems could be compared on the basis of real-life situations.

40. New information technologies.

In the relatively near future cheap data processing facilities and ways of transmitting all kinds of information will become available to firms. This will bring about far-reaching changes in both their internal and external environment.

These changes could be a key to further progress among small and medium-sized enterprises if they seize the opportunities being opened to them in time.

41. At a structural level first of all, information distribution will probably lead to a growing decentralisation of the production pattern in many sectors (small independent units, working at home). This change will be even more marked in some manufacturing sectors where the application of low-cost data processing in production - at both the design and fabrication stages - will reduce the advantage of economies of scale achieved by mass production and enable products to be altered quickly to match demand as it changes. This general tendency will probably be exploited all the more easily by the SME because as a result of their dispersal throughout all sectors they are forerunners of the eventual structure of industry as a whole.

Furthermore, the ease with which information circulates will help establish a close interaction between the market and its requirements on the one side and the firms and their capabilities on the other, and also between technology and innovation.



The introduction of these information technologies should also tend to lighten the burden of administrative formalities placed on enterprises by the authorities.

42. These considerations and lines of action are reflected in the Commission's document entitled "European Society Faced with the Challenge of New Information Technologies: A Community Response" (1): it is the Commission's view that the Community should develop an overall strategy enabling Europe to reap the benefits of the revolution in information technology and avoid its arrival contributing to Europe's decline.

Measures will be taken in this context which give consideration in particular to the value they may have in promoting the development of the SME in the Community.

In its document entitled "Employment and the New Microelectronic Technology" (2), the Commission stresses the importance of proper use of Community funds and financing agencies already operating to assist the SME in the process of introducing the new technologies.

43. Specific measures in the context of enlargement

Analyses made in connection with the enlargement of the Community have revealed that Portugal has acute problems with industrial structure.

Apart from a few large-scale enterprises, some of them benefitting from injections of new capital from European investors particularly, Portugal's industrial economy is composed in large part of SME whose structure of production is very often obsolete and which have no sound financial base. Compared with the general situation of the SME in the Community, the equivalent firms in Portugal are in an extremely precarious position. To deal with this state of affairs, the Portuguese authorities have set up a programme of technical and financial assistance specifically for the SME and this ought to contribute, by supplementing private initiatives, to restructuring, modernising and developing this class of enterprise. The scheme also covers management training and information on the scope of new technologies.

(1) COM(79) 650 final of 23.11.79

(2) COM(80) 16 final

The Commission for its part feels that the structural imbalance between the respective situations of the SME in Portugal and in the present Community could well hamper economic integration after entry because the differences are so wide. This is why the Commission, after studying together with the Portuguese authorities the programme of assistance drawn up by the latter, has concluded that selective intervention by the Community should be considered even before Portugal actually joins. With this in mind a proposal has been submitted to the Council for Community participation in the financial effort being made by the Portuguese authorities. This will take the form of a special aid, limited in duration, to be paid for from the Community budget (1).

V. THE DIALOGUE BETWEEN THE COMMUNITY AND THE SME

44. Community action is by its very nature macro-economic and at a level where the aim is to improve the general conditions in which enterprises operate.

However, identifying the general problems and defining the terms of reference for a search for possible solutions is not always specific enough to meet some of the concerns of small or medium-sized enterprises, whose structure and markets are often determined by a localised economic environment.

For this reason there should be a dialogue between the Commission and the SME so as to bridge the gap between individual situations and the more comprehensive level of Community action; this will entail a detailed analysis of the specific position of the SME in relation to the common policies.

The topics to be discussed should first be defined in close contacts among the various organisations involved in the SME development. These organisations should work out their own methods of developing into a credible speaking partner by establishing a synthesis of the specific needs of their class of enterprise.

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(1) COM(79)442 final of 13.9.1979.

ANNEX

SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EUROPEAN COMMUNITY

Compendium of measures taken with regard to them by the Member States' authorities

(Data emanating from the Member States which do not engage the responsibility of the Commission as regards their compatibility with the Treaties of Paris and Rome).

1. MEASURES TO UNDERPIN ACTIVITY

a) Tax measures

GERMANY

- Increase in the basic allowances in respect of the tax on trade and industry (Gewerbe Steuer);
- Abolition of payroll tax on 1 January 1980

FRANCE

Introduction of an allowance equal to 33% of taxable profits during the first four years. The Government to grant installation loans .

IRELAND

Threshold for exemption from corporation tax raised.

UNITED KINGDOM

- Threshold for exemption from income tax raised ;
- Threshold for corporation tax raised ;
- VAT threshold raised

b) Financial measures

GERMANY

- ERP loans increased to DM 975 million in 1978 (of which nearly DM 400 million in the form of starting-up loans);
- In 1978, the Federal Government drew up a special programme to assist SME in building up their own capital resources;
- The Reconstruction Loan Corporation (Kreditanstalt für Wiederaufbau) and the Equalization of Burdens Bank (Lastenausgleichsbank) extended their loan programme for SME (6 488 loans amounting to over DM 1 500 million in 1976; 10 577 loans amounting to over DM 2 150 million in 1977).

#### BELGIUM

The Law on Economic Reorganization of 4 May 1978 and the decrees implementing it are the main instruments governing loans to SME. They provide for a variety of aids (e.g. interest subsidies, capital premiums, employment premiums) and for the establishment of a guarantee fund and allow the National Business Loan Fund (Caisse nationale de crédit professionnel) to acquire minority shareholdings.

#### DENMARK

- Ceiling for financial assistance under the Law on loans to artisan firms and small industrial establishments raised from DKR 47.5 million in 1977 (700 applications) to DKR 52.5 million in 1978 (751 applications);
- In January 1979, the Artisanat Council decided to set up a financing agency for artisan firms which is to raise funds by issuing bonds.

#### FRANCE

- Financial aid in the form of a premium is granted by the state to Regional Development Companies (Sociétés de développement régional) which acquire holdings in the capital of SME. Since the scheme was introduced, 387 applications for assistance have been approved, representing holdings worth FF 142 million ;
- Pursuant to the Decree of 27 July 1977, Regional Public Agencies (Etablissements publics régionaux) may contribute to guarantee funds. By 31 December 1978, 17 such agencies had voted contributions totalling FF 43 million (94 favourable decisions having been taken);
- In 1978, the 22 existing Regional Public Agencies approved the introduction of premiums to promote the setting up of enterprises, allocating FF 60 million for this purpose. By 1 December 1978, 600 premiums had been granted ;
- A major national competition for plans to set up enterprises, was launched at the end of 1977, with 30 prizes of FF 50 000 ;

- A National Guarantee Fund for the establishment of enterprises was set up in 1978 with a capital of FF 40 million (FF 20 million from the State and FF 20 million to be provided by banks). It is to guarantee loans totalling FF 200 million ;
- The setting up of new enterprises is one of the main objectives pursued by a number of bodies active at regional level (Chambers of Commerce and Industry; "expansion committees"; Regional Development Companies) which receive special State aids for this purpose. The Regional Public Agencies also grant premiums to the end (FF 300 million up to the end of 1978).

#### IRELAND

- In 1977, the IDA (Industrial Development Agency) launched a special programme which was designed to help create new enterprises and which provided for special loans, interest subsidies and training programmes for heads of enterprises;
- Under the IDA programme to assist SME, capital grants (ranging between 35% and 60%) were made to 400 projects in 1978 (IDA aid amounting to £ 12 million), to 225 projects in 1977 (£ 5.700 million) and to 236 projects in 1976 (£ 5 million).

#### ITALY

- The decision taken in 1978 to raise to LIT 50 million credits not subject to ceiling controls was of special benefit to the smallest enterprises;
- Law n° 675 of 12 August 1977 includes financial provisions designed to assist SME : credits, loan facilities, interest subsidies for credits in general; aids for collective guarantee consortia or syndicates, subsidiary guarantees for SME ;
- Under Law n° 374 of 30 April 1976, credits are available for groups comprising at least five enterprises with each undertaking fixed investment worth LIT 3 000 million and employing a workforce of not more than 300.

#### LUXEMBOURG

The Regulation of 27 July 1978 extends for a further five years the Law of 29 July 1968 (framework Law applicable to the small business sector), which provides for interest subsidies, capital grants, apprenticeship premiums, savings premiums for setting up in business, and contributions to mutual insurance funds.

#### NETHERLANDS

- The 1978 Law on the general regional premium provides not only for a basic premium but also for a premium for small-scale investments;
- The 1977 decision on loans to SME amended the existing arrangements under which the State guaranteed credits made to SME.

#### UNITED KINGDOM

- The Trustee Savings Banks have been authorized to launch a pilot programme of commercial loans for small enterprises (individual loans not to exceed £ 25 000);
- The Government plans (1978) to introduce, on an experimental basis, a system for guaranteeing commercial loans.

#### c) Specific laws and regulations

#### BELGIUM

A working party was set up on 25 September 1979 to look into the problem of simplification. It has made a number of proposals to the Government.

#### FRANCE

Two sets of measures for simplifying administrative arrangements were adopted by the Government in September 1977 and in February 1979.

NETHERLANDS

- The arrangements for granting authorizations have been simplified;
- The arrangements for granting loans and sureties have also been simplified.

d) Service activities

BELGIUM

Social secretariats approved by employers.

FRANCE

- A body responsible for fostering coordination between the authorities and firms was set up in 1971. It is answerable to the Prime Minister and has already resolved a large number of practical problems;
- The Chambers of Commerce and Industry have introduced arrangements whereby all the necessary formalities for setting up in business can be completed at the same counter.

UNITED KINGDOM

Programmes have been drawn up for computerized production management.

R & D - INNOVATION

An exhaustive list of the measures taken will be prepared by sub-Group II of CORDI<sup>(1)</sup> before the end of the year.

For some years, the Member States have been making great efforts to promote innovation and to involve SME in the innovation process<sup>(2)</sup>

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1) Advisory Committee on Industrial Research and Development

2) A provisional list of measures - in English - has already been compiled by Strategic Surveys Staff Group of the TNO in the Netherlands (Doc. SSV 79/ABS 001 of May 1979).



For example :

- Patents and licences

DENMARK

The Danish Invention Centre helps inventors and SME find enterprises that might be interested in taking out licences.

GERMANY

The Patent Office for German Research ( Patentstelle für die deutsche Forschung), the Max Planck Gesellschaft, the Working Party on Patent Broking (Arbeitsgruppe Patentverwertung) and the German Patents Office (Deutsche Patentamt) now provide fuller information on existing patents; they assist inventors wishing to patent their inventions, find individuals who may be willing to finance the practical application of inventions, etc.

FRANCE

The National Research Application Agency (Agence Nationale pour la Valorisation de la Recherche) performs a similar role in France.

- Joint research

DENMARK

The two technological institutes in Denmark (Copenhagen and Aarhus) and 23 non-profit institutes, including :

- the Danish Centre for Applied Electronics
- the Danish Welding Institut
- the Danish Hydraulics Institute
- the Danish Isotope Centre
- the Danish Ship Research Laboratory
- the Danish Textile Institute

are engaged in joint horizontal and/or sectoral research.

All the above institutes receive aid from the Government.

BELGIUM

In all, 13 joint research centres are in operation.

GERMANY

Joint research networks have been set up by the Fraunhofer Gesellschaft (25 research centres) and by the Union of Industrial Research Associations. (Arbeitsgemeinschaft industrieller Forschungsvereinigungen).

FRANCE - ITALY

State-aided joint research centres have been set up in a number of sectors.

NETHERLANDS

Joint research is generally carried out by the TNO, which is 50% financed by the Government.

UNITED KINGDOM

The research associations set up for the different branches of the economy receive subsidies ranging from 20% to 50%.

2. TRAINING

GERMANY - 1976

The Government adopted a law on financial aids for setting up of new apprenticeship centres and for the continued operation of existing centres.

Under this scheme, SME enjoy tax concessions worth DM 400 000.

- 1977

In 1976 and 1977, an amount of DM 180 million was set aside for the building and continued operation of inter-company training centres under the "Stufenplan zu Schwerpunkten der beruflichen Bildung". In all, 10 000 new training places were created.

In 1976, an amount of DM 15.8 million was also set aside for training courses organized by groupings of artisan firms. In 1977, a further DM 19.5 million was earmarked for this purpose.

- 1978

The Board for Rationalization of the Economy (Rationalisierungskuratorium der Wirtschaft) launched a training programme consisting of seminars held at company level.

In 1978, the Federal Government allocated a sum of DM 140 million to vocational training courses at inter-company level.

BELGIUM - 1977

The Royal Decree of 4 October 1976 reorganized training arrangements for SME. Continuing training now consists of basic training (apprenticeship or training of heads of enterprises), extended training (further training, refresher courses and individual assistance) and retraining (for heads of enterprises).

DENMARK - 1976

Training is tailored to requirements and to changing circumstances. In 1979 and 1977, attention focused on production and management techniques.

In 1978, modular courses concentrated on comprehensive training in production, operational and management techniques.

FRANCE - 1976

Increased aid was granted to chambers of commerce and of industry and to industrial management consultants (ATI) who provide enterprises with advice and help them solve any difficulties they might have.

ITALY - 1976

Laws relating to the artisanat were adopted. They provide for further vocational for workers, refresher courses in the field of technology, courses aimed at improving productivity, and vocational training for heads of artisan firms.

LUXEMBOURG

- 1976

Management courses were organized, usually for several enterprises jointly.

- 1978

Artisanat Promotion Agency (Service de la promotion de l'artisanat), set up by the craftsmen's trade association is responsible primarily for further training and retraining.

UNITED KINGDOM

Studies were conducted to ascertain training requirements, particularly in manufacturing.

3. SPECIFIC MEASURES

a) Subcontracting - Cooperation

GERMANY

- Cooperation between artisan firms and industrial enterprises in the field of subcontracting has been stepped up. In particular, the "subcontracting contact centres" set up by the craftsmen's trade associations expanded their role as intermediaries between artisan firms and industry. Progress was also made in drawing up nomenclatures for large specialized sectors of the economy and in promoting attendance at international trade fairs and exhibitions;

- Publication in 1976 of a cooperation manual ("Kooperationsfibel"), which is a guide to competition law for enterprises wishing to cooperate with other enterprises.

#### BELGIUM

- The possibility of creating the legal status of "enterprises personnelles à responsabilité limitée" is being looked into ;
- Under the auspices of "INTERREGIO", a non-profit organization set up at the instigation of the Economic and Social Institute for Small Business Sector (Institut économique et social des classes moyennes), subcontractors' exchanges were held in Liège in 1976, in Ghent in 1977 and in Brussels in 1978.

#### DENMARK

In September 1978, the Steel Employers Federation set up a subcontractors' association (Jernets Underleverandorklub) which at present comprises 73 enterprises. The decision to set up the association was prompted by a major study carried out in the spring of 1978 by a consultancy bureau with financial help from the "Projekt Erhvervsudvikling". The study, which was conducted among 200 subcontracting enterprises, highlighted the need for a more structured form of organization and revealed that the enterprises contacted were also prepared to help finance joint marketing campaigns.

#### ITALY

- A subcontractors' bureau has been set up in Trieste by the local chambers of commerce. Its membership at present comprises some 40 SME.

The only other activities worth mentioning were the second subcontractors' Fair held in Parme in 1978 and the third industrial subcontractors' fair held in Tarento;

- Law n° 374 of 30 April 1976 : measures to promote groupings of SME by facilitating the formation and operation of consortia made up of SME (tax reliefs; special credits).

#### LUXEMBOURG

The subcontractors exchange in the Grand Duchy of Luxembourg has compiled a catalogue of domestic enterprises in the building, civil engineering and wood-working sectors.

It also helps with the work of the group of experts that, in association with the Business Cooperation Centre, is preparing a nomenclature of activities and means of production in the metal-working industry.

The exchange has also played a part in promoting the recycling of industrial waste.

#### NETHERLANDS

A working party consisting of individuals from the chambers of commerce, the organizations representing SME in the metal-working industry, the BOTU Foundation and the annual Utrecht trade fair which organizes every two years an international subcontractors' fair, is currently drawing up plans for subcontracting activities.

#### UNITED KINGDOM

- Subsidies are available for studies carried out jointly by four (or more) SME into the scope for cooperation;
- The 1978 Cooperative Development Agency Act established a body responsible for promoting the cooperative movement.

b) Exports

GERMANY

- Establishment of counter-guarantee programmes designed to make it easier for SME to obtain provisional guarantees, downpayment refund guarantees and definitive guarantees for export transactions;
- Publication of a small practical guide to exporting for SME.

DENMARK

- Increase in the staff of the Export Credit Council and launching of campaign to inform SME of the export credit facilities available to them;
- Extraordinary budgetary appropriation for export credits for SME

FRANCE

- Establishment of a special guarantee fund for SME engaged in exporting;
- Reorganization of the French Foreign Trade Centre (Centre français du commerce extérieur) and decentralization of the procedure applied by it;
- Special arrangements for financing export-oriented production capacities.

ITALY

Adoption of Law n° 227 of 24 May 1977 containing provisions relating to export credit insurance and financing for goods and services.

UNITED KINGDOM

A pilot scheme to encourage enterprises to look for new export markets was announced in October 1977. Since January 1978, the Department of Trade has made available to exporters loans amounting to 50% of costs incurred, provided

total investment amounts to not less than £ 40.000 over a maximum of five years. Loans are redeemed from the proceeds of subsequent sales, with exporters also being required to pay a premium to cover the risk of non-recovery of loans by the State in the event of the project not being successful.

c) Government procurement

GERMANY

- Splitting of large contracts by quantity or speciality to allow SME to take part in the tendering procedure;
- In the case of restricted invitations to tender or privately negotiated contracts, all the contracting authorities are also required regularly to invite SME to submit tenders
- Tenders submitted by groupings of SME receive the same treatment as those submitted by individual tenderers;
- In the case of large contracts successful bidders are required to subcontract a reasonable proportion of the work to SME where possible; they are not allowed to impose less favourable terms on subcontractors than those agreed between themselves and the contracting authority ;
- Authorization to cancel in part an invitation to tender if proper participation by SME in the performance of government contracts cannot otherwise be guaranteed.

These guidelines apply only in respect of contracts awarded by the Federal authorities. Similar guidelines have been adopted by some Länder.

FRANCE

Government action under the development plans for SME is directed towards several objectives :



- greater protection for subcontractors, e.g. by introducing the general rule that subcontractors should, on certain conditions, be paid directly;
- removal of obstacles hampering access to government contracts, e.g. by ensuring that the deadlines set are adequate and by dispensing with clauses demanding unduly high qualifications;
- 2% increase each year in the percentage of direct government contracts awarded to SME in period 1977-81;
- speedier settlements, e.g. payments on account to be authorized within 45 days;
- provision of fuller information.

#### ITALY

Article 20 of Law n° 584 of 8 August 1977 stipulates that enterprises which have joined together and have given one of their number a special collective mandate to represent them may submit tenders for government contracts. In addition, enterprises stating a wish to join together to form a "temporary association" may be invited to tender or to take part in private negotiations.

In Italy, SME are treated less favourably than production or work cooperatives, in that, for example, certain contracts put up for tender are reserved for the latter.

#### LUXEMBOURG

A collective bid may be submitted by two or more traders who, provided they satisfy the conditions laid down by law, must then enter into a joint and several commitment and appoint an authorized representative.

UNITED KINGDOM

Measures that may facilitate access by SME to government contracts include the following :

- Establishment of information centres for SME wishing to obtain details concerning government contracts and the conditions they must satisfy in order to appear on the lists of approved enterprises;
- Publication of a "Guide to government contracts for supplies and services" by the CBI (Confederation of British Industry), in conjunction with the public authorities. The guide provides information on the contracts that may be of particular interest to SME.