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COMMUNICATION FROM THE COMMISSION

**INTEGRATED PROGRAMME
FOR
SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)
AND THE CRAFT SECTOR**

THE MULTIANNUAL PROGRAMME, CONCERTED ACTIONS
AND OTHER COMMUNITY ACTIONS IN SUPPORT OF SMEs

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A GLOBAL FRAMEWORK FOR COMMUNITY ACTIONS IN FAVOUR OF SMES

There is now widespread recognition that small and medium-sized enterprises (SMEs)¹ can make a vital contribution to job creation, competitiveness and growth within the European Union.

Member States and the Community already try to unlock the potential of SMEs through an array of measures, but many of these initiatives are narrowly targeted and too disparate to be easily accessible by most SMEs. Maintaining coherence between these initiatives and, in a rapidly changing economic environment, ensuring that the different actions are directly relevant to SMEs and their problems remains a political priority for the Commission.

The 1994 Integrated Programme² was a first attempt to set out a global framework for all Community actions in favour of SMEs under the various Community policies. It was based on the White Paper on Growth, Competitiveness and Employment and introduced a closer coordination and partnership between all parties involved in SME development.

In its SME Policy Paper presented to the 1995 Madrid European Council³, the Commission developed a more ambitious policy in favour of SMEs, highlighting that targeted help to SMEs is a cost-effective way to support job creation. The conclusions of that Council endorsed this approach, inviting the Commission to put the objectives of the Policy Paper into practice as swiftly as possible.⁴

These new priorities and initiatives must now be set in the context of the existing action programmes in favour of SMEs so that the different contributions can be focused on the full range of strategic objectives.

This Communication thus updates and develops the 1994 Integrated Programme specifically to encompass the new Community priorities for SME Policy. It is a direct follow-up to the Commission's European Confidence Pact for Employment.⁵ In line with the Florence European Council⁶ it calls for an integrated approach whereby national, regional and local authorities, the social partners and the Community institutions each take practical action in favour of growth and employment.

1 Commission Recommendation concerning the definition of SMEs, OJ n° L 107, 30.4.1996, p.4.

2 Integrated Programme in favour of SMEs and the Craft Sector, COM(94) 207 final of 3.6.1994.

3 Commission Communication of 29.11.1995 on "Small and Medium Sized Enterprises - A dynamic source of employment, growth and competitiveness in the European Union", Document CSE(95)2087 (hereafter referred to as "the Madrid SME Policy Paper").

4 Conclusions of the Madrid European Council, SI(95) 1000 of 16.12.1995, p. 14.

5 CSE(96) 1 of 5.6.1996.

6 Conclusions of the Florence European Council, SI (96) 500 of 22.6.1996, p.2.

Coordinating Community contributions in favour of SMEs and monitoring progress is the essence of the Community's Enterprise Policy.⁷ The Integrated Programme demonstrates its coordinating role with regard to Member States' actions affecting SMEs and the various contributions of Community policies and programmes. Progress on the implementation of this integrated approach is set out in a regularly published coordination report.⁸

1. THE STRATEGIC CONTEXT: SMEs' CONTRIBUTION TO EMPLOYMENT

In its Madrid SME Policy Paper the Commission stated that, although SME policy now ranks higher than ever on the political agenda, much more could be achieved by a fresh approach focusing on a number of priority issues. It confirmed that SMEs, in particular those at the smaller end, now play a key role in terms of growth and of generating new jobs.

SMEs as job creators
<ul style="list-style-type: none"> ▫ SMEs account for 99.8% of all companies, 66% of total employment and 65% of business turnover in the European Union. ▫ Net job creation in SMEs has more than compensated for job losses in large enterprises during the period 1988 to 1995. During that period enterprises with fewer than 100 employees have been responsible for almost all job creation.

The Madrid SME Policy Paper stresses that European SMEs' full potential for growth and employment creation has not been properly realised and that growth and job creation in SMEs has been inhibited by basic market and policy imperfections and failings which have not yet been adequately addressed. These imperfections were analysed and the following remedial measures proposed:

Priority Recommendations from Madrid SME Policy Paper
<ul style="list-style-type: none"> ▫ Reduce red tape which hampers European Entrepreneurship ▫ Ensure better involvement of SME Organisations in the decision-making process ▫ Help finance SMEs which create new jobs ▫ Reduce market distortions and inefficiencies ▫ Vigorous action to promote research, innovation and training to assist SMEs ▫ Enhance competitiveness and internationalisation of SMEs

7 See also Article 5, paragraph 2, of the Proposal for a Council Decision on a Third Multiannual Programme for SMEs, OJ n° C 156, 31.5.1996, p.5.

8 Report on the coordination of activities in favour of SMEs, COM(96) 362 final of 8.9.1995 (Article 5, second indent, of Council Decision 93/379/EEC of 14 June 1993, OJ N° L 161 of 2.7.1993, p.71).

II. PULLING TOGETHER: A COHERENT FRAMEWORK FOR SME POLICY

In its Resolution of 22 April 1996 on the coordination of Community activities in favour of SMEs and the craft sector,⁹ the Council highlighted the need to ensure that the stated priorities in favour of SMEs be reflected in real actions in their favour. For achieving these objectives the Council called for the strengthening of coordination of all Community instruments and programmes and for better coordinating, as appropriate, of Member States' actions in favour of SMEs.

In line with this Council Resolution and the provisions of Article 130 of the Treaty, the Integrated Programme provides an appropriate framework for an increased coordination of policy measures for SMEs. More specifically, the Integrated Programme places in an overall framework the full range of Community measures in favour of SMEs, thereby helping to achieve greater consistency, effectiveness and transparency of the individual actions.

The Integrated Programme is not a substitute for various actions taken at the national or Community level, neither does it involve any change in decision making processes. Its objective is to ensure a closer partnership between all parties concerned with the development of SMEs - at Community, national and regional levels - with a view to enhancing the convergence and effectiveness of measures. The Integrated Programme distinguishes between three types of measures:

Integrated Programme for SMEs	
Concerted actions with Member States¹⁰	Contributions from the European Union¹¹
1. measures to promote mutual consultation between Member States and joint co-ordination, as appropriate, concerning actions in favour of SMEs.	2. measures for SMEs developed under other relevant Community policies (e.g. Structural Funds, R&TD, EIB and EIF); 3. measures for SMEs developed within the framework of the Community's specific SME Policy (i.e. the Multannual SME Programme).

The present Communication covers the three elements of the Integrated Programme. It supplies a frame of reference for the first two elements of the Community SME policy, i.e. concerted actions between Member States and the Community's contributions for the development of SMEs through its other policies and programmes, and sets out their relationship with the third element, i.e. the complementary and specific SME Community

9 Council Resolution of 22 April 1996 on the coordination of Community activities in favour of SMEs and the Craft Sector, OJ N° C 130, 3.5.1996, p. 1.

10 See Article 130 § 2 of the Treaty.

11 i.e. contributions through policies and activities the Community pursues in the framework of the Treaty, as well as through specific measures in support of action taken in Member States (Article 130 § 3 of the Treaty).

actions contained in the proposed Third Multiannual Programme for SMEs (1997-2000).¹²

Main features of the Integrated Programme for SMEs

- The Integrated Programme facilitates **greater coordination of Member States' actions affecting SMEs**. It envisages "concerted actions" which are based on an exchange of best practice between Member States. The concerted actions aim at increasing the efficacy of Member State actions in the field of the improvement of the business environment and the stimulation of business support measures, in particular through a better targeting and convergence of policy measures.
- The Integrated Programme also ensures better **coordination of the various contributions the Community is making in favour of SMEs** through its various policies and programmes. The objectives of this coordination consist in ensuring better recognition of the SME dimension in the various Community policies and programmes, facilitating increased participation of SMEs in Community supported actions, and more effective consultation with organisations representing SMEs.

The results of the Commission's coordination activities will be evident from the reports on the inclusion of the SME dimension in all Community policies and programmes.¹³

III. THE RELATIONSHIP WITH THE 1994 INTEGRATED PROGRAMME

This Communication updates and develops the 1994 Integrated Programme. It sets out a global framework for SME Policy which is based on the same methodology while aiming at new objectives and presenting an array of new measures.

• *the same methodology*

The approach proposed in the 1994 Integrated Programme remains unchanged. It is based on the three types of instruments described above (the Multiannual Programme, concerted actions with Member States and other Community actions in support of SMEs).

• *enlarged objectives*

The 1994 Integrated Programme was a direct consequence of the Commission's White Paper on Growth, Competitiveness and Employment. It spelled out the priorities formulated in the White Paper concerning the contribution of SME policies to the attainment of its objectives. The 1994 Integrated Programme made a distinction between measures aiming at improving the business environment and those aiming at stimulating business support services, while focusing on the various stages of the life cycle of enterprises.

This updated Integrated Programme builds on this distinction, in particular by concentrating the various measures on the new strategic objectives identified in the

¹² OJ n° C 156, 31.5.1996, p.5.

¹³ Article 5, paragraph 2, of the Proposal for a Council Decision on a Third Multiannual Programme for SMEs, OJ n° C 156, 31.5.1996, p.5.

Madrid SME Policy Paper and reemphasized in the European Confidence Pact for Employment.

1994 Integrated Programme	1996 Integrated Programme
1. Improve the business environment	1. Improve the administrative and regulatory business environment 2. Improve the financial and fiscal environment
2. Stimulate business support measures	3. Help SMEs Europeanise and internationalise 4. Enhance SME competitiveness 5. Promote entrepreneurship and special target groups

• *new actions*

The formulation of an updated Integrated Programme does not imply that all actions set out in the 1994 Integrated Programme are completed or are less relevant. Actions designed to meet the objectives of the 1994 Programme will continue to be implemented.

Compared to the 1994 Integrated Programme, this Communication sets out a number of additional initiatives in favour of SMEs as well as identifying actions in the framework of other Community policies which will take account of the new priorities in their implementation. Some of these actions still have to be adopted by the Council, or even to be proposed by the Commission.

Value added: new key actions	
Concerted actions	<ul style="list-style-type: none"> • access of SMEs to the Information Society • forum on entrepreneurship • forum on craft and small enterprises • forum on commerce
Actions under other Community policies	<ul style="list-style-type: none"> • simplifying internal market legislation (SLIM) • loan guarantees for employment (ELISE) • EIF equity support for SMEs • introduction of the Euro • instrument for transnational investment within the EU • support for international cooperation • innovation in SMEs • marketoriented technological development
Specific SME Policy actions	<ul style="list-style-type: none"> • Third Multiannual Programme for SMEs (1997-2000)

IV. THE PLACE OF THE THIRD MULTIANNUAL PROGRAMME FOR SMEs

The Multiannual SME Programme is an essential part of the framework of the Integrated Programme. It provides the legal and budgetary basis for the Community's specific actions in favour of SMEs which are not covered by other Community policies. The current Multiannual Programme expires on 31 December 1996. The proposal for a Third Multiannual SME Programme¹⁴ - now before the Council of Ministers for final adoption - aims at "maximising European SMEs' full potential for employment, growth and competitiveness". It has received the unanimous endorsement of the European business organisations representing SMEs¹⁵ and will cover the period 1997 - 2000. The Florence European Council has urged the Council to adopt this Programme by the end of 1996.

V. CONTENT OF THE INTEGRATED PROGRAMME FOR SMEs

The synoptic table on the following pages sets out the main features and specific policy actions of the updated Integrated Programme for SMEs.

14 Commission Proposal for a Council Decision on a Third Multiannual Programme for SMEs in the European Union (1997-2000), OJ n° C 156, 31.5.1996, p.5.

15 CCACC, CECOP, CEDI, EMSU, EUROCHAMBRES, EUROCOMMERCE, EUROPMI, UEAPME, UNICE and YES for Europe.

INTEGRATED PROGRAMME FOR SMEs

<i>Concerted Actions</i>	<i>Actions under other Community policies</i>	<i>Multiannual SME Programme¹</i>
I. SIMPLIFY AND IMPROVE THE ADMINISTRATIVE AND REGULATORY BUSINESS ENVIRONMENT		
<ul style="list-style-type: none"> • Committee on Improving and Simplifying the Business Environment 	<ul style="list-style-type: none"> • Guidelines for regulatory policy (including better consultation) • Pilot action for simplifying Internal Market legislation (SLIM) • Follow-up to Molitor report • Simplify new common VAT system 	<ul style="list-style-type: none"> • New approach to Business Impact Assessment System (including methods for cost/benefit evaluation) • Transfer of businesses • Dispute settlement procedures • Appropriate legal instruments
II. IMPROVE THE FINANCIAL AND FISCAL ENVIRONMENT FOR SMEs		
<ul style="list-style-type: none"> • Better access to finance and capital markets 	<ul style="list-style-type: none"> • Better targeting of Community support for SMEs, including EIF loan guarantees for employment at reduced rates (ELISE),² EIF equity support for SMEs, and reorientation of Structural Funds' support,³ EIB loans • Fiscal environment of businesses • Introduction of the Euro 	<ul style="list-style-type: none"> • Late payment • Round Table Bankers and SMEs • SME capital markets, including EASDAQ • Mutual Guarantee Schemes • Factoring and credit insurance
III. HELP SMES TO EUROPEANISE AND INTERNATIONALISE THEIR STRATEGIES, IN PARTICULAR THROUGH BETTER INFORMATION AND COOPERATION SERVICES		
<ul style="list-style-type: none"> • Administrative cooperation - Single Market 	<ul style="list-style-type: none"> • Access to the Single Market <ul style="list-style-type: none"> - More competition and encourage reduction State aid - Cross-border public procurement - Standards and certification - Transnational investment within the EU⁴ • Access to third countries <ul style="list-style-type: none"> - Reduce trade barriers - Improve multilateral rules on FDI - Facilitate international cooperation with enterprises in Third Countries⁵ 	<ul style="list-style-type: none"> • Partner search networks • Direct partnerships • Promotion of European Economic Interest Groupings (REGIE) • EICs as first stop shops • networking of providers of market information
IV. ENHANCE SME COMPETITIVENESS AND IMPROVE THEIR ACCESS TO RESEARCH, INNOVATION, INFORMATION TECHNOLOGIES AND TRAINING		
<ul style="list-style-type: none"> • Business services (including in the field of innovation) • SME actions in the field of research (CREST) • Access of SMEs to the Information Society • Adapt training to the needs of SMEs 	<ul style="list-style-type: none"> • Competitiveness and modernisation of SMEs <ul style="list-style-type: none"> - Structural Funds⁶ (incl. SME Initiative⁷) - Industrial competitiveness - Local development initiatives⁸ • Action Plan for Innovation⁹ • Access to R&TD¹⁰ <ul style="list-style-type: none"> - access to Community R&TD Programmes - market-oriented technological development • Access of SMEs to the Information Society¹¹ • Environmental requirements¹² energy saving¹³ • Access to training¹⁴ including in the area of new technologies¹⁵ 	<ul style="list-style-type: none"> • Promotion of subcontracting • COMMERCE 2000 • Innovation by SMEs (e.g. New Technology Based Firms) • Management training for SMEs
V. PROMOTE ENTREPRENEURSHIP AND SUPPORT SPECIAL TARGET GROUPS		
<ul style="list-style-type: none"> • Entrepreneurship • Forum on Craft and small enterprises • Forum on Commerce 	<ul style="list-style-type: none"> • Follow-up White Paper on Education • Access of craft enterprises to Single Market • Women entrepreneurs¹⁶ 	<ul style="list-style-type: none"> • Promote entrepreneurship • Craft and small enterprises • Commerce and distribution • Women and young entrepreneurs

Principal Sources of Finance

- 1 Multiannual Programme for SMEs 1997-2000 : budget proposed: ECU 180 million;
- 2 European loan insurance scheme for employment (ELISE): ECU 25 million (in 1996);
- 3 New orientation of Objective 2 Support (ECU 8.15 billion for 1997-1999);
- 4 Financial instrument for transnational investments by SMEs within the EU;
- 5 MED-INVEST 1997-2000: ECU million; AL-INVEST 1995-2000: ECU 41 million; AS-INVEST 1996-2000: ECU 32 million; ECIP 1995-1999: ECU 250 million; JOP PHARE/TACIS 1996-2000: ECU 70 million;
- 6 Structural Funds 1994-1999: Community Support Frameworks, Community Initiatives and pilot projects;
- 7 Community Initiative for SMEs 1994-1999: ECU 1 billion;
- 8 LEADER Community Initiative 1994-1999: ECU 1.4 billion and URBAN Community Initiative 1994 -1999: ECU 0.6 million;
- 9 Follow-up of the conclusions of the Florence European Council;
- 10 4th Framework Programme R&TD 1994-1999: various projects accessible to SMEs within [12.3] billion allocation;
- 11 ISAC: ECU 44 million;
- 12 Growth and Environment Pilot Project: ECU 14 million in 1996 (+ 5 MECU in 1997);
- 13 THERMIE II: ECU 500 million; SAVE II: ECU 45 million;
- 14 ADAPT Community Initiative 1995-1999: ECU 2.9 billion (of which 1.4 billion ECU from the Structural Funds); LEONARDO 1995-1999: ECU 620 million; Training and Mobility of Researchers Programme (1995-1998): ECU 744 million;
- 15 ADAPT-BIS reinforcement of the ADAPT Initiative 1997-1999: ECU 162 million;
- 16 EMPLOYMENT NOW: ECU 100 million; European Social Fund (local employment initiative for women) and European Regional Development Fund.

PRIORITY MEASURES

I. SIMPLIFY AND IMPROVE THE ADMINISTRATIVE AND REGULATORY BUSINESS ENVIRONMENT

European enterprises face an increasingly complex legal, fiscal and administrative environment. While the cost of non-regulation has never been measured, the total annual cost of administrative burdens on all enterprises in Europe has been estimated at between 180 and 230 billion ECU¹⁶. Although part of this burden is unavoidable, what matters most is the relatively much higher impact on SMEs than on large companies (see following box). SMEs do not have the resources to cope with this burden and often cannot afford outside help.

Administrative burdens on SMEs

According to a German study¹⁷, the average time spent by businesses on administrative work amounts to over 700 hours a year. A business with up to 9 employees devotes 62 hours per employee to administrative formalities. For a larger company, however, this figure is much lower at 5 1/2 hours. The same study stated that the relative cost of administrative burdens per employee is up to more than 20 times higher in smaller enterprises than in larger ones. Administrative complexity is particularly important in the areas of *labour, environmental and tax legislation*.

Such compliance costs discourage new business creation and recruitment. Reducing the structural bias against SME creation and development resulting from excessive bureaucracy is therefore of primary importance particularly at national level.¹⁸

Early consultations of SME organisations are a prerequisite for a successful policy in this context. Member States and the Commission should improve consultation of SME organisations when preparing policies of relevance to them, and should encourage their full involvement. The participation and representation of SME organisations in Community structures needs further consideration.

The issue of representation of SMEs in the autonomous social dialogue at European level is a sensitive and controversial matter. The Commission expressed its position on this matter in its 1993 Communication on the application of the Social Protocol. The Commission will review the state of play on this issue in its forthcoming Communication on the Social Dialogue to be adopted in the second half of 1996.

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

17 1995 study by the Institut für Mittelstandsforschung. Similar figures are contained in the 1996 Report submitted by the Committee on Enterprise Creation established by the Danish Ministry of Economic Affairs.

18 Commission SME Report for the Madrid European Council, CSE(95) 2087, p.10 and Single Report from the Council and the Commission on Employment, SI(95) 1000, Part B, Annex 2, p.15.

A. CONCERTED ACTIONS

An important step in this direction has been taken in the framework of the 1994 Integrated Programme by creating the Committee on Improving and Simplifying the Business Environment. This Committee is the expression of the joint commitment of Member States and the Community to a policy of administrative and regulatory simplification. It constitutes the framework for an exchange of best practice in this field. In order to ensure a practical follow up, the results of the Committee's work will be set out in a report to the Council and where appropriate in recommendations to the Member States.

The first indications from the workings of this Committee have shown that some Member States have developed a bold strategy for administrative simplification. The experience gained from the relevant work programmes should lead other Member States to adopt similar programmes as suggested by the Molitor Report¹⁹, with specific dates and targets in terms of reductions of costs for SMEs. The Committee will also develop common criteria for bench marking in the area of administrative simplification.²⁰ A beginning will be made during the discussions of the working groups which have been created by the Committee in the wake of the Paris Forum of June 1995 and which will examine inter alia simplified start-up procedures for new SMEs as well as the automatic granting of licences or authorisations failing reaction from the administrative authorities in a given time period following receipt of an application.

The work programme of the Committee will continue to build on the approach based on the life-cycle of enterprises (creation, development and transfer of businesses) and in addition focus on the priority areas identified in the Madrid SME Policy Paper, in particular the simplification of environmental and tax legislation.

As regards the simplification of labour legislation²¹ and the introduction of more flexible working time, the joint report of the Council and the Commission on employment²² has led the Madrid European Council to confirm these priorities for a joint action. This is another important area in which the exchange of best practice can lead to co-ordinated action between Member States.

19' Report of the Group of Independent Experts on Legislative and Administrative Simplification, COM(95) 288 final of 21.06.1995, p.83.

20 The benchmarking approach will be followed also in Concerted Actions concerning support measures.

21 For instance, measures to adapt provisions on recruitment, maintenance, lay-off of workers and maternity leave to be more flexible and operational. In addition, measures could be introduced to adopt more consistent thresholds for SMEs in order to compensate for the cost disadvantage of SMEs vis-à-vis large competitors.

22 Single Report from the Council and the Commission on Employment, SI(95) 1000 of 16.12.95, part B, Annex 2, p.16.

B. COMMUNITY CONTRIBUTIONS

A number of measures concerning simplification of Community legislation have been taken already such as the implementation of the business impact assessment system and the follow-up given by the Commission to the recommendations of the Molitor group.²³

New measures will include the implementation of the recently adopted guidelines for regulatory policy which will improve the quality of Community legislation and lead to better consultation of interested parties, including SME organisations. An improved, more pragmatic method for the implementation of cost/benefit evaluation is foreseen among the measures to be taken in the framework of the Third Multiannual Programme for SMEs.

In the specific area of Internal Market legislation the Commission has recently strengthened its ongoing efforts of legislative simplification by launching a Pilot Project to assess how best to reduce the burden on business of Single Market rules in particular sectors. The exercise will provide a test bed for more wide ranging actions. The work will be carried out by small teams each devoted to the examination of a particular area. These "SLIM" teams will bring together the Commission, representatives from Member States and those concerned by legislation such as business, including SMEs. They will also try to identify any aspects of national legislation affecting the Single Market that might result in unnecessary burdens. The Florence European Council calls on the Commission to submit to the Council before the end of 1996 the initial results of its initiative on practical simplification measures.

In the field of social legislation, the Social Policy Action Programme²⁴ includes proposals for revising, clarifying and consolidating Community Directives, in particular in the areas of transfers of undertakings²⁵ and collective dismissals²⁶, and the codification and simplification of the Community Regulations coordinating social security schemes²⁷. SMEs should remain involved in this process.

As regards the Community's environmental legislation the Commission will continue to propose means to ensure that companies are able to integrate environmental considerations in their policies in a more flexible and simple way. This involves the simplification of existing legislation, including repealing outdated legislation and, where appropriate, the adapting of this legislation to make it more receptive to market-based instruments, including negotiated or voluntary agreements. This approach would then support traditional regulatory action, thereby reducing the need for further command and control type regulations.

23 Commission Comments on the Report of the Group of Independent Experts on Legislative and Administrative Simplification, COM(95) 596 final.

24 COM(95) 134 final of 12.04.1995.

25 Council Directive 77/187/EEC of 14.02.1977 on transfers of undertakings, OJ L 61 of 5.3.1977.

26 Council Directives 75/129/EEC and 92/56/EEC on collective redundancies, OJ L 245 of 26.8.1992.

27 Council Regulations 1408/71/EEC and 574/72/EEC, OJ L 335 of 30.12.1995.

Of primary importance also will be the proposal for a simple Common VAT system for the Single Market which the Commission intends to submit as requested by the Council.²⁸ In this context the Commission is proposing a working programme for a Common VAT system.²⁹ After consultation with Member States proposals will be made aiming primarily at the following objectives :

- Ensure equal treatment of domestic and intracommunity trade in goods and services, in order to allow SMEs to operate from their place of establishment throughout the Community without facing additional administrative burdens;
- Reduce uncertainty and complexity in the application of VAT, by providing businesses with a Common VAT system which is uniformly applicable and which meets the requirements of a true Single Market;
- Reduce the uncertainty caused by different interpretation of the rules, by considering a new role for the VAT Committee. As is already the case in the field of customs and excise duties, the Council could confer upon this Committee the task of assisting the Commission in adopting implementing measures.

28 Conclusions of the Council of 24.10.1994.

29 A Common VAT system for the Single Market, COM(96) 328.

II. IMPROVE THE FINANCIAL AND FISCAL ENVIRONMENT FOR SMEs

Compared to larger firms, SMEs are much more dependent on internal sources of funds (i.e. owners' own capital and retained profits) than external sources of finance. They often have problems accessing bank loans at reasonable rates, or raising equity on the markets, and frequently rely on informal sources (family, friends) for external funding. The Madrid SME Policy Paper identified a number of failures in the financial and fiscal environment of SMEs which hamper their development.

Key problems in SMEs' financial and fiscal environment

- Under-capitalisation of European SMEs
- Difficulties in obtaining loans
- Absence of a European capital market for SMEs
- Problems of late payment
- Preparation for the introduction of the Euro

A. CONCERTED ACTIONS

While the issue of a better access to finance and capital markets for SMEs has been addressed in part³⁰ this topic warrants more specific attention. Therefore the Commission will organise a special forum for the exchange of best practice in this field.

As regards the reduction of non-wage labour costs resulting from national regulations, the Commission has pointed out that relatively high taxes and social security contributions on labour hit SMEs hardest. The need to shift taxes away from labour was again emphasised in the Commission's recent Discussion Paper on "Taxation in the European Union".³¹ In this context the Florence European Council requested the Council to submit a report on the development of tax systems within the Union, taking account of the need to create a tax environment that stimulates enterprise and the creation of jobs.³²

B. COMMUNITY CONTRIBUTIONS

The Third Multiannual SME Programme includes a number of initiatives to improve the financial environment of SMEs (e.g. late payment, Round Table of Bankers and SMEs, mutual guarantee schemes, factoring and credit insurance, pilot scheme for New Technology Based Firms, capital markets for fastgrowing SMEs). These measures complement those taken under other Community policies to improve the financial environment of SMEs.

30 In the framework of the 1994 Integrated Programme, a Concerted Action (n° 2) has been organised to exchange best practice in the field of business support measures including financial instruments for business start-ups.

31 SEC(96) 487 of 20.03.1996

32 Conclusions of the Florence European Council, SI (96) 500 of 22.6.1996, p.3.

1. Better targeting of Structural Policies towards SME development

The Commission's European Confidence Pact for Employment³³ highlights the need for a better orientation of Community financial instruments (including European Investment Bank (EIB), European Investment Fund (EIF) and budgetary support instruments) towards SME development.

In this context the Commission has proposed a European Loan Insurance Scheme for Employment (ELISE).³⁴ Under this scheme the Community will bear the cost of premiums for guarantees extended by the EIF. Particular priority will be given to small enterprises (fewer than 50 employees). This Programme builds on the experience gained through the "Growth and Environment" pilot project.

The SME Report for the Madrid European Council highlighted the need to increase the supply of equity capital for SMEs through the EIF. Following the favourable decision by the EIF's General Meeting on 18 June 1996, sufficient amounts will be invested by the EIF in order to provide a leverage to the capital of financial intermediaries such as venture capital funds. This will have a beneficial effect on the access of SMEs to venture capital.

In the area of the Community structural funds the Commission recently proposed guidelines³⁵ in the perspective of the negotiations of the second programming period 1997-1999 for the declining industrial areas (Objective 2 areas) where the first priority is recognised as competitiveness and the development of SMEs. In addition, the Florence European Council subscribed to the Commission's recommendation to focus structural policies more on job creation, in particular by concentrating available margins of the structural funds for the support of SMEs in partnership with the EIB.³⁶

More generally, SMEs are still not benefiting sufficiently from many Community actions and programmes compared to their share of economic activity and their employment growth potential.³⁷ The Commission will therefore identify ways to enable SMEs to fully participate in all Community programmes. Concrete action under the SME Multiannual Programme will include a Recommendation to Member States on ways to increase the share of SMEs in Community policies and programmes.³⁸

33 CSE(96) 1 final of 5.6.1996.

34 Proposal for a Council Decision on the provision of loan guarantees for investments carried out by SMEs creating employment, OJ N° C 146, 21.5.1996, p.6.

35 Note for guidance concerning operations in the declining industrial areas (objective 2) for the second programming period 1997-1999, C(96) 952, April 1996.

36 Conclusions of the Florence European Council, SI (96) 500 of 22.6.1996, p.4.

37 For instance, in the area of the Structural Funds (See Annual Report of the Court of Auditors (1994), OJ N° C 303 of 14.11.1995, p.140), R&TD and international co-operation programmes.

38 Third Multiannual SME Programme, Section II.A.1 of the Explanatory Memorandum.

2. Improve the fiscal environment of SMEs

- Tax treatment of transnational operations of SMEs

The recent Commission Discussion Paper on "Taxation in the European Union"³⁹ highlighted the complaints of businesses involved in transnational trade. The list of problems is long and includes the treatment of permanent establishments of SMEs in other Member States compared to domestic companies, cross border interest and royalty payments and losses of permanent establishments and subsidiaries in other Member States. As a follow-up to this Discussion Paper the Commission will present a communication on direct taxation which will focus on the needs and challenges of a properly functioning single market. The Commission identified relevant areas in which the Single Market does not appear to be working effectively as cross-border interest payments, taxation of permanent establishments⁴⁰ and the adequacy of bilateral tax conventions for a fully developed Single Market.⁴¹

- Adjust the fiscal environment to SMEs' needs

The Single Report from the Council and the Commission on Employment emphasised the need to adjust the fiscal environment of SMEs⁴². In this context the Commission will in particular ensure a further response to the Communication of 25 May 1994 on the improvement of the tax environment of SMEs.⁴³ This Communication covered four priority areas: self-financing, fiscal treatment of venture capital, administrative complexity and transfer of businesses. On the issue of self-financing, the Commission has adopted a Recommendation to the Member States.⁴⁴ A Recommendation has also been addressed to Member States in the area of transfer of businesses.⁴⁵

An important issue is the under-capitalisation of European enterprises in comparison with their counterparts elsewhere. This is partly because national tax systems in the European Union discriminate in favour of debt financing and against equity financing. SMEs are particularly affected, since they have fewer financing options than large enterprises. In line with the Madrid SME Policy Paper, the Commission will identify best practices, where appropriate by recommendation, with a view to ensure more even handed tax treatment of equity and debt financing.

39 SEC(96) 487 of 20.03.1996.

40 This issue was dealt with in the Commission Communication of 25.5.1994 on the improvement of the tax environment of SMEs (COM(94) 206 final of 25.5.1994). This would imply to tax the foreign activities of SMEs, under certain conditions, only in the Member State of residence of the enterprise. The result would be a major simplification for the enterprises concerned as they would only have to deal with one tax system which would lead to less compliance costs.

41 SEC(96) 487 of 20.03.1996

42 SI(95) 1000 of 16.12.1995, part B, Annex 2, p.15.

43 COM(94) 206 final of 25.5.1994.

44 OJ N° L177 of 9.7.1994, p.1.

45 Commission Recommendation on the transfer of small and medium-sized enterprises, COM (94)3312 of 07.12.94

3. Preparation of SMEs to the introduction of the Euro

Economic and Monetary Union will have positive effects on business, both from the macroeconomic and microeconomic point of view. Transition to a single currency will require careful preparation. Thus, special attention should be paid to the most vulnerable groups of users, among them SMEs and especially SMEs in the commerce sector. The Commission has already widely consulted interested parties, including SMEs, and intends to continue to consult them.

Those who defend the interests of SMEs such as the professional organisations representing SMEs, commerce, tourism, accountants, banks and chambers of commerce, at European and national level, must take up their cause and guarantee them the support they need. Among the aforementioned groups, the Commission, given its privileged position, has a special role to play. The Commission will, on the one hand, make sure SMEs are given full consideration throughout the process of developing Euro related regulations, and on the other include an SME focus in its information and communication strategy on the Euro. This latter means, encouraging SME groups to launch information campaigns and, providing them with the necessary support through the Euro-Info-Centre Network (EICs). The latter will have a key role to play, particularly as regards identifying problems SMEs will have to confront and in disseminating proposed solutions. The Commission has recently launched an information programme called "Euro: one currency for Europe". In this programme special attention will be given to providing information to SMEs concerning the implications of the single currency on them.

<p>III. HELP SMES TO EUROPEANISE AND INTERNATIONALISE THEIR STRATEGIES, IN PARTICULAR THROUGH BETTER INFORMATION AND COOPERATION SERVICES</p>
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Despite clear evidence that the Internal Market legislative programme has already begun to reap benefits for business, SMEs in particular are still having difficulties in gaining access to parts of the market. Similar and arguably greater barriers exist in accessing third markets. The major problems include:

<p>Barriers to Europeanisation and internationalisation of SMEs</p>
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| <ul style="list-style-type: none"> ▪ distortions of competition; ▪ delays in national transposition and differences in compliance and enforcement; ▪ difficulties in accessing standards and certification; ▪ barriers to participation in public procurement; ▪ lack of comprehensive market intelligence; ▪ difficulties in identifying suitable partners. |
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A. CONCERTED ACTIONS

Delays in national transposition and differences in compliance, interpretation and enforcement cancels out the harmonisation effect of Community-wide legislation, thereby creating barriers for the Europeanisation of SMEs. The Florence European Council emphasised once again the essential contribution made by the internal market to promoting growth and employment. It called on Member States to speed up the full implementation of the Directives concerning the internal market, in particular in the public procurement, investment services and insurance fields.⁴⁶

In line with a Council Resolution of 10 October 1994 on support measures for SMEs⁴⁷, the Commission recently issued a progress report on the enforcement of the internal market legislation recommending the setting up of contact points in national administrations to help enterprises, in particular SMEs, to deal with possible intra-Community trade barriers. Such contact points for enterprises, which already exist in some Member States, should be linked to the inter-administration network, to which SMEs do not have direct access. In this way solutions to their problems could be found more rapidly. This will complement the Commission's efforts to step up actions to ensure an efficient treatment of complaints against intra-Community trade barriers.

The move towards Economic and Monetary Union will also favour the Europeanisation and internationalisation of SMEs, in particular by reducing costs in trading internationally. Compared to large enterprises these costs are higher for SMEs.

⁴⁶ Conclusions of the Florence European Council, SI (96) 500 of 22.6.1996, p.2.

⁴⁷ Council Resolution of 10.10.1994 on giving full scope to the dynamism and innovatory potential of SMEs, including the craft sector and micro-enterprises, in a competitive economy, OJ n° C 294 of 22.10.94, p.6.

B. COMMUNITY CONTRIBUTIONS

1. Europeanisation of SMEs: exploiting the full potential of the Single Market

a. Improve information and cooperation services for SMEs

European SMEs often lack access to essential information on markets in other Member States and on Community SME programmes. They also have difficulties in identifying suitable partners. The Third Multiannual Programme for SMEs therefore proposes new measures in the field of information services (e.g. the strengthening of the role of Euro-Info-Centers as "*first-stop-shops*" and the networking of providers of global or regional *market intelligence*). In addition, the new Multiannual Programme will give further impetus to Community instruments which facilitate business cooperation and partnerships between SMEs and large enterprises and also between small enterprises themselves.

b. Strengthen competition and reduce distortions from State Aid

The Madrid SME Policy Paper and the Single Report from the Council and the Commission on Employment⁴⁸ emphasised that the completion of the Single Market must be supported by a vigorous competition policy in order to eliminate excessive rigidities in the product and services markets (for example, in the telecommunications and energy markets). In particular, a number of structural constraints must be removed in order to let the potential for enterprise and employment creation, in particular in the service sector, be exploited to the full. The Commission will therefore pursue its efforts to:

- Promote competition in those fields where there are still monopolistic practices, for instance in the energy markets⁴⁹
- Encourage the reduction of the level of State aid, taking account of regional differences and other Community objectives, by subjecting it to tighter control (as recommended by the Council).⁵⁰
- Examine the need for clarifying the Community competition rules applicable to co-operation between SMEs, for example, co-operation in networks for joint purchases and sales.⁵¹ In addition, the Commission's forthcoming Green Paper on Vertical Restrictions will in particular deal with relations between producers, wholesalers and retailers. During the last twenty years, growing concentration among commercial enterprises and the development of new forms of co-operation has made it vital to ensure that the conditions for fair competition between economic actors exist, whilst guaranteeing the same market opportunities.

48 SI(95) 1000, part B, annex 2, p.15.

49 See the political agreement reached within the Council on 20 June 1996 concerning a common position on the liberalisation of the electricity market.

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

51 Council Resolution of 10 October 1994, OJ N° C 294 of 22.10.94, p.6.

c. Facilitate access to cross border public procurement

Public procurement markets represent approximately 15 % of combined GDP in the European Union. However, the share of SMEs in these markets is not proportionate to their importance in the economy. In order to facilitate access by SMEs to transnational public procurement markets the Commission will adopt a report to the Council on measures to assist SME participation in public procurement. This report will list a number of actions in this field including the following measures:

- the review of the effectiveness of existing services which provide facilities not readily available to SMEs because of their size, but which are an essential ingredient of success in public procurement markets;
- action to ensure that the European Economic Interest Grouping (EEIG) can participate on an equal footing when bidding for public contracts, so that they may be better utilised as a vehicle whereby SMEs may combine resources. The Commission will produce a Commission Communication on this issue by the end of 1996;
- examine methods of improving the prospects of smaller subcontractors;
- the promotion of open and simpler procurement practices among contracting entities;
- enlarging and improving information on sub-threshold contracts, contracting authorities, national rules and European standards and technical requirements readily accessible in an easily comprehensible format;
- speeding up the introduction of information technology, such as SIMAP, in order to provide SMEs and networks serving them, especially in frontier areas, with more detailed information, for example, on products and smaller contracts.

d. Standards and certification

The Europeanisation and internationalisation of SMEs is still hampered by persisting technical barriers to trade. Within the EEA these barriers result from the lack of acceptance of the mutual recognition principle, the slow pace of the European standardisation process and the lack of SME involvement. Additional costs appear for SMEs when European standards are adopted and outdated national standards have to be withdrawn. Though voluntary in principle, these European standards have to be applied by all SMEs, irrespective whether they produce for the national or European market, if they want to stay in the market.

With a view to alleviate these problems the Commission will take the following measures:

- increase its effort to encourage the participation of SME-intermediaries in the European technical standard setting process;
- inform SMEs of their rights in the case of denial of the benefit of the principle of mutual recognition of national standards by public or private purchasers and encourage them to lodge complaints;
- strengthen actions to better inform SMEs of the opportunities resulting from European standardisation and certification;
- encourage the European standardisation Committees to give priority to performance standards instead of product standards.

e. Facilitate transnational investment by SMEs within the EU

Less than 3% of Community enterprises (about 460.000) engage in transnational activities. In view of the employment and growth potential of SMEs a considerably higher number of European enterprises should be encouraged to participate in transnational trade. One of the major factors which discourages SMEs to make transnational investments relates to the financing of such operations.

Currently, the banking system is not sufficiently meeting requirements and, with the exception of the specific provisions on transnational investment contained in the ELISE scheme, no financial instrument exists for supporting SMEs willing to make transnational investments or considering joint venture agreements with businesses from other Member States. The experience with financial instruments for stimulating co-operation between Community SMEs and enterprises from third countries (e.g. JOP and ECIP) suggests that similar initiatives within the Community would yield significant results, in particular in view of the need to stimulate investments with growth and employment potential. The transnational nature of these instruments justify a Community initiative in this field.

Therefore the Commission will consider the possibility of launching of a pilot project for a Community financial instrument with a view to encouraging cross-border investment and joint ventures within the Union. Such an instrument would be designed to support, through a network of banks and venture capital funds, the efforts of SMEs who are creating or developing an activity in another Member State.

The pilot project would cover all the necessary steps involved in a cross-border investment, such as a company's general activity with respect to accessing new markets (supply of specific information, selection of partners, identification of new market opportunities), preparation of operations abroad (market studies, legal assistance), financing of the investment through long term capital resources, and finally, technical assistance (transfer of know how).

With a view to maximising the potential of such an instrument, its operation should have two main features: on the one hand, sharing of the risk by the Community, the SMEs and the financial intermediaries, and on the other hand, an ad-hoc reimbursement mechanism based mainly on the success of the projects.

2. Internationalisation of SMEs: access to third country markets

a. Reduce trade barriers to third countries

Helping European SMEs internationalise is equivalent to boosting their competitiveness. Following the Uruguay Round Agreements, renewed emphasis should be placed on pursuing market access strategies vis-à-vis third countries. A more open world market offers the best possibilities for European firms and particularly SMEs to compete internationally. In this general context, the Trade Barriers Regulation is a crucial tool to ensure that the obligations assumed under international trade rules, be they multilateral or bilateral, are adhered to. Under the Trade Barriers Regulation an obstacle to trade can be tackled both through resort to international dispute settlement and/or through a negotiated settlement with a third country. European business, and especially SMEs should, therefore, be encouraged to take greater advantage of the Trade Barriers Regulation which allows the European Union to tackle individual barriers in cases in which companies feel most aggrieved by them. Resort to the Trade Barriers Regulation is particularly relevant for SMEs, since available evidence suggest that trade barriers although affecting both large enterprises and SMEs, create particular difficulties for the latter.

b. Improve multilateral rules on Foreign Direct Investment

An increasing role of SMEs in international investment activities will be of particular importance for the Union. Europe should be able to profit fully from the world-wide trend of liberalising Foreign Direct Investment (FDI). European firms, including SMEs, have experience of investing away from home as a result of intra-Community trade where few restrictions on FDI remain. European firms are in a good starting position when it comes to making use of investment opportunities. To build on this position European companies would greatly profit from an effective world-wide regulatory framework for FDI in which the right to invest and fair treatment by the host country are firmly established. This does not exist at present.

In this general context there is a need for transparent, coherent and liberal multilateral rules on Foreign Direct Investment. The work currently done within the OECD in the direction of elaborating a multilateral investment agreement, and which may be continued in the WTO, is a valuable contribution to strengthening the multilateral system and assisting European SMEs.

c. Facilitate international co-operation with enterprises in third countries

With a view to developing a more coherent policy and access to a more coherent service for companies in the area of business co-operation, the existing Enterprise Policy networks and partnerships programmes (EICs, BC-Net and BRE, EUROPARTENARIAT and INTERPRISE) will be improved, including in particular the search for synergies with other Community policies. A limited number of pilot activities will be conducted aimed at improving the awareness of European SMEs about strategic advances of SMEs in third countries as well as at strengthening the access of European SMEs to third countries.⁵²

52 Third Multiannual SME Programme, COM(96) 98 final of 20.03.1996, Section II.C.

The internationalisation programmes will be continued to ensure a presence in all CEEC countries, the Mediterranean, Latin America, Asia and in South Africa. The appropriate location of the national contact points of the co-operation networks will be decided as a function of mutual needs.

Direct contacts between entrepreneurs will be strengthened through Partenariat and Interprise methodologies in priority areas, with the financial support of External Relations Programmes aimed at promoting the development of enterprises in third countries.

In addition, special attention will be attached to SMEs in the framework of the strategy of pre-accession with candidate Central and East European Countries (CEECs), as well as Malta and Cyprus.

Finally and within the framework of the Joint EU-US Action Plan, several of the objectives mentioned therein are of particular significance for SMEs. Joint initiatives and suggested measures with regard to market access, standards and certifications, information technologies and telecommunications as well as other regulatory areas are expected to have a positive impact on European SMEs. These initiatives could include focused partnership actions with the United States, in particular for co-operation aiming at strategic sectors and connected to subcontracting.

IV. ENHANCE SME COMPETITIVENESS AND IMPROVE THEIR ACCESS TO RESEARCH, INNOVATION, INFORMATION TECHNOLOGIES AND TRAINING

The Madrid SME Policy Paper identified a number of elements which hamper the competitiveness of European SMEs.

Barriers to competitiveness of European SMEs

- The business environment in Europe (in particular, the lack of sufficient risk capital, the existence of significant regulatory barriers and a lower propensity to take risks) are not as conducive to the development of New-Technology-Based Firms (NTBF) as in the US.
- Technology-intensive SMEs need much better access to Community-funded R&TD programmes. They also need to network better with each other and with large companies in order to tap complementary resources.
- The vast majority of SMEs, who are not technology-intensive, need to make use of readily available research results in order to remain competitive, but lack the expertise and resources to do so. The development of the Information Society and the take-up of these new opportunities by SMEs must become a key factor in addressing this problem.
- Labour market rigidities (See Section I above)
- Insufficient focus on training in SMEs

A. CONCERTED ACTIONS

There is a need for exchanging best practice in the field of innovation⁵³, in particular in the field of encouraging the creation of new enterprises by researchers and engineers working in research centres or universities. Incentives through social security systems are among the measures to be examined.⁵⁴ In co-ordination with the Innovation Policy Fora organised under the Innovation Programme, a working party will be set up in the framework of the Concerted Action on support measures for enterprises.

Of particular importance is the access of SMEs to the information society. The forum on the information society constitutes a framework for an exchange of best practices with a possible feed-back from the G7 pilot projects which are of particular relevance to SMEs. In this context Electronic Commerce is of strategic importance given the world-wide opportunities it offers to SMEs and the rapid growth of this type of commercial activity (20% in five years time). Key issues are, in particular, user-friendly, cheap, secure and

⁵³ Commission Green Paper on Innovation, COM(95) 688 final of 20.12.95.

⁵⁴ Another idea suggested in a 1996 Report submitted by the Committee on Enterprise Creation established by the Danish Ministry of Economic Affairs is the putting-into place of special fellowships for PhD students who want to carry out their research work through the setting up of an enterprise (p.231 of the Report). The same Committee also suggests to create a core of "innovation scouts" tracking research results with a potential of being transformed into marketable products and services (p.226 of the Report).

multilingual information services (content industries) and EDI facilities; the involvement of intermediaries for disseminating best practices and providing training and advice; legal and financial issues.

The importance of adapting training programmes to the needs of SMEs and to introduce incentives for SMEs to invest in training has been underlined in the joint Council and Commission report on employment and will be part of the follow-up procedure concerning the five priorities defined at the Essen European Council. SME organisations will be involved in this process.

B. COMMUNITY CONTRIBUTIONS

A number of Community measures have already been taken to enhance SME's competitiveness, in particular by improving their access to research, innovation, information technologies and training. Among these measures the Euro-Info-Centre network (EICs), the European Business and Innovation Centres (EBICs), the European Regional Development Fund (ERDF), the European Social Fund (ESF), the EAGGF-Guidance section, the LEONARDO programme and the Fourth Framework Programme on R&TD have to be mentioned in the first place. New measures will in particular include a Commission Recommendation addressed to Member States on ways to increase the share of SMEs in Community policies and programmes.⁵⁵

1. Industrial competitiveness

In March 1995 a Commission Communication to the Council and European Parliament proposed an Action Programme and time table to implement measures under an industrial competitiveness policy for the European Union. This was accompanied by a Proposal for a Council Decision.⁵⁶

The Action Programme takes account of the *subsidiarity principle* and includes measures by the Commission to be carried out in close coordination or collaboration with Member States and/or business organisations. These measures concern:

- the need to modernise the role of public authorities and to continue work in respect of streamlining and making procedures more transparent;
- to promote intangible investment (vocational training, organisation of work, new technologies, and quality.);
- to develop industrial cooperation;
- to ensure fair competition both in internal and external markets.

The Commission has sent recently a communication to the Council and to the European Parliament on "An Industrial Competitiveness Policy for the European Chemical Industry: a Model", which seeks to identify the industry's main challenges and needs, and to define a

55 See the Commission Proposal for a Council Decision on a Third Multiannual SME Programme, Section II.A.1 of the Explanatory Memorandum.

56 COM(95) 87 final of 30 March 1995.

set of activities to enhance its competitiveness. Within the actions to be developed by the Commission, industry and/or the Member States, and which stem from the four priority areas of the overall Industrial Competitiveness Communication, are measures to improve and simplify the legislative framework. These actions will concentrate on the consolidation, the updating and/or the simplification of the regulatory framework for chemical substances and preparations. This will include the codification of the Directives on fertilisers, on limitations for placing on the market, and on detergents; the reshaping of the Directive on preparations; and the simplification of procedures for the notification of new chemicals, especially for SMEs.

2. Innovation and R&TD

In addition to specific pilot actions based on the Third Multiannual SME Programme and without amending the master plan provided by the Fourth R&TD framework programme, the following actions will be developed to help SMEs innovate, in particular by facilitating their access to Community R&TD Programmes and encouraging market oriented transnational technological development.

A better access of SMEs to Community R&TD Programmes requires better *information and promotion* of these programmes. To achieve this objective the Commission will ensure a better targeting of the promotion of Community R&TD programmes towards specific groups of SMEs. This will involve organising strategic *technology audits* for SMEs, decentralised but co-ordinated at Community level, in order to encourage SMEs to make research proposals. The expertise gathered by the EUROMANAGEMENT pilot projects under the Multiannual SME programme will be exploited on a permanent basis by the CRAFT and Innovation Relay Centres networks of the Community R&TD policy. These pilots could also serve as a model for the Member States, whereby it will be possible to work towards better co-ordination of national and Community work in the field of information and advisory services, while at the same time asking the Member States to add " a transnational dimension" to the measures they adopt at national or regional level to assist SMEs. In addition to encouraging these technology audits, the Commission will consolidate the existing means available for seeking R&TD partners by *co-ordinating the activities of the various networks* (INNOVATION, CRAFT, BC-NET and EICs as first-stop-shops) and the use of on-line tools such as CORDIS or ARCADE.

For ensuring a better access of SMEs to Community R&TD Programmes it is also necessary to further improve the *selection and management procedures* of Community R&TD programmes. Key measures will relate to the transparency of the selection process,⁵⁷ ensuring that SME experts are properly represented on the evaluation committees,⁵⁸ informing systematically the coordinators of the projects submitted on the results of evaluations,⁵⁹ reducing the impact of long delays in decisions, reducing late payment problems,⁶⁰ ensuring a proper targeting of SMEs,⁶¹ and promoting the involvement of SMEs as subcontractors in the research/industry task forces.⁶²

57 For instance, since the beginning of the Fourth Framework Programme the information packages indicate how the "innovative character" is defined and give the evaluation criteria used to categorise proposals.

58 in particular those from technology centres working with SMEs.

59 to allow unsuccessful SMEs to understand how to improve proposals in the future.

60 in particular by introducing a specific reference in the standard research contract on the *maximum payment terms* for subcontractors of Community funded R&TD projects in order to avoid lengthy

Special consideration will be given to the development of new instruments supporting market oriented transnational technological development. This should address the fact that the majority of European SMEs do not carry out long term research and tend to combine existing technologies to develop new applications with a short to medium term perspective. Progress has been made in facilitating access by SMEs to Community research and development programmes through the Technology Stimulation Measures for SMEs. However the R&TD proposals still need to remain pre-competitive,⁶³ while there is a need for fostering short term development work by SMEs close to the stage of marketable products or services. Accordingly, incentives should be given through the Community Innovation Programme or through national or regional innovation agencies aimed at supporting transnational projects of this kind including the non-national part of the work. In view of the very competitive nature of this kind of project, grants might not always appear to be the best way of financing.

In order to test the feasibility of a specific technological development initiative for a wider population of SMEs which could later be introduced into the Community's Fifth R&TD Framework Programme (Innovation), the Commission proposes to launch an experimental pilot action into ways and means to provide alternative and novel forms of finance for this kind of R&TD effort. Given the very competitive nature of such research, the Commission intends to test the feasibility of a support mechanism for initiatives jointly undertaken by SMEs of different Member States, which would take the form of reimbursable advances, or risk-sharing mechanisms with national agencies combining financial and technological expertise.⁶⁴ Actions in this area will be proposed under the Community's Fourth framework programme for R&TD and will have to comply or be coherent with the principles set out in Articles 92 to 94 of the Treaty and all relevant secondary legislation.

3. Access to the Information Society

An essential factor in competitiveness will be the continued use of information technology by SMEs. The Information Society programme of the Community therefore places great emphasis on supporting SMEs in accessing and using these new applications. Within the framework of the Information Society Action Plan the Commission will develop certain actions:

delays in the payment by project leaders. The Commission will also speed up its own payment delays. (See the Commission's 1995 Recommendation on late payment, OJ N° L 127 of 10.6.1995, p. 19 and OJ N° C 144, 10.6.1995, p. 3).

- 61 This has been done since the beginning of the Fourth Framework Programme by ensuring the consistent application of the criterion of independence in the statistical accounting of SMEs in the Community R&TD programmes.
- 62 in particular during the "downstream" phases of the projects (creation of prototypes, field tests, demonstration etc.), so that they can benefit from the transfer of knowledge and increase their technical know-how.
- 63 i.e. to require further development work after the end of the project.
- 64 Green Paper on Innovation, COM(95) 688 final.

Having regard to the difficulty of *identifying the various needs of SMEs* and to avoid developing assistance initiatives based on technologies rather than on needs, the Commission proposes to launch a pilot action to ascertain the priorities of SMEs and on the obstacles hampering the use by SMEs of information technologies. This pilot programme will be developed in close co-ordination with Commission efforts to mobilise the different groups of Information and Communication Technology (ICT) users. In addition, the Commission will initiate studies to assess the technical, economic and social issues for SMEs raised by the transition to the Information Society.

One of the possible benefits of information and communications technology lies in the possible *networking or clustering of initiatives of SMEs* independent of their physical proximity. A pilot action should enable the Community to evaluate the economic benefits which could be derived from distance-networking by SMEs (e.g. through exchange agreements, common specifications for products and services and sharing of resources). Enterprises with experience in information and communications technology (for instance, in technology parks) could set the example. This pilot programme will be set up in close co-ordination with complementary Commission actions in this field, in particular by building upon the experience of various on-going G-7 Information Society projects.

The Commission will also encourage the *promotion of the results of successful pilot actions and the dissemination of best practice* in this field, in particular with the help of business intermediaries (e.g. EICs, Chambers of Commerce, SME organisations, Innovation Relay Centres) and through the organisation and follow-up of specific fora. Closer co-ordination with relevant actions outside the European Union will also be sought.

In addition to the implementation of its action programme on the Information Society, the Commission will also encourage Member States, in the course of assessment of the activities of the Structural Funds in 1997, to give priority in the different operational programmes to helping SMEs to have a better access to the Information Society. In the framework of the new Objective 2 (1997-1999) Programme, a particular emphasis will be put on practical Information Technology applications and services proven to be effective for employment and business creation and development. Appropriate measures include awareness and training actions for SMEs, diffusion of best practices, telematics-based co-operation networks between enterprises and improved information services. The Commission has also decided that the reserve for the Community Initiative will reinforce ADAPT⁶⁵ with 162 MECU through a complementary set of actions dealing with the information society (ADAPT-BIS).

The Trans-European Networks for telecommunication will also provide specific support for SMEs particularly by stimulating the development of cross-border generic services⁶⁶

65 ADAPT is a trans-national Community Initiative specifically designed to help the labour force respond to the changing needs of the labour market.

66 i.e. interactive multimedia services networks which include the access to databases, e-mail and file transfer and video-conferencing.

which are easily accessible, affordable and compatible. Transnational consortia of telecom operators and intermediaries (such as EICs and BC-NET) will contribute to the development of the Information Society by offering support and electronic services to SMEs and to the encouragement of new forms of work such as teleworking.

4. Vocational, management and research training for SMEs

The contribution of SMEs to employment and growth must be maximised by encouraging them to invest in training⁶⁷. In this area European SME organisations highlighted that the share of SMEs (and their employees) in European vocational and management training programmes tends to be relatively low.

The Commission's White Paper on Education and Training proposes a range of support measures at European level, in particular with a view to bringing schools and businesses closer together and in order to achieve equal treatment between capital investment and investment in training.⁶⁸

The Commission will ensure that Community support in the area of vocational and management training better targets SMEs and the craft sector, in particular start-ups, and provides them with training adapted to their needs. Community support for SMEs is currently provided through the European Social Fund (ESF), the ADAPT Community Initiative, the LEONARDO Programme and the Training and Mobility of Researchers Programme⁶⁹. The Third Multiannual SME Programme proposes complementary pilot projects helping to identify novel approaches in this field.

There should be a major focus on training measures to support SMEs aimed at supporting the pre-start-up phase of new SMEs, which requires close counselling in this critical stage. The development of women entrepreneurs needs special attention. This can be achieved both within the existing measures in the programmes already adopted and through new actions under the reinforced ADAPT (ADAPT-BIS) and Employment-NOW Initiatives. The association of SMEs or SME organisations in the monitoring committees of these programmes will help to take into account these priorities. Beside this, SMEs and SME organisations will be encouraged to present projects within the calls for proposals under the LEONARDO programme aimed at encouraging training during the start-up phase as well as encouraging women entrepreneurship.

5. Adapting to environmental and energy saving requirements

A review of the Fifth Environmental Action Programme points to the need for the situation of SMEs to be specifically taken into account in relation to the measures that ensure the integration of the environment into other policy areas, and in the process of moving towards sustainable development. Studies have shown that SMEs are less aware of environmental regulations than large companies and have less access to information about the availability and costs of environmental technologies and services. The Commission will therefore encourage and support initiatives in the following respects:

67 Single Report from the Council and the Commission on Employment, SI(95) 1000 of 16.12.95, part B, Annex 2, p.15.

68 White Paper on Education and Training, COM(95) 590 final of 29.11.1995.

69 Council Decision of 15 December 1994 on a specific programme for R&TD, including demonstration, in the field of training and mobility of researchers (1994-1998).

- integration of avoidance, processing and waste management in production processes;
- review the Environmental Management and Audit Schemes (EMAS) and the further development of eco-management systems for SMEs;
- introduction of clean technologies taking into account the specific problems of SMEs, particularly in respect of financial and technical obstacles;⁷⁰
- facilitate the development of eco-businesses and the potential of job creation;
- better information for SMEs on environmental issues and environmental awareness, as well as for training and technical support.⁷¹

The new THERMIE Programme (1995-1998) with a budget of 500 MECU covers financial support for projects implementing innovative energy technologies and complementary activities, including the dissemination of energy technologies on the market and the technological stimulation of SMEs. SMEs will be specifically facilitated and encouraged to participate in this Programme with assistance to identify their needs, including to find cooperation partners and in the training of staff in new energy technologies. The THERMIE Programme will be complemented by a new SAVE II Programme (1996-2000) concerning the promotion of energy efficiency in the European Union.⁷² The latter Programme includes financial support for non-technological pilot projects aiming at stimulating energy efficiency in industry and commerce which will in particular benefit SMEs.

In addition, the Community "Growth and Environment" pilot project is geared towards enterprises investing in environmental improvements and related activities such as energy savings. Under this Programme, the EIF will provide loan guarantees at reduced rates to SMEs which carry out eligible investments.

6. Local development and employment initiatives

A Commission communication for the Cannes European Council highlighted the employment effect of local development and employment initiatives and emphasised the need for complementary Community activities. SMEs have a central role in the implementation of such initiatives. As a follow-up the Commission Communication of October 1995 sets out the strategic guidelines as well as a methodology for the implementation of Community activities. These are focused on the specific needs of SMEs.⁷³

In addition, the Community Initiatives LEADER and URBAN, which aim at encouraging local development in rural and urban areas, contribute to maintaining or setting up SMEs in those areas. SMEs, in particular commerce and the craft sector, are often the main beneficiaries of these Community initiatives.

70 Commission Communication of 24.1.1996 on the Action Plan following the Review of the Fifth Action Programme.

71 Proposal for a Third Multiannual Programme for SMEs, COM(96) 98 of 20.3.96.

72 COM(95) 225 final of 31.05.1995.

73 OJ N° C 265 of 12.10.1995.

V. PROMOTE ENTREPRENEURSHIP AND SUPPORT SPECIAL TARGET GROUPS

The Madrid SME Policy Paper called for a full recognition of the importance of encouraging entrepreneurship at all levels by policy makers throughout the Union. The primary goal must be to recreate and stimulate a truly entrepreneurial culture, based on values such as self-reliance, risk-taking and a sense of personal commitment. This requires action to change attitudes, starting from the educational and training systems and covering the relationship between the entrepreneur and public administrations, financial institutions and large businesses. In addition, actions are required to support special target groups, in particular in view of their job creation potential:

A. CONCERTED ACTIONS

The Madrid SME Policy Paper emphasised the need to stimulate business culture and *entrepreneurship* at all levels. Particular attention should be given to encouraging an entrepreneurial culture in the framework of Member States' education and training systems and to stimulating young entrepreneurs.⁷⁴ The discussion following the publication by the Commission of its White paper on education and training⁷⁵ will form the basis for an exchange of best practices in this field.

A special target group covers the craft and small enterprises which have a particular role to play in the generation and maintaining of employment, and this over the whole territory of the Union. They are directly responsible for 60 to 80 % of the jobs created over the last five years. Taking into account the specific needs of this category of enterprises, Member States have developed specific forms of support, which vary considerably from one country to the other. In line with the conclusions of the 2nd European Conference for Craft and Small enterprises in Berlin the Commission will organise a specific forum in order to exchange best practices with regard to such support mechanisms, including their institutional environment.

Another key target group are the enterprises in the field of commerce and distribution. Following the outcome of the discussion of the Green paper on Commerce and Distribution, which the Commission plans to publish during 1996, the Commission will organize an exchange of best practices on topics particularly sensitive for the development of commerce and distribution. This will cover in particular the Information Society and the individual problems of commerce in rural and urban areas respectively.

B. COMMUNITY CONTRIBUTIONS

The Commission will initiate complementary actions under the Third Multiannual SME Programme in view of stimulating entrepreneurship and encouraging the development of craft and small enterprises, enterprises in commerce and distribution, women and young entrepreneurs.

74 See e.g. the Prince's Youth Business Trust in the UK.

75 Commission White Paper on Education and Training, COM(95) 590 final of 29.11.95.

In addition, the Commission will promote entrepreneurship through actions initiated as a follow-up to the White Paper on Education and Training.

The Commission also recently sent a proposal to the Council and to the European Parliament on the mutual recognition of qualifications.⁷⁶ Its purpose is to establish a mechanism for the recognition of qualifications relating to professional activities not covered by existing Directives. This should in particular benefit craft and small enterprises by facilitating their access to the Single Market.

The actions for women entrepreneurs under the Third Multiannual SME Programme will complement the Community actions in the framework of the local employment initiative for women (LEI) under the European Social Fund, later reinforced by the Community initiative EMPLOYMENT-NOW which supports actions in the field of training for women entrepreneurs in SMEs, the creation of local services to support start-ups, co-operation and networking of local employment initiatives for women and creation of independent activities. The Commission will encourage the integration of the same type of projects into the operational programmes of the Structural Funds.

CONCLUSION

This Communication on a Integrated Programme for SMEs provides a comprehensive framework which should facilitate coherence and greater visibility of the total effort in favour of SMEs. It demonstrates the wide range of measures being taken with Community support, which, coupled with concerted actions taken by Member States, will help the mobilisation and further development of SMEs as a major source of job creation.

The need for effective coordination is essential. The task of bringing greater visibility to the strategy and of achieving greater public recognition of the substantial efforts now being made in favour of SMEs is closely dependent upon the degree of real integration of the individual actions. The exercise of pulling together the different strands of SME Policy and the different actions undertaken directly by the Commission services, by the Member States or by the organisations representing SMEs delivers important added value to the sum of individual measures.

This Integrated Programme for SMEs is a direct follow-up to the Commission's **European Confidence Pact for Employment**, which aims at full mobilisation of all the actors in a comprehensive strategy in the fight against unemployment.⁷⁷ In line with the Florence European Council⁷⁸ it calls for an integrated approach whereby national, regional and local authorities, the social partners and the Community institutions each take practical action in favour of growth and employment.

76 COM(96) 22 final of 8.02.1996.

77 CSE(96) 1 of 5.6.1996.

78 Conclusions of the Florence European Council, SI (96) 500 of 22.6.1996, p.2.