

The Community and small and medium-sized enterprises

European File

The European Parliament has named 1983 'the year of the small, medium-sized and craft enterprise'. Every Community country has its own definition of what a 'small and medium-sized enterprise' (SME) is. The definitions range from a company with a workforce of 50 or less to a company employing 500 or less. But all countries are agreed on the importance of this type of undertaking. If the definition is fixed at under 500 employees, it covers more than 95% of the firms in the Community and a large part of the employed population: 40% in France, 43% in the Federal Republic of Germany, 44% in the United Kingdom, 54% in Italy, 56% in the Netherlands, and 68% in Belgium.¹

The sector is a varied one. It comprises not only factories, but traders and other services and craft workshops. It ranges from the up-to-date to the traditional, from independent operators to sub-contractors, from exporters to firms supplying the domestic market. SMEs are a key component in economic life, not only because of their number and variety but because of their involvement in every aspect of the economy, their contribution to regional development and their role as a proving ground for innovations. They can be seen as a kind of industrial breeding ground, a source of constant renewal of industry and commerce and a well-spring of competitiveness and dynamism.

A number of factors favour SMEs. Their flexibility allows them to adapt more easily to changed economic and social conditions and to exploit new ideas or gaps in the market overlooked by larger firms. At the same time, technological advances are creating new firms in the services sector and encouraging smaller-scale industrial units.

¹ This leaflet brings up to date and replaces our No 19/80.

But the economic crisis has created special problems for smaller firms. These difficulties are compounded by legal and bureaucratic restrictions, poor credit facilities and limited access to new technologies. Public authorities must help the SMEs to overcome these problems, whilst respecting the independence which is often the source of their dynamism.

All Community Member States have taken steps to improve conditions for smaller and medium-sized firms. But there is also a role for the Community itself, as the European Parliament has pointed out. Effective action must, in many cases, be Community action.

The Community's 270 million consumers offer untold opportunities for smaller firms. Many existing Community policies, industrial, regional and so on, are intrinsically useful to SMEs. Better coordination to take account of the needs of SMEs could give an important boost to their development. In a number of areas, such as research and innovation, a Europe-wide coordination of national efforts would bring cumulative benefits to all Member States. Even in those areas where decisions are best taken at regional or national level, Community-wide exchanges of information can help to adapt and transplant successful ideas to other countries.

The European Commission is aware of the important contribution of SMEs to employment and technical and economic progress. It has a division which deals specifically with small, medium-sized and craft enterprises. Since 1973 it has also had a unit which helps firms, especially smaller firms, to enter into cooperation agreements or cross-border mergers. Community policy towards SMEs now has three major objectives: the improvement of market and administrative conditions; enlargement of financial opportunities; and support for innovation and the streamlining of management.

An open market

SMEs need legal and administrative conditions which will allow them to take advantage of a continental market. They also thrive on healthy competition.

- Completion of the common market. The Community has abolished customs duties between its member countries but, after 25 years, much still needs to be done to end non-tariff barriers to trade. This would reduce the administrative burden on SMEs and create opportunities for larger-scale production.
- Ending customs hold-ups. The European Commission has proposed to the Council of Ministers a range of reductions of frontier checks. It has also suggested a simplification of the system of charging and collecting VAT on imports. At the same time, the Commission is trying to simplify its own procedures, notably the origin regulations for goods from outside the Community.
- Ending technical hold-ups. By harmonizing national standards the Community has managed to abolish barriers to trade, whilst protecting local producers. It has been careful not to harm the interests of SMEs, which are dominant in some sectors. The economic crisis has brought a mushrooming of standards, which purport to

safeguard consumers but whose real motive is protectionist. The Commission has suggested greater cooperation and more frequent exchanges of information between national standards bodies and, eventually, common European standards.

- Competition policy. European policy in this area is helpful to the survival and development of SMEs. The European Treaties forbid agreements between companies which seek to restrict competition. The Commission has long been calling for a regulation to control the activities of the largest firms. Recognizing the special needs of SMEs, the Commission has no objection to agreements between firms with small turnovers and a limited share of the market. To help SMEs to innovate, extend their buying and selling power and achieve economies of scale, the Commission permits them, under special arrangements, to enter into exclusive representation and specialization agreements. New arrangements are being drawn up to allow smaller firms to enter into certain kinds of patent licensing agreements. In addition, blanket exemptions to the agreements ban have been granted in areas especially useful to SMEs. These include joint market studies, shared use of statistics, research and development, joint advertising and sub-contracting. These exemptions have recently been extended to include joint manufacturing agreements between SMEs. It is also the Commission's duty to investigate State subsidies to industry to safeguard against distortion of competition, notably to the detriment of SMEs. On the other hand, the Commission recognizes the special needs of smaller companies and their economic and social importance. It is favourably disposed to SMEs receiving appropriate aids: for instance, access to credit, research and development and technical assistance in business and management methods.
- Public procurement. Community rules guarantee all businesses a right to sell goods or services to public bodies in all Member States. Major tenders are published in the *Official Journal of the European Communities* and, in a recent development, through the Euronet-Diane and Euronews networks. The intention is to open new markets to efficient and specialized SMEs. At the same time, the Commission has no objection to decisions by public authorities to favour SMEs, provided there is no national discrimination. Further measures to help SMEs sell to public bodies are in the pipeline.
- Other problems arising from the conditions faced by SMEs.
 - Legal conditions. The Commission hopes member governments will soon adopt its long-standing proposal that SMEs employing up to 500 workers should be allowed to form 'European cooperation groups'. Meanwhile, the Commission is studying the possibility of a European limited companies Act.
 - Tax conditions. These depend mainly on the Member States, which have taken a variety of steps to encourage investment or lighten the administrative and tax burden. The Commission has sought to harmonize tax policies, notably in the area of company mergers and de-mergers, but no consensus has emerged.
 - Social conditions. The Commission has studied the effects of social security contributions on employment, especially in SMEs. It would like to see a Community investigation of the possibility of giving concessions to smaller and medium-sized

firms. But it emphasizes the need to avoid measures which might encourage firms to curb their growth, to the detriment of job prospects and competitiveness. In some Member States, workers in SMEs do not have full social security cover. Since 1976 the Commission has been urging a European directive to help workers not covered or only partially covered at present.

- Administrative conditions. As mentioned above, the Community spares SMEs the need to notify a variety of agreements with other companies. Similar exemptions, intended to reduce the administrative burden, have been introduced for SMEs in the operation of the European company law directives. This applies especially to the presentation of annual accounts. The Community is in the process of simplifying and decentralizing its own procedures for making loans and grants to SMEs.

Increased financial resources

The Community is increasing its loans and grants for SMEs. It is also trying to improve their access to financial markets.

Community loans.

- The European Investment Bank reserves the largest share of its global loans for SMEs. Operating through financial institutions, priority is given to firms with less than 500 workers who are not dependent on a larger company for more than one third of their capital. In 1982, the Bank made 1 200 loans, covering up to half the capital cost of a project. Their total value was 455 million ECU, compared to 54 million ECU in 1977.¹
- Other global loans from the Community include: ECSC loans for reconversion of coal and steel areas, which can be especially useful to SMEs; and loans from the New Community Instrument (NCI), launched in March 1982, which has no geographical limits and concentrates on small manufacturing firms. The Commission is looking for new ways of helping the launch of high-technology industries — not just their extension or modernization — through its existing spending funds and loan instruments.

- Grants. Between 1975 and 1982, the European Regional Development Fund (ERDF) supported 4 000 small projects, costing no more than 10 million ECU each. They represented 94% of its investment in the manufacturing sector. The Fund can pay up to 20% of an industrial, craft or service project in struggling regions, so long as at least 10 jobs are created or maintained and the national government also contributes. From 1979 projects costing less than 50 000 ECU have been accepted as part of global applications. Regional Fund action is increasingly directed towards developing the local resources of poorer regions, notably through SMEs. In addition, money is being

¹ 1 ECU (European currency unit) = about £ 0.62, Ir. £ 0.69 or US \$0.95 (at exchange rates current on 11 February 1983).

invested to improve the economic environment of regions badly hit by the rundown in steel and shipbuilding, regions likely to experience difficulties because of the enlargement of the Community, and the border areas of Ireland and Northern Ireland. In these areas, apart from normal investment aids, the Fund supports projects which aim to encourage the spread of new technology, pass on market information and improve access to financial markets. It also sponsors the employment of management or market consultancy firms and the establishment of joint services by groups of companies. This kind of aid is shortly to be extended to new areas, notably those affected by the rundown of the textile industry. At the same time, it will be supplemented by an 'economic stimulus' aid. This represents a new initiative in the field of public assistance. The aim is to forge closer links between businesses at the grassroots and the public authorities, distributors of new technology and potential markets on which they depend. Finally, the Regional Fund is to develop its interest rate subsidy programmes to make existing loans more attractive, whether they come from the EIB, NIC or ECSC. A first development of this kind is expected in the steel restructuring areas.

- Financial markets. The European Commission favours action to encourage financial organizations to tailor their services to the needs of SMEs. To facilitate the access of SMEs to the new issue market, the Commission has modified its draft directive on the offer of securities for public subscription or sale. Companies whose securities are not listed may be exempted from the requirement to publish certain information. The Commission is also studying ways of improving the operation of the unlisted securities market.

Support for modernization

New technologies have opened up unrivalled opportunities for SMEs. They have helped to decentralize production, to make smaller-scale output competitive, to streamline marketing and to reduce the administrative burden. But efforts are needed to ensure that SMEs have the financial and human resources to enable them to take advantage of their vocation for innovation. Joint efforts by the Community and its Member States are needed.

- Training. The Community is studying new approaches to staff training. Amongst problems under consideration are those facing SMEs which want to convert to the new technologies. Research programmes and seminars on the training of management and senior staff are already under way at the European Centre for the Development of Vocational Training in West Berlin. Modernization by an SME of its management and production techniques can be subsidized not only, as already noted, by the European Regional Fund but also by the European Social Fund. This Fund gives priority to certain forms of job creation in firms employing less than 25 people. It also co-finances programmes and pilot projects for management and professional training, with a bias towards the needs of SMEs. The Social Fund is soon to extend its help to SMEs in two ways. Firstly, it is to help with the retraining of workers to cope with new technologies. Secondly, it is to sponsor local development officers who can supply SMEs, without large and specialized staffs of their own, with technical help and advice on marketing, mobilization of capital, accountancy, business and employment law and job creation prospects.

- Innovation. The European Commission has announced a strategy of support for innovation in industry, especially in SMEs. This is to include tax incentives to stimulate investment as well as direct Community aids, whose scope has still to be decided. The Commission has drawn up a triennial plan for the transnational development of the supporting infrastructure for innovation and technology transfer. A pilot project has been launched to study the possibilities for cooperation between financial organizations interested in the transnational development of SMEs devoted to industrial innovation. This approach has been supplemented by a series of concrete measures:
- Research. The first European research programmes are already under way, in conjunction with industrial sectors where SMEs are well represented: leather and footwear, textiles and clothing and ceramics. The new Esprit programme for the computer sector is open to SMEs dealing in the newest technologies. The Commission is investigating the possibility of launching further jointly funded programmes with private research centres or professional organizations under 'Community development contracts'.
 - Access to information. The Commission is anxious to encourage cooperation between national information services in the new technology field. Its own information and publication strategy is especially directed at SMEs. The Commission has initiated the Euronet-Diane system which has placed more than 300 data bases at the disposal of companies throughout the Community. It teaches Euronet-Diane clients to use the system effectively and is studying the possibility of creating a network of intermediaries dealing in information problems or 'information brokers'. The Commission also encourages national videotex systems, broadcast through television, to carry certain basic information. It is hoped in this way to widen the broadcasting of 'Euronews', an electronic newspaper carrying tenders, investment opportunities, economic indicators and, perhaps eventually, cooperation opportunities for SMEs.
 - Energy innovation. The Community sponsors demonstration projects intended to promote new technologies in the field of energy saving and new forms of energy. The EIB also gives global loans for small and medium-sized investments in this field. Dozens of projects operated by SMEs or local authorities throughout the Community could qualify for aid of this kind. The Commission hopes to extend its aid to industrial energy projects through interest-rate subsidies. It has already brought to Europe the Canadian Energybus which allows SMEs without specialized staff of their own to check their energy consumption and identify possible savings.
 - Applicants for Community membership. Special efforts will be needed to encourage the modernization of the many SMEs in Spain and Portugal. The Community's Business Cooperation Centre is directing its efforts towards these countries, as well as Greece which is already a member. At the end of 1980, the Community gave Portugal pre-accession aid for the restructuring, modernization and development of its SMEs. Global EIB loans for this purpose have also been given to both Spain and Portugal. At the same time, the Community has launched a programme for the strengthening of the Mediterranean economy, aimed especially at the SME sector.



These then are the foundations of European policy towards small and medium-sized enterprises. Since 1983 has been declared the 'European year of small, medium-sized and craft enterprises', it will be marked by new national and Community initiatives. The Commission, for instance, is due to publish a communication on small enterprises – private firms, craft workshops, cooperatives, local projects – and the action needed at Community level to ensure they contribute their utmost to improving the job situation. Throughout the year there will be conventions, seminars, exhibitions, fairs and other events coordinated by the Community in conjunction with its Member States and professional organizations. Information will be available from the Commission information offices listed on the following page ■

The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

Commission of the European Communities

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– 7 Alva Street, Edinburgh EH2 4PH – Tel. 225 2058
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Manuka 2603, Canberra ACT - Tel. 95-50 00

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* Offices also exist in other countries including all Member States.