

COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(92) 351 final

Brussels, 29 April 1992

REPORT FROM THE COMMISSION TO THE COUNCIL

on the definitions of small and medium-sized enterprises (SMEs)
used in the context of Community activities

At the meeting of the Council of Ministers for Industry held on 28 May 1990, the Commission was requested to put work in hand to clarify the definitions of SMEs used in the context of Community activities, with particular reference to SME participation in public procurement and R&D programmes.

In response to that request, the Commission drew up a list of the definitions currently used in connection with Community legislation, programmes or other measures (see Annex 1). It also consulted, on that basis, a number of European organizations representing business, and in particular SMEs.

In this report the Commission sets out for the Council the conclusions it has drawn from this work.

CONTENTS

1. Problems involved in defining SMEs
2. Current situation at Community level with regard to the definition of SMEs
3. The Commission's general approach
4. Implementation of the approach adopted by the Commission

Annex 1 List of definitions of SMEs used at Community level

Annex 2 Methods and definitions used by Eurostat for its annual survey "Structure and activity of industry"

1. PROBLEMS INVOLVED IN DEFINING SMEs

1.1 Need for definitions

The recognition in the 1980s in western countries, and in particular in the European Community, of the major role played by SMEs in economic development has led to an increase in the number of measures specifically designed to help them.

While the capacity of SMEs to create jobs, to adapt, to innovate and to preserve a stable economic base in the regions was recognized, it also had to be acknowledged that their potential was being seriously hampered by burdensome administrative procedures and legal obligations, limited access to external sources of finance, inadequate training, etc.

The development of measures to help SMEs, both at national and at Community level, has naturally been accompanied by efforts to establish the most appropriate criteria for defining this category of enterprises.

There can be no absolute definition of SMEs. The question of the appropriate definition of SMEs is meaningful only in the context of a specific measure for which it is considered necessary to separate one category of enterprises from others for reasons of their "size". The criteria adopted for making this distinction necessarily depend on the aim pursued. This applies as much to the nature of the criteria - through which certain aspects of the enterprise rather than others are focused on - as to the levels of the thresholds adopted, which determine the number of enterprises belonging to each category.

1.2 Qualitative criteria

Despite their extreme diversity, SMEs are widely agreed to have at least some of the following characteristics:

- ownership and management (and, frequently, day-to-day management) are in the same hands;
- close link between family and enterprise (although this link is less strong in newly created SMEs);
- independence vis-à-vis large enterprises;

- central position of the head of the enterprise, who looks after all the aspects of his business;
- operations are frequently labour-intensive, although there are more and more SMEs in high-tech industries;
- with limited financial resources available to them and the difficulties of securing access to capital markets, SMEs rely very much on internally generated funds;
- small workforce frequently necessitating use of external advisers;
- personalized nature of relations with customers;
- dependence on suppliers, competitors and customers owing to the lack of a dominant market position. SMEs must adapt to their environment, it being difficult for them to influence it.

These criteria are critical to a proper understanding of the specific problems faced by SMEs and to any attempt to devise measures to assist them.

1.3 Quantitative criteria

While many definition criteria could theoretically be considered, governments frequently decide, in the interests of administrative efficiency, to use criteria which are easily verifiable.

Accordingly, it is quantitative criteria, such as the number of persons employed, turnover, balance-sheet total and fixed assets, that are most widely used.

Each of these criteria has intrinsic weaknesses, which are magnified by the need, at Community level, to use uniform criteria for all Member States.

The criteria currently used are examined below.

a) Number of persons employed

The precise definition of "number of persons employed", as used for the purposes of the annual Eurostat survey "Structure and activity of industry", is given in Annex 2.

This criterion has the advantage of being readily comprehensible and verifiable. When used in isolation, it has the weakness of failing to take account of the differences in labour-intensity between sectors of activity, which makes it difficult to make valid comparisons between sectors.

Furthermore, if a uniform criterion in terms of a maximum number of workers is established at Community level, firms in Member States in which production is more labour-intensive than capital-intensive (because of the relative cost of these factors of production in the countries concerned) may fare badly.

b) Annual turnover

Turnover can be used to measure the size of enterprises through the value of their sales. It comprises the amounts invoiced by the enterprise during the reference period and represents market sales of goods or services to third parties (see precise definition in Annex 2). It is frequently used since it is easy to observe.

But it does not always reflect the level of activity of an enterprise or sector. Turnover differs widely according to the nature of the products or services sold. Thus, if turnover were used as the sole basis, small enterprises engaged principally in purchase and resale with a large turnover could be excluded from the SME category despite their small size (e.g. in terms of numbers employed or market share).

c) Balance-sheet total

The balance-sheet total is a measure of all the assets of an enterprise.

Thanks to Community harmonization of accounting practice based on the Fourth Directive, balance-sheet figures - like those for fixed assets and other book values - can broadly be compared between Member States even though this comparability is not perfect because of the gaps in harmonization, for example in the area of valuation methods. Moreover, all book values expressed in ecus will be affected by differences in inflation between the Member States.

d) Fixed assets

This is an accounting measure comprising essentially, according to the Fourth Directive, intangible assets (trade marks, licences, etc.), tangible assets (land, buildings, plant and machinery) and financial assets.

This criterion can therefore be regarded as being representative of the "factor capital" as opposed to the "factor labour" reflected in the number of persons employed.

However, it covers only part of the enterprise's balance sheet and, consequently, may be considered less indicative of its size than the balance-sheet total.

e) Value added

The question arises as to whether SME definition criteria other than those referred to above should be used in connection with Community activities.

In the area of quantitative criteria, the "value added" generated by an enterprise undoubtedly constitutes an appropriate economic measure of its output and its real contribution to the economy. It represents, broadly speaking, sales less purchases.

However, this criterion is less easy for enterprises to establish than turnover, particularly for small firms.

f) Combination of a number of criteria

None of the criteria referred to above seems suitable when considered separately. The advantage of combining a number of factors is that this approach captures various aspects of an enterprise and provides complementary information. In this case, criteria can sometimes be used together and sometimes alternatively.

Most of the definitions used in connection with Community activities are based on a combination of criteria.

2. EXISTING SITUATION WITH REGARD TO THE DEFINITION OF SMEs AT COMMUNITY LEVEL

The theoretical aspects of this problem discussed above demonstrate the difficulty of identifying an ideal criterion for defining SMEs, further exacerbated by the need for it to apply to twelve Member States with widely differing socio-economic structures.

For practical reasons, however, it is necessary to define SMEs for the purposes of many Community measures.

The list of current definitions (Annex 1) shows that a fairly wide range of definitions is in use.

The criterion of the number of persons employed (ranging from 50 to 500 according to the different definitions) is widely employed. However, it is almost always combined with turnover and balance-sheet criteria.

Other criteria used are those of fixed assets and independence from other enterprises.

The 500-employee limit serves as a benchmark in statistics. It is used by the EIB and CECA to define who is entitled to receive global loans. Besides, there is a tendency for this criterion to be used to define SMEs in the context of a number of recently introduced schemes (e.g. vocational training, SME access to R&D programmes).

Just as striking as the multiplicity of definitions used is the fact that many Community measures targeted on SMEs are not based on any definition of such enterprises. This is particularly true in the case of regional policy.

It should also be pointed out that, in most cases where definition thresholds are set at Community level, they constitute only an upper limit, with Member States being free to set lower thresholds for implementing the measure in question. The areas in which this is the case include accounting simplifications, training programmes and regional development programmes.

It should be noted that the Commission has not as yet differentiated between sectors of activity as far as the definition of SMEs is concerned (e.g. lower thresholds for services than for industry).

The consultations which the Commission has had with the main European trade organizations have shown that there is general support for the approach currently pursued at Community level, in particular the use of several definitions chosen according to the measure in question. However, those same organizations have stressed that the various definitions should be made more transparent and that inconsistencies should be avoided.

3. THE COMMISSION'S GENERAL APPROACH WITH REGARD TO THE DEFINITION OF SMEs AT COMMUNITY LEVEL

Specific support for SMEs is only one of several types of aid which can be given to enterprises. Measures extending to other businesses, above the SME size criteria, may be entirely justified in the context, for example, of regional policy, the promotion of exports to, or investments in, third countries, etc. This is why any attempt to define SMEs should not be interpreted as meaning that enterprises falling outside that category do not merit the attention of the public authorities at European level.

However, in the case of measures specifically designed for SMEs, the Commission intends to pursue an approach founded on the following general principles:

3.1. Flexibility in the choice of definitions

The Commission considers that it would be inappropriate to establish a single, rigid definition of SMEs for the purposes of all Community measures.

In the same way as several definitions of SMEs often exist at national level, multiplicity exists at Community level too, reflecting the diversity of the aims pursued by the various measures in question.

For each measure aimed at SMEs, the most relevant criteria and thresholds should be chosen. This presupposes detailed consideration in each case of the category of enterprises which has a real need for the measure in question and could most benefit from it.

Thus, the definitions adopted might depend on :

- the sector of activity concerned : the average size of enterprises is higher in certain sectors than in others;
- the type of measures planned: for example, it may be necessary to limit the number of enterprises eligible for tax breaks (for budgetary reasons) or State aid (for competition reasons), while measures intended to encourage participation in R&D programmes might be directed at a larger group of enterprises (eg to encourage cooperation between small and large firms).

3.2. Consistency and coordination

Although it advocates maintaining a variety of definitions, the Commission is aware of the need to avoid an uncontrolled proliferation of them. This is why the Commission departments must systematically examine the existing definitions of SMEs used at Community level, basing their examination on the list in Annex 1, before going on to create a new definition.

An internal coordination procedure will also be established to ensure proper coordination between the various departments involved.

3.3. Improvement of the statistics used

The process of determining at whom a measure is to be targeted, and consequently the choice of an appropriate definition, should be based on statistics which indicate the distribution of enterprises by size category, taking various criteria into account.

Considerable efforts have been made in recent years to compile Community statistics on the size of enterprises. In particular, these efforts led, in 1990, to the publication of a survey entitled "Enterprises in the European Community", which contains detailed information on the size of enterprises based on the number of persons employed. An updating, which also uses an output criterion (turnover/value added), is currently being prepared. Harmonization of statistics on the number of persons employed and the corresponding turnover will make it possible to adjust, where necessary, certain current definitions of SMEs which combine these two criteria.

With the aim of achieving a compromise between the needs of users, the constraints of national statistical institutes and the need to limit the burdens on enterprises, Eurostat intends to set up a business statistics system flexible enough to meet the various demands placed on it, without making any implicit choice about the definition of SMEs.

The questionnaire used to obtain data from enterprises is currently being amended, and it is planned to use the Fourth Directive on company annual accounts as a reference framework for the definition of variables and categories of enterprises. At this stage, only the number of persons employed and turnover will be used to define size categories. However, the possibility of incorporating the balance-sheet and independence criteria in the statistics will be examined in conjunction with the Member States.

3.4. Transparency

It is important to ensure that the definitions used at Community level are transparent, both externally (vis-à-vis the Member States and business circles concerned) and internally (for the Commission departments themselves) so that the desired consistency is guaranteed.

This is why the Commission intends regularly to update the list of definitions of SMEs used at Community level (Annex 1), and to distribute updates to the Member States and business circles concerned and to its own departments.

It will also endeavour to indicate in advance the criteria it intends to use for the purposes of its activities. Publication of the Commission guidelines regarding State aid to SMEs, which are in the process of being drawn up, illustrates this concern for transparency.

Transparency may also be extended to the ex-post assessment made of SME participation in certain programmes, in particular by allowing for various sub-categories of SMEs (see point 4.3. below).

3.5. Compliance with certain guiding principles for the nature of criteria and level of thresholds

When defining new measures aimed at SMEs, or renewing existing measures, Commission departments are required to choose:

- the number of categories of enterprises to be isolated,
- the definition criteria to be adopted, and
- the level of thresholds to be applied to criteria based on figures.

a) Number of categories of enterprises to be isolated

It is usual practice to treat "SMEs" as a homogeneous category of enterprises distinct from "large" enterprises.

However, within the category of "SMEs", the Commission takes the view that it is sometimes justified to identify a sub-category of "small" enterprises if this enables certain measures to be better targeted.

This concept of "small" enterprise might be used to establish specific measures for that category (e.g. derogations or simplifications which could not be granted to all SMEs) or as a means of giving priority to such enterprises.

This is because the support which enterprises need (finance, training, information, etc.) is very often all the greater the smaller they are.

It is also useful to bear in mind the existence of a category of "micro" enterprises. According to the "Enterprises in the European Community" survey, enterprises with less than 10 employees account for more than 91% of all enterprises in the Community (82% if the self-employed are excluded), and provide more than 27% of employment.

b) Choice of definition criteria

This question relates to both the nature and the number of definition criteria.

Nature of criteria

In order to make Community measures effective, the definition criteria must not only give an appropriate measure of the size of enterprises but also be simple to use in all Member States, readily comparable with each other and easy to verify.

The criteria of the number of people employed, traditionally the most commonly used to define the size of enterprises, meets these conditions. The accounts-based

criteria also meet them to the extent that some harmonization has been achieved in the Community in this field. The most representative of them are **turnover** and the **balance-sheet total**.

It is also important to take account of the degree of **independence** of enterprises in assessing their size: a small enterprise belonging to a large group often does not have the same characteristics and needs as a small independent one. The most common definition of independence is the one employed by the EIB, i.e. a maximum of a third of the capital held by a large enterprise. This definition may be adjusted according to requirements, in particular through reference to "one or more" large enterprises, so that joint ventures between large enterprises are not treated as SMEs.

Number of criteria

In certain cases, the nature of the Community measure justifies the use of a single criterion. Some social measures (e.g. disclosure of information to and consultation of workers) may, for example, rely on a definition based on the sole criterion of the number of persons employed; a VAT-related measure may refer solely to the enterprise's turnover, etc.

However, the first section illustrates that one criterion alone rarely offers a satisfactory definition of SMEs. **Priority must therefore be given to definitions based on a combination of criteria.**

Recommended type of definition

The Commission considers that a definition based on a combination of the following criteria best meets the above conditions for the nature and number of criteria:

- **number of persons employed**
- **turnover**
- **balance-sheet total**
- **independence.**

c) Level of thresholds:

Given the availability of statistics at the moment, the Commission is better able to recommend certain thresholds in terms of numbers of employees rather than other criteria, such as turnover or balance sheet total. For these criteria, the Commission proposes to utilise thresholds already in use, as far as possible, while waiting for reliable statistical data.

Number of persons employed: the threshold of 500 employees must be considered the maximum for the definition of SMEs, without prejudicing to the possibility to target firms larger than SMEs for certain programmes in favour of business, if justified by the nature of the scheme.

This is a threshold frequently used at Community level. Although not very selective overall (99.9% of the Community's 13.4 million enterprises employ fewer than 500 people), this threshold is justified in the context of certain Community instruments by the nature of the measures or sectors involved.

For example, some initiatives aimed at encouraging R&D investment or at promoting exports to third countries might be considered more useful if open to larger SMEs. As for differences between sectors, it should be noted that the average size of enterprises is greater in industry than in the services sector: only 57% of industrial employment is provided by enterprises falling below the 500-employee threshold, against 72% for all sectors combined, 90% for the construction industry and 78% for services.

The 500-employee threshold can also be useful as an "a contrario" definition of SMEs. This is because it might be considered that enterprises above that threshold have relatively homogeneous characteristics in terms of their management and financing capacity, the human and technical resources at their disposal, etc. The use of this threshold to exclude "large" enterprises from qualifying for certain Community measures may be justified if it is considered that their size enables them to provide for their own needs.

However, it must be remembered that this threshold concerns enterprises with very different characteristics and, consequently, very different resources and needs. As indicated above (paragraph (a)), the overwhelming majority of Community enterprises are "micro" and small enterprises. In other words, the bulk of enterprises covered by the "less than 500 employees" category is to be found at the bottom end. Community measures aimed at SMEs must take account of this fact and be shaped in such a way as to be accessible to and profitable for the smaller SMEs too.

The main aim is thus to target each Community measure properly, if necessary by introducing sub-categories relating to size and fixing priorities among these size categories.

Thus, several Community measures use definition thresholds lower than that of 500 employees, in particular 250 (accounting simplifications, non-life insurance), 150 (State aid schemes of minor importance) or 50 (accounting simplifications for "small enterprises").

In order to avoid an undue multiplication of thresholds, the Commission will give preference, alongside the 500-employee threshold, to those of 250 and 50 (in combination with the other criteria referred to at point (b) above).

Other criteria: It is vital to use ratios between the various criteria which correspond to the economic reality of enterprises. These ratios of course vary considerably from one sector or type of activity to another.

A major effort has been made at Community level to gather data on the average ratios between the number of persons employed and the other size criteria, especially that of turnover (cf. point 3.3. above). These data will be communicated to interested parties as soon as they are available and may be useful in determining "standard" ratios corresponding to the thresholds of 500, 250 and 50 employees.

The Commission departments will take steps to ensure that the threshold levels and ratios between the various criteria are regularly reviewed in the light of economic and monetary trends.

4. IMPLEMENTATION OF THE APPROACH ADOPTED BY THE COMMISSION

4.1. Impact on existing measures

The above guidelines do not in any way affect existing Community measures to assist SMEs. These will continue to be implemented as originally defined.

This fresh approach will have to be applied to the development of new measures or renewal of existing ones.

4.2. Future guidelines relating to specific fields

a) Public procurement

At its meeting of 28.5.90, the Council asked the Commission for clarifications on the definition of SMEs in the specific context of their access to public contracts.

As the Community Directives on public procurement do not contain specific provisions relating to SMEs, it has not been necessary to define them.

Moreover, in its communication of 7 May 1990 on SME participation in public procurement, the Commission ruled out any measure giving preference to SMEs, preferring instead to give priority to various measures designed to facilitate SME access to information, to simplify procedures or to improve the financial conditions for participation - all measures which are less dependent on the adoption of a strict definition of the enterprises concerned.

No sufficiently detailed statistics at present exist on the size of enterprises taking part in award procedures or actually selected for contracts for valid conclusions to be drawn on the category of enterprises most in need of Community support.

Consequently, too rigid a definition of SMEs in the context of the opening up of public procurement seems inappropriate, and the 500-employee threshold may serve as a basis for the Commission's deliberations, although account must also be taken of specific needs of "small" enterprises.

b) R&D

The EIB definition is the one which is currently used in the context of various schemes available to SMEs, such as the "feasibility awards" and the CRAFT action - which are part of the BRITE-EURAM programme - and the VALUE programme ("exploratory award").

Without impinging on existing programmes, the possibility of a better targetting will have to be examined in the context of future initiatives in favour of SME's, for example by aiming at smaller enterprises, or giving priority to such firms.

Moreover, the Commission will endeavour to obtain detailed data on the size of enterprises receiving assistance under R&D programmes, and in so doing will single out the categories of less than 250 and less than 50 employees as well as that of the less than 500 employees (also taking account, if possible, of the other criteria referred to at point 3.5.b.)

c) Structural Funds

It is clear from the list in Annex 1 that, although many measures financed by the structural Funds are intended to assist SMEs, and such enterprises are specifically mentioned in the ERDF Regulation (4254/88) and the ESF Regulation (4255/88), no precise definition of them is given.

In practice, the ESF frequently uses the 500-employee criterion as an upper limit, although it is in fact the Member States which decide on the threshold for the selection of projects.

In the case of Regional Fund assistance, the definitions used are generally established within the framework of bilateral discussions between the Commission and each Member State during the course of negotiations on the national programmes.

This procedure has the advantage that it permits account to be taken of the differences in economic structure between Member States and promotes more efficient distribution of Community funds by targeting recipient enterprises accurately. However, it has the disadvantage of not being sufficiently transparent.

In future, the Commission intends to make the definitions used in connection with the Structural Funds more transparent, possibly by publishing precise criteria when the basic regulations or the decisions implementing individual programmes are adopted.

d) State aid

Apart from the size criteria used to define aid schemes of minor importance, the Commission has not hitherto had any officially recognized criteria to determine the compatibility of aid granted to SMEs with the EEC Treaty. In order to increase transparency, the Commission intends shortly to distribute guidelines for aid to SMEs based on a precise definition of such enterprises.

e) Training

Generally speaking, it is in connection with the new generation of training programmes - Lingua, COMETT, FORCE, Petra II, Eurotecnet, Iris, Horizon, Euroform and Now - that direct references to SMEs as the target of the action are to be found. While SMEs are not defined precisely in advance, the preambles to the decisions sometimes refer to the marginal status of this category of enterprise, to the fragmentation of market shares and to limited managerial staff resources.

Ex-post assessments of SME participation in training programmes are based, however, not on the same "qualitative" criteria but on the single criterion of the upper limit of 500 employees.

The Commission will attempt to introduce greater transparency in the definitions of SMEs used in the context of the various training programmes and, where appropriate, will try to determine priorities between the different size categories.

4.3. Assessment of SME participation in various Community programmes

The Commission's approach to the definition of SMEs should also be applied to the assessment of SME participation in various Community programmes.

In the case of programmes directed at all enterprises (e.g. in the area of R&D), it is important to have information on participation by the various size categories. In this context, SMEs should not be

considered to constitute a single category (e.g. fewer than 500 employees), but one or more sub-categories should be pinpointed (e.g. 50 to 249, and less than 50 employees).

In the context of measures aimed exclusively at SMEs, an assessment which takes account of several sub-categories will also be necessary if it is to be determined whether the priorities initially chosen have been respected.

Such assessments should preferably employ a combination of criteria, as indicated at point 3.5.b. above.

4.4. Strengthening internal coordination

The large and constantly increasing number of Community measures which refer to SMEs calls for greater coordination between Commission departments with regard to SME definitions. Such coordination, the details of which will be established by the Commission, will aim to:

- ensure that departments receive adequate information on the problems of defining SMEs, the Commission's approach to this matter and the available business statistics;
- limit any unnecessary proliferation of definitions where an existing definition could be used;
- target planned measures accurately;
- guarantee consistency between the various definitions in use.

Conclusion

The present Report constitutes a basis for reflexion on the issue of SME definition, and presents the general approach of the Commission in this area. This approach intends to preserve both the flexibility which is necessary to take account of the different needs of SMEs, and the coherence between the various definitions in use. It stresses the need for a precise targeting of businesses in the framework of Community actions, in particular in the choice of definition criteria and thresholds. This approach does not affect existing Community actions in favour of SMEs.

INVENTORY OF THE DEFINITIONS OF SMEs USED AT THE EUROPEAN
COMMUNITY LEVEL

INTRODUCTION

This document seeks to provide an inventory of the criteria used in the framework of European Community legislation, instruments or programmes to define "small and medium-sized enterprises" (SMEs). Although it is based on a consultation of all Commission services it cannot be considered as exhaustive, given the multiplicity of existing measures.

The document also contains several references to Community measures which, although aimed more specifically at SMEs, are not based on precise definitions of this category of enterprises.

The inventory shows that no single definition of SMEs is used at Community level. On the contrary, there is a multiplicity of definitions, justified by the need to adapt to the most relevant target in each case.

Besides, several Community programmes aimed at SMEs are not based on a precise definition of this category of enterprises. In many cases, the Commission relies on the definitions of SMEs chosen by each Member State, to take into account the differences between national socio-economic structures.

Contents

1. Structural Policy
2. Competition Policy
3. Social Policy
4. VAT Legislation
5. Company Law and Financial Services
6. R&D Policy
7. Miscellaneous

Annex: Summary of the main definitions of SMEs currently in use at Community level.

1. STRUCTURAL POLICY

The Community's structural policy is undertaken using grant-making and loan-making instruments.

1.1 The grant-making instruments

The grant-making instruments are the three structural funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF), under which numerous forms of intervention operate, such as studies, technical assistance, projects and programmes. Of these, the largest and most important are programmes.

There are two broad categories of programme, those initiated by the Member States and those initiated by the Community. Within each category there are various types of programmes, some dating from before the reform of the funds and some since. Examples include National Programmes of Community Interest, Integrated Development Operations, Integrated Mediterranean Programmes, operational programmes, STAR, RESIDER, PEDIP, MEDSPA, RECHAR, STRIDE and REGIS.

The three funds are governed by five Regulations. Only two of the Regulations specifically refer to SMEs without, however, defining this term: the ERDF Regulation (4254/88) and the ESF Regulation (4255/88).

The ESF Regulation 4255/88 provides for the financing of various vocational training actions concerning SMEs (Articles 14 and 2b). As no particular definition of SMEs is given in the context of the above-mentioned measures, the ESF continues to use the criteria of 500 employees maximum to define SMEs. The same applies to the guidelines of 24.2.89 on actions of the ESF related to the fight against long term unemployment and the professional integration of young people, with regard to the modernisation of SMEs.

The EAGGF Regulation (4256/88) identifies various economic activities which may embrace SMEs, but the specific term SME is not mentioned.

Generally, the individual Member States have discretion to use their own definitions in the application of Community grants and it is up to the Commission to check whether these definitions are acceptable.

1.2 The loan-making instruments (EIB, ECSC)

The principal loan-making instruments of regional policy are the European Investment Bank and the European Coal and Steel Community. While both instruments have traditionally complemented the use of the structural funds, since 1989 their intervention has become more closely linked strategically as well as operationally, and they are commonly an integral part of newer initiatives such as RECHAR, STRIDE and REGIS.

Loans are normally available in two forms, individual and global. Global loans, whereby the EIB makes a large loan to a financial intermediary for onward lending in smaller amounts, are the form most commonly accessed by SMEs.

For example, for practical reasons, the EIB prefers not to make individual loans of less than 2 MECU. Under the global system, individual loans of more than 20,000 ECU are available.

Unless a specific exception has been adopted, the general definition within the loan-making instruments is:

- employees: less than 500
- net fixed assets: less than 75 MECU
- ownership: not more than 1/3 owned by a large company.

As with the structural funds, the Member States may (and do) adopt different definitions in their use of the loan instruments if they wish, as long as these remain below the above mentioned thresholds.

2. COMPETITION POLICY

2.1 State Aids

In its control of state aids, DG IV accords favourable treatment to aid to SMEs. Hitherto, it has not employed standard criteria to define SMEs, but has taken into account the characteristics of the aid in question (amount, intensity, etc.) and the nature of the aid (general support, sectoral or for specific objectives). Depending on these factors, the cut-off point used has been between 100 and 250 employees with a corresponding turnover.

However, it is intended to adopt a standard definition of SMEs in the guidelines on state aids currently under discussion.

In addition, a category of "minor aids" has been defined; these aids have to be notified by Member states to the Commission, but they benefit from a simplified examination procedure and are normally accepted by the Commission in view of their limited impact on trade and competition. Following the latest revision, the applicable size criteria are (OJ C40 of 20.2.90):

- maximum 150 employees
- annual turnover not exceeding 15 MECU.

These size criteria are combined with others related to the importance of the aid.

2.2 Agreements between enterprises

The implementing rules of Article 85 EEC Treaty refer to certain criteria related to the overall size and market position of the companies involved in an agreement to decide whether this agreement can be considered as compatible with competition rules, in view of its economic impact.

The Commission uses the following general definition of agreements "of minor importance" (OJ C231 of 12/9/86):

- combined turnover of the enterprises concerned not exceeding 200 MECU
- combined market share of the enterprises concerned not exceeding 5% in the area of the Community in which the agreement has effect.

Turnover and market share criteria are also applied in block exemption regulations related to specific types of agreement such as:

- specialisation: total turnover must be lower than 500 MECU; market share lower than 20% (Regulation 417/85, OJ L53 of 22/2/85)
- research and development: market share lower than 20% if the parties are in competition, or turnover less than 500 MECU (Regulation 418/85, OJ L53 of 22/2/85)
- exclusive distribution: one of the enterprises has a turnover lower than 100 MECU (Regulation 1983/83 OJ L173 of 30/6/83).

3. SOCIAL POLICY

Article 118A (2) of the EEC Treaty, introduced by the Single European Act, stipulates that directives on matters of health and security of workers must avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of SMEs. However, this provision does not include any definition of an SME.

No adopted Community directive in the field of social legislation uses size criteria to exclude smaller firms from its scope.

However, the proposal on the establishment of a European Works Council in Community-scale undertakings or groups of undertakings (COM(90)581 of 25.1.91) would apply to undertakings or groups employing over 1000 workers in the Community (and with at least two establishments/undertakings in different Member states, each with at least 100 employees).

As regards worker participation, the proposed 5th company law directive provides for a threshold of 1,000 workers.

A number of Community programmes in the field of training and education refer to SMEs (eg. COMETT, LINGUA). The third part of LINGUA is aimed specifically at language training in SMEs. The definition of SME normally retained in the framework of training programmes is the maximum of 500 employees.

4. VAT LEGISLATION

4.1 Simplified VAT schemes for SMEs

Article 24(2) of directive 77/338 (OJ L145 of 13/6/77) allows Member States to accord a VAT exemption to enterprises with a turnover of less than 5,000 ECU. (Those Member States applying a higher limit at the time of the directive's adoption are able to retain that limit in real terms.)

A proposal for a Council directive amending the 6th directive was presented by the Commission in 1986 (OJ C272 of 28/10/86, amended OJ C310 of 20/11/87). The adoption of this proposal would oblige the Member States to allow a VAT exemption for enterprises whose turnover does not exceed 10,000 ECU. This limit could be increased by Member States to 35,000 ECU.

According to the same proposal the Member States would have to authorise enterprises whose turnover is lower than 200,000 ECU to use simplified VAT systems (for example flat rates).

4.2 Abolition of fiscal frontiers

The above proposal takes on particular importance in the context of the completion of the internal market. According to the EcoFin Council conclusions of 24.6.91 on the provisional system for the elimination of fiscal frontiers, small enterprises exempt from VAT and whose purchases from other Member States do not exceed a threshold to be defined by each Member state (but not below 10,000 ECU) would see such purchases excluded from the provisional system of taxation in the country of destination (these purchases would be subject to taxation only in the country of departure of the goods, at the VAT rate in force in this country).

5. COMPANY LAW AND FINANCIAL SERVICES

5.1 "4th directive" on annual accounts

The 4th directive (78/660/EEC of 25/7/78, OJ L222/78) allows the Member States to introduce certain simplified accounting requirements in favour of small and medium-sized limited companies, defined according to their total balance sheet, turnover and number of employees. Article 53 of the directive stipulates that the criteria expressed in ECU can be revised every five years to take into account economic and monetary developments. Such a revision has been agreed upon by the Council on 8.11.90 with the final adoption of a directive amending the 4th directive with respect to derogations for SMEs. The criteria, as revised by the Council, are as follows:

- small companies: companies which at the date of drawing up the accounts do not exceed the limits of two of the three following criteria:
 - total balance sheet: 2 MECU
 - net turnover: 4 MECU
 - annual average number of employees: 50

- medium-sized companies: companies which at the date of drawing up of accounts do not exceed the limits of two of the three following criteria:
 - total balance sheet: 8 MECU
 - net turnover: 16 MECU
 - annual average number of employees: 250

5.2 "7th directive" on consolidated accounts

The 7th directive (83/349/EEC of 13/6/83 OJ L 193/83) allows the Member States to exempt undertakings from the obligation to draw up consolidated accounts if the undertakings to be consolidated do not together, on the basis of their latest annual accounts, exceed the limits of two of the three following criteria :

- total balance sheet : 20 MECU
- net turnover : 40 MECU
- annual average number of employees : 500

From the year 2000, the criteria used in the framework of this directive will be the same as those used to define medium-sized companies in the 4th directive (see 5.1 above).

5.3 Insurance

The directive of 22/6/88 on the liberalization of non-life insurance services (OJ L172 of 4/7/88) only partially applies to certain risks so long as the buyer is below the limits of at least two of the following three criteria:

- First stage, up until 31 December 1992:
 - total balance sheet: 12.4 MECU
 - net turnover: 24 MECU
 - annual average number of employees: 500
- Second stage, beginning 1 January 1993
 - total balance sheet: 6.2 MECU
 - net turnover: 12.8 MECU
 - annual average number of employees: 250

6. R&D POLICY

For concessions to SMEs in the form of "feasibility awards" under the BRITE-EURAM programme (grants for R&D aimed at helping SMEs demonstrate their value as potential partners in proposals under this programme), the Commission so far used the criteria of the EIB; new criteria are under consideration.

The EIB criteria are also used as reference for the granting of "exploration premia" to firms in the framework of the VALUE programme (exploitation of the results of Community research).

Statistics on the participation of SMEs in the programmes are based on the following criteria:

- ESPRIT : category less than 50 employees and category less than 500 employees
- DG XII programmes: the statistics given in the CEGOS study of August 1987 were based on the definition used by the European Investment Bank.

7. MISCELLANEOUS

7.1 Statistics

At present the two main data collection exercises resulting in data by employment size band are the yearly Inquiry on Structure and Activity of Industry (regulated by Council Directives) and the "SME project". Data collected are of a macro-economic nature showing per sector of activity aggregates of economic variables and in some cases a breakdown of certain variables by employment size band. The present exercises do not take into account turnover as a classifying variable nor market share or balance sheet total. ("Enterprises in the European Community", 1990, ISBN 92-826-0409-8)

The following employment size band limits are used at present in the above mentioned data collection programmes:

- Inquiry on Structure and Activity of Industry:
1-9, 10-19, 20-49, 50-99, 100-199, 200-499, 500-999, 1000-4999, 5000 and over
- SME project:
0 (self-employed), 1-9 (micro), 10-19, 20-99 (small), 100-199, 200-499 (medium), 500 and over (large).

Turnover size bands have not yet been formally introduced in a data collection exercise but will be in the future so as to meet the growing number of demands for enterprise data broken down by turnover.

7.2 Venture capital

The EIB criteria are used to define SMEs in cases of Community participation in the operation of "Venture Consort" which seeks to promote risk capital.

In cases of integrated action programmes and more specifically actions involving the support of risk capital (budget line 5412) small enterprises are defined as follows:

- less than 200 employees
- independent of other enterprises.

7.3 Agriculture and fisheries

In the context of measures intended to encourage the processing and the marketing of agricultural and forestry products (Regulations EEC 866/90 and 867/90), the Commission asks to be informed by Member States about the projects selected by them. In particular, Member States are asked to state whether the beneficiaries are SMEs according to the definition used in the 4th company law directive for medium-sized companies (see 5.1 above).

Regulation 4042/89 on improvements in the conditions for the processing and the distribution of fish products refers expressly to the needs of small and medium-sized businesses, without however defining this category.

7.4 Cooperation with third-countries

In order to stimulate direct investment by Community companies in developing countries, the Commission uses an instrument called "EC Investment Partners", and aiming at joint ventures in Asia, Latin-America and the Mediterranean area. The target group in the Community is companies whose actual size does not permit them to operate in risky business environments such as in most developing countries, without a support from either their government or the Community. Such size varies from sector to sector, and so far it has not been possible to define these SMEs.

Other schemes exist in the framework of economic cooperation with Latin-America, Asia and the Mediterranean area, involving in certain cases Community SMEs. However, no precise definition is used in this context, given the occasional nature of these schemes.

7.5 Energy policy

The THERMIE programme seeks to contribute to the objective of introducing technological changes in the field of energy, and particularly of improving the access of SMEs to these changes. The programme supports innovative projects and projects for the dissemination

of technologies for the efficient use of energy. It is envisaged to give priority to projects submitted by SMEs. However, no definition of SMEs is used in this context.

ANNEX

SUMMARY OF THE MAIN DEFINITIONS OF SMEs CURRENTLY IN USE AT COMMUNITY LEVEL

| SUBJECT | MAX. NO. OF EMPLOYEES | MAX. TURNOVER | MAX. BALANCE SHEET TOTAL | OTHER CRITERIA |
|---|--|--------------------------------------|--------------------------|---|
| EIB Global Loans | 500 | -- | -- | Net fixed assets 75 MECU Max. 1/3 capital held by a large enterprise |
| Competition : "minor" State Aids | 150 | 15 MECU | -- | Importance of aid |
| Competition:exemption agreements of minor importance | -- | 200 MECU (combined turnover) | -- | Combined market share < 5% in relevant area |
| ESF:Vocational Training | 500 | -- | -- | -- |
| Simplified accounting - small firms - 4th directive | 50 | 4 MECU | 2 MECU | -- |
| Simplified accounting - medium-sized firms - 4th directive | 250 | 16 MECU | 8 MECU | -- |
| Consolidated accounts - 7th directive | 500 | 40 MECU | 20 MECU | -- |
| VAT exemption - 6th directive * proposed amendment | -- -- | 5,000 ECU *(10 000 to 35 000 ECU) | -- -- | -- -- |
| Non-life insurance - 1st Stage - 2nd Stage | 500 250 | 24 MECU 12.8 MECU | 12.4 MECU 6.2 MECU | -- -- |
| Statistics : Inquiry structure & Activity of Industry | 1-9, 10-19, 20-49, 50-99, 100-199, 200-499, 500-999, 1 000-4 999, 5 000+ | | -- | -- |
| Statistics : "SME project" - micro - small - medium - large | 0, 1-9 10-19, 20-99 100-199, 200-499 500+ | | -- | -- |

- 27 -

ANNEX 2

METHODS AND DEFINITIONS USED BY EUROSTAT
FOR THE ANNUAL ENQUIRY
"STRUCTURE AND ACTIVITY OF INDUSTRY"

Classification by employment size

| | | |
|---------------------------|---|---|
| 20 to 49 persons employed | | |
| 50 to 99 | " | " |
| 100 to 199 | " | " |
| 200 to 499 | " | " |
| 500 to 999 | " | " |
| 1000 to 4999 | " | " |
| 5000 and more | | |

Number of persons employed, total

The number of persons employed is defined as the total number of persons who work in the inquiry unit (inclusive of working proprietors, partners working regularly in the enterprise and unpaid family workers), as well as persons who work outside the unit who belong to it and are paid by it (e.g. commercial representatives, outside service engineers and repair and maintenance groups). Included are persons absent for a short period (e.g. sickness absence, paid leave or special leave), and also those on strike, but not those absent for an indefinite period. Also included are part-time workers who are regarded as such under the laws of the country concerned and who are on the payroll, as well as seasonal workers.

Excluded are home workers whether on the payroll or not, labour made available to the unit by other enterprises and charged for, persons carrying out repair and maintenance work in the inquiry unit on behalf of other enterprises, as well as those doing their compulsory military service.

Data on the number of persons employed must refer to the situation at the end of September.

Turnover, total

By 'turnover' is meant the amount invoiced by the inquiry unit during the reference year for sales on the market and services rendered to third parties. Turnover must include all duty and taxes which fall on products and services when they leave the factory, with the exception of VAT invoiced by the producer to his client; it must also include all other charges (for example, expenses relating to transport carried out by the enterprise itself with its own transport facilities, non-returnable packing) charged to clients even if such charges are invoiced separately. Price rebates and discounts and allowances on

returned goods allowed to the customer as well as the value of returned packings are to be deducted, but not cash discounts. Turnover does not include sales of fixed assets.

Operating subsidies received from national public authorities or from the institutions of the European Communities are excluded.

Source : EUROSTAT, Structure and Activity of Industry - Methods and definitions - 1978