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COMMUNICATION FROM THE COMMISSION

**INTEGRATED PROGRAMME IN FAVOUR OF SMEs  
AND THE CRAFT SECTOR**

## THE INTEGRATED PROGRAMME

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**COMMUNICATION FROM THE COMMISSION  
ON THE IMPLEMENTATION OF AN INTEGRATED PROGRAMME  
IN SUPPORT OF SMEs**

**THE STRATEGIC CONTEXT**

**THE WHITE PAPER**

1. The triple problems of growth, competitiveness and employment are at the core of the European Union's priorities. The White Paper defines a strategic framework for comprehensive measures in the short and medium term, to meet these priorities. There is now unanimous agreement on the vital role to be played by *small and medium-sized enterprises (SMEs) in achieving* these objectives.
2. The third report, "Enterprises in Europe", reveals that 92.4% of Community enterprises employ fewer than 10 people, while 7.5% employ between 10 and 499. The number of enterprises with more than 500 employees represent only 0.1% of the total. The micro-enterprise category (0 to 9 employees) makes a greater contribution to employment than large enterprises (33.3% compared with 24.7%), while SMEs with 10 to 499 employees employ 42% of the labour force.
3. *There are many reasons why the main employment potential of the 1990s is in SMEs:*
  - It is clear from the SME Observatory Report that employment growth in the Community is largely attributable to micro and small enterprises;
  - the services sector, where SMEs predominate, has been an important source of jobs in recent years; in addition, it is generally recognized as still having employment potential, for example in the area of services to individuals and tourism;
  - the activities least sensitive to international competition are often carried out by small enterprises with strong links to their local environment; this is particularly true of many craft activities;

- overall, SMEs employ more young people and women - categories which are especially vulnerable to unemployment - than large enterprises;
- SMEs employ more part-time workers than large enterprises; they could therefore play an important role in improving "job-sharing" opportunities;
- the practice of large enterprises in respect of hiving off and contracting out their services or production towards SMEs, helps to stimulate the development of SMEs and to maintain employment levels;
- large enterprises are in a period of restructuring, decentralization and outsourcing.

4. *SMEs are therefore well-equipped to meet the challenge facing them.* However, several weaknesses in SMEs hinder the full exploitation of their growth and employment potential. Closures of SMEs, which appear to be increasing in most Member States, are a cause for concern (between 35% and 40% of enterprises cease activity within three years of start-up, and 60% within eight to ten years after start-up).

Another weakness is the difficulty which SMEs have in overcoming the increasing complexity of their legal and administrative environment. The structural capacity of SMEs to deal with this is hampered by the fact that most management functions continue to be carried out solely by the head of the enterprise himself. This is a particularly heavy burden for self-employed persons, who in 1991 already numbered 16.4 million. In many cases enterprises are doing work which should be undertaken by public administrations (VAT, collecting tax and employees' social security contributions). Adjusting to the new rules and procedures linked to the Internal Market are still a burden for some SMEs.

In addition, **the difficulties of obtaining finance** are often an obstacle for SMEs, both when starting up and at certain phases in their development.

Lastly, many of the difficulties encountered by SMEs, both in dealing with the complexity of the administrative environment and in gaining access to sources of finance, arise from a **structural weakness in their management capacity**.

## WHY AN INTEGRATED PROGRAMME ?

5. The need for an Integrated Programme for SMEs and the craft sector is apparent, both from the analysis of the economic situation contained in the White Paper, and from the Council Resolution of 22 November 1993.

While the role of SMEs as a source of employment is mainly a matter for the enterprises themselves, it is nonetheless true that all Member States have developed a variety of measures at national, regional or local level, which are designed to deal with those weaknesses of SMEs likely to restrain their growth because of their small size (cf. paragraph 4 above).

Generally these measures which have to respect Community regulations on competition policy aim to:

- reduce the burden on enterprises, and particularly SMEs, arising from the administrative and legal environment;
- overcome enterprises' financing difficulties;
- support the enterprises in their efforts to handle the complexity of their administrative tasks and to develop strategic policies, particularly as in small enterprises most management tasks are carried out by the head of the enterprise himself.

To achieve this, the Member States have introduced a very comprehensive set of measures. An initial attempt to compare these measures was made at the "Gateways to Growth" Conference organized in Birmingham on 29-30 October 1992 on the initiative of the British Presidency. The main impression which emerged at this Conference was that while there were an impressive number of individual measures existing, in line with the diversity of the situations encountered on the ground, these measures had a rather low profile because they were not linked to macro-economic priorities.

Several recent initiatives by certain Member States have attempted to remedy this situation. For example, at the beginning of 1994 the French Government adopted a law on "Initiative and the Private Enterprise". At the same time, the British Government published its draft Deregulation and Contracting-out Bill and recently published a White Paper on Competitiveness<sup>(1)</sup> including a number of initiatives aimed specifically at SMEs in respect of training, education and innovation. Spain has recently introduced a programme supporting SMEs. Similar initiatives are being discussed in Germany, Denmark, Italy and the Netherlands.

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(1) UK White Paper on "Competitiveness - Helping Business to Win" 24 May 1994. Cm. 2563.

At a Community level, the initiatives announced in 1992 as part of the growth initiative resulted in the conclusions of the Edinburgh European Council. The Community action programme on enterprise policy adopted on 14 June 1993 was built around this thinking, its main objective being the participation of SMEs in the Internal Market. Consequently, the Community instruments developed as part of this multiannual programme of measures are aimed principally at facilitating the "Europeanization" of enterprises.

This priority remains totally valid in terms of the "growth objective". However, in addition to the "growth priority" there is the "employment priority", and most measures affecting the job creation potential of SMEs continue to be of national origin.

To date, the Community has confined itself to supporting these national measures through its structural policies<sup>(2)</sup>. A Commission study<sup>(3)</sup> on work in this field has revealed that Member States have not taken sufficient advantage of the facilities provided for developing SMEs. It is this situation that the SME Community Initiative and other Community initiatives such as "ADAPT" are trying to remedy.

However, because the Community Initiatives necessarily concentrate their activities for SMEs in less developed regions, particularly Objective 1, they do not exploit the full potential for employment creation offered by SMEs. In addition as the choices to be made are decentralized, Community Initiatives do not alone ensure coherent actions notably in respect of the White Paper guidelines, neither can they on their own guarantee their visibility. To achieve this, it is necessary to attain a "mass" or "overall effect" when implementing an enterprise policy at all levels which requires above all the positive commitment of the Member States, the regions and all parties involved in SME development, these being the principal levers for action on enterprise policy. The Integrated Programme for SMEs and the craft sector will introduce a comprehensive framework of interdependent measures, which by their concerted nature, will contribute significantly to increasing employment.

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(2) Commission Report on the Coordination of Activities in Favour of SMEs 1994.  
(3) Use of the Structural Funds by SMEs, February 1993.

## THE INTEGRATED PROGRAMME: A NEW APPROACH

6. The present Integrated Programme for SMEs and the craft sector puts into concrete form the objectives outlined in the White Paper<sup>(4)</sup> both in the short term, (identifying and alleviating the constraints of a tax, social security, administrative, financial or other nature that hamper the establishment or continued operation of SMEs), and the medium term, (supporting cooperation between enterprises, improving the quality of management, supporting the development of firms with a high growth potential, and supporting the employment growth in service SMEs). The Programme will assemble these various initiatives, existing and new, into a global framework to ensure their coherence and visibility. It proposes 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 of these measures.

The main innovation in the approach adopted is to urge the Member States, and all those involved in the development of SMEs, to ensure that their measures in support of SMEs fit in with current economic and political objectives, thereby giving them a higher profile and making them more coherent, without necessarily changing the underlying legal basis. The European Union should encourage such a development by providing a suitable framework for concerted action and ensuring that the Community instruments based on various provisions of the Treaty form part of the mechanism of such a programme.

The Integrated Programme therefore provides for two different types of measure:

- a) **measures to promote mutual consultation between Member States and joint coordination** wherever necessary in order to:
  - improve the enterprise environment through administrative simplification so as to relieve the burdens on enterprises and free their job-creation potential;

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(4) White Paper, pages 90 to 92.

- stimulate the enterprise support measures which exist at national or regional level;
- b) identification of the **contributions which the Community plans to make** towards the development of enterprise , both in their legal and fiscal environment, and in more direct support measures through the policies it conducts under various provisions of the Treaty.

It is important to underline the fact that the links between these latter measures and enterprise policy arise primarily from the horizontal nature of this policy. The procedures for adopting and implementing these measures vary. Their inclusion in an Integrated Programme therefore has no legal basis but derives rather from their political character in the light of the current economic and political climate. Thus, for example, in the area of Structural Funds, the political dialogue with the Member States on the operational programmes can serve to strike a balance between decentralized choices and the need for macro-economic targeting. This will increase the coherence and visibility of the measures supported by the Community - provided these objectives cannot be more effectively attained using the global grants mechanism, which allows direct communication with the intermediaries dealing with the enterprises.

7. The aim of the Integrated Programme, which will not require any extra budgetary provision, is designed to integrate a set of Community measures into a concerted approach to match activities conducted at the micro-economic level with the macro-economic policies of the White Paper. This is the only approach likely to create the overall panoply of measures necessary, or "masse critique", to support and develop employment creation.

With regard to the proposed targeting, many studies and research projects demonstrate the vital importance to operators making employment decisions of a reduction in the legal, administrative and fiscal burdens on enterprises. It is also necessary to capitalize on the efforts made in all the Member States both to maintain existing jobs and to create new jobs through the numerous SME support programmes.

As certain national statistics prove, employment can be stabilized using various enterprise support measures<sup>(5)</sup>, which, by timely application during the three particularly vulnerable phases of the life of enterprises - creation, transfer, growth - can significantly reduce the rate of closures. Also, the right choice of instruments makes it possible to offer close support in particular to those enterprises with the desire to achieve growth.

8. The Integrated Programme is not intended to substitute for various actions taken at a national or Community level, nor to interfere in the decision making process of the different actions. Within the context of a "charter for employment", it will above all mobilize actions and orient them in the most effective way by the identification and exchange of best practice, and by highlighting and raising the visibility and the profile of these actions taken for the benefit of enterprise. Respecting the principle of subsidiarity, the European Union will limit its role to that of a catalyst if it is not able to contribute directly by its own actions in order to achieve the common objective. The Commission believes nevertheless that this could be done through a concerted action rather than a purely national one because SME policy is seen as part of general economic policy within the framework of the Economic and Monetary Union.

The Integrated Programme proposed below will focus on demonstrating the benefits to be gained by such a policy approach. After a brief presentation of the existing framework in chapter I, chapter II sets out the new measures. In Part A it proposes a set of concerted actions; in Part B, it describes the contributions which the European Union will be able to make through policies and measures based on the various articles of the Treaty. The synoptic table on page 8 sets out the Integrated Programme.

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(5) For example the Community's Business Innovation Centres (BICs) have played a role in the creation of enterprises and of employment since the launch of the pilot project in 1984 up until 31 December 1992, when 2,726 innovative enterprises have created 15,953 direct jobs. The interaction of different enterprise policy instruments, which are horizontal by nature, will allow the BICs to increase their contribution towards the panoply of measures available for SMEs.

## INTEGRATED PROGRAMME IN FAVOUR OF SMEs

<b>1.1. CONCERTED ACTION</b>		
<b>Objective : SME Environment</b>	<b>Contents</b>	<b>Financing</b>
<i>Improving the administrative environment</i>	<u>New measure :</u> <ul style="list-style-type: none"> <li>▫ Group on Administrative Simplification</li> </ul>	-
<b>1.2. CONCERTED ACTION</b>		
<b>Objective : Support Measures for SMEs</b>	<b>Contents</b>	<b>Financing</b>
<i>Stimulating measures in favour of SMEs</i>	<u>New measures :</u> <ul style="list-style-type: none"> <li>▫ Forum on services to assist enterprises</li> <li>▫ Stimulating demand</li> </ul>	-
<b>2.1. COMMUNITY CONTRIBUTIONS</b>		
<b>Objective : SME Environment</b>	<b>Contents</b>	<b>Financing</b>
<i>Improving the administrative environment</i>	<u>Measures being taken :</u> <ul style="list-style-type: none"> <li>▫ Business impact assessment system</li> </ul> <u>- New measure :</u> <ul style="list-style-type: none"> <li>▫ Cost benefit analyses</li> </ul>	SME Multiannual Programme SME Multiannual Programme
<i>Improving the legal and fiscal environment</i>	<u>New measures :</u> <ul style="list-style-type: none"> <li>▫ Examine existing legislation</li> <li>▫ Transmission of enterprises</li> <li>▫ Fiscal environment</li> <li>▫ Late payments</li> <li>▫ Local Services</li> </ul>	SME Multiannual Programme SME Multiannual Programme SME Multiannual Programme SME Multiannual Programme SME Multiannual Programme
<b>2.2. COMMUNITY CONTRIBUTIONS</b>		
<b>Objective : Support Measures for SMEs</b>	<b>Contents</b>	<b>Financing</b>
<i>Improving access to finance and credit</i>	<u>Measures being taken :</u> <ul style="list-style-type: none"> <li>▫ SME access to financial instruments : i.e. venture capital, mutual guarantee schemes, secondary markets</li> </ul> <u>New measures :</u> <ul style="list-style-type: none"> <li>▫ capital markets</li> <li>▫ private capital for RTD</li> <li>▫ New financial engineering instruments</li> <li>▫ Round Table : analysis and follow up</li> <li>▫ Improving intervention measures of Community instruments</li> </ul>	SME Multiannual Programme  SME Multiannual Programme 4th Framework Programme RTD SME Initiative EIB + EIF + SME Initiative Structural Funds and EIB Global Loans
<i>Cooperation</i>	<u>Measures being taken :</u> <ul style="list-style-type: none"> <li>▫ Partner search networks (BC-NET, BRE)</li> <li>▫ Direct partnership : Europartenariat, INTERPRISE</li> <li>▫ Sub-contracting : market transparency and pilot projects</li> </ul> <u>New Measures :</u> <ul style="list-style-type: none"> <li>▫ Support after initial partnership contact</li> <li>▫ enterprise networks</li> <li>▫ production and distribution networks</li> <li>▫ sub-contracting : trade shows, promotion centres, networks, quality strategy</li> </ul>	SME Multiannual Programme SME Multiannual Programme SME Multiannual Programme  SME Multiannual Programme (crafts pilot project) + SME Initiative SME Initiative SME Initiative  SME Multiannual Programme + SME Initiative
<i>Management Quality, adapting SMEs to structural changes and to the Internal Market</i>	<u>Measures being taken :</u> <ul style="list-style-type: none"> <li>▫ support pilot project, similar to EUROMANAGEMENT</li> <li>▫ Small enterprises, craft, retail, social economy</li> <li>▫ Creators and young entrepreneurs</li> </ul> <u>New Measures :</u> <ul style="list-style-type: none"> <li>▫ intermediaries potential for assistance</li> <li>▫ support for SMEs with growth potential (stimulate pilot projects)</li> <li>▫ assistance for managers and for workers threatened with industrial change</li> <li>▫ Training</li> </ul>	SME Multiannual Programme SME Multiannual Programme SME Multiannual Programme  SME Initiative SME Multiannual Programme + SME Initiative SME Initiative + ADAPT  LEONARDO Programme
<i>Other actions</i>	<u>Measures being taken :</u> <ul style="list-style-type: none"> <li>▫ Development and improvement of EIC network</li> </ul> <u>New Measures :</u> <ul style="list-style-type: none"> <li>▫ Improved access to RTD</li> <li>▫ Information Society and SMEs</li> </ul>	SME Multiannual Programme  4 <sup>o</sup> Framework Programme RTD SME Initiative

### Principal Sources of Finance

- Multiannual Programme for SMEs 1993-1996: Ecu 112.2 million
- Community Initiative for SMEs 1994-1999: Ecu 1 billion
- Objective 4 : ADAPT Initiative 1994-1999: various projects for SMEs within Ecu 1.4 billion allocation
- Structural Funds 1994-1999: Community Support Framework and other Community Initiatives
- 4th Framework Programme RTD-1995-1999: various projects for SMEs within Ecu 12.3 billion allocation
- EIB Global Loans: Ecu 1 billion for SME competitiveness
- Interest rates (2%): Ecu 45 million for 1994 - Ecu 22,75 million for 1995
- EIF: Ecu 2 billion for loan guarantees with future possibility of direct participation.

## FROM THE FIRST TO THE SECOND GENERATION OF ENTERPRISE POLICY

### 1. THE EXISTING FRAMEWORK

1. *A panoply of Community measures in favour of SMEs already exists in different Community policies.*

**The multiannual programme in favour of enterprises was adopted on 14 June 1993<sup>(6)</sup>** on the basis of the Commission Memorandum "The Enterprise Dimension Essential to European Growth" which followed on from the Edinburgh Council "Growth Initiative". The multiannual programme was devised to facilitate SMEs' participation in the Internal Market in order to liberate their growth potential.

This programme aims to reinforce the priority axes and consolidate enterprise policy in order to encourage the Europeanisation and internationalisation of enterprises, particularly SMEs<sup>(7)</sup>.

Thus in respect of the enterprises' access to Community information, the network of 210 Euro-Info Centres, situated throughout the European Union, is being reinforced and developed to meet the current needs of SMEs. The EIC network is moving progressively towards more specialized help and counselling so that SMEs can fully benefit from the opportunities offered by the Internal Market, and to facilitate their participation in Community programmes (for example research, public procurement and best environmental practice). The cooperation networks for enterprises - BC - NET and BRE, help facilitate partner search for business cooperation (e.g. in technology, financing or marketing). An evaluation and a report for future action will be presented by the Commission on these different networks during the first half of 1995. The INTERPRISE and EUROPARTENARIAT programmes, as well as the measures in support of transnational sub-contracting, all encourage partnerships between enterprises. In addition to these information and cooperation networks, pilot actions have been undertaken, such as EUROMANAGEMENT and the seed capital project.

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(6) Council Decision 93/379/EEC, O.J. L 161 of 02.07.1993.

(7) 4th Commission Report on Enterprise Policy for 1993. May 1994.

The EUROMANAGEMENT method involves using specialized consultants to undertake audits and advise the enterprises in fields such as research and technological development, or in standardization, certification, and health and safety in the work place. The pilot project for seed capital launched in 1989 to facilitate the provision of equity capital for start-ups, enabled the creation of 24 funds investing ECU 20 million, which helped the establishment of 187 new enterprises with the creation of over 1,700 new jobs.

In addition, within the framework of the European Union's financial instruments, the Structural Funds form the major part of the Community's support for SMEs through cofinancing with the objective of ensuring economic and social cohesion, as well as global loans from the EIB. Finally, other Community programmes, such as those for research and technological development, vocational training, cooperation with third countries, or in respect of environmental policy, include measures which benefit SMEs<sup>(8)</sup>.

2. *Acceleration of activity within the last 18 months by the European Institutions which leads from the first to the second generation of enterprise policy.*

At the launching of the **Edinburgh Growth Initiative** in December 1992, the European Council attached particular importance to measures in support of SMEs. Recognizing their contribution to employment and growth, it urged the Member States to stimulate private investment, particularly by SMEs; it proposed the setting-up of a European Investment Fund (EIF) and asked the Council and the Commission to ensure that the burden on SMEs from Community legislation<sup>(9)</sup> be reduced and that full information be provided regarding the Community support measures in their favour. Finally, it asked the Commission to speed up those measures in support of SMEs which had proved successful at the Community level.

In June 1993, the **Copenhagen European Council** decided to increase the EIB temporary loan facility adopted in Edinburgh by ECU 3,000 million, of which ECU 1,000 million - together with interest rate subsidies - were to be directed towards strengthening the competitiveness of European small and medium-sized enterprises.

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(8) Commission Report on the Coordination of Activities in Favour of SMEs 1994.

(9) See also Council Resolution of 8 June 1993 about the Quality of Drafting of Community Legislation. O.J. C 166 of 17.06.1993, page 1.

In November 1993, the Belgian Presidency submitted to the Council a Memorandum entitled "SMEs: Driving Force of European Growth", which resulted in the adoption of the **Council Resolution of 22 November 1993 on strengthening the competitiveness of enterprises, in particular of small and medium-sized enterprises and craft enterprises, and developing employment**<sup>(10)</sup>. This Resolution underlined the need for closer partnership between all the parties involved in the development of SMEs - at Community, national and regional level - in order to enhance convergence between these measures. It therefore paved the way for a "second generation" of enterprise policy and requested the Commission to examine at the earliest possible opportunity proposals for an Integrated Programme for SMEs and craft enterprises.

At the end of 1993, in the **White Paper on Growth, Competitiveness and Employment**, the Commission adopted this idea and outlined the need to examine concrete proposals for achieving an Integrated Programme for SMEs so as to enhance the effectiveness, coherence and visibility of measures to assist SMEs, through greater partnerships between all interested parties.

Lastly, the **European Council** in its conclusions of 10/11 December 1993, declared that there was a need to "mobilize to a greater extent than hitherto the job-creation potential available within small and medium-sized enterprises". It emphasized also the need to encourage moves towards a decentralized economy, particularly by creating a fiscal, administrative and financial environment favourable to small and medium-sized enterprises, "which constitute one of the most dynamic factors in the European economy".

3. *This vigorous political commitment has already resulted in several practical measures.*

With regard to the problems of financing for SMEs, the Council of 19 April 1994<sup>(11)</sup> took a formal decision to introduce **EIB low interest loans**. The General Assembly for the creation of the European Investment Fund is planned for 14 June 1994.

The Round Table of Leading Representatives from the Banking Sector submitted its final report on 19 May 1994: this contains recommendations addressed to the financial institutions, small and medium-sized enterprises, the Member States and the European Union<sup>(12)</sup>.

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(10) OJ C326, 03.12.1993

(11) Council Decision 94/217/EG OJ EC L 107/57 of 28.04.1994.

(12) See Press Communication n° IP (94) 417 of 19.05.1994.

This Round Table of Leading Representatives from the Banking Sector was set up in 1993 by Commissioner Vanni d'Archirafi to consider the specific financing difficulties facing SMEs and the solutions which might be envisaged by the financial institutions in a spirit of economic efficiency and partnership with the SMEs. The Round Table examined the most successful practices in the Community, including ways of improving relations between banks and SMEs, and considered how the SMEs could best profit from the Community's financial instruments.

In February 1994, the Commission also decided to launch a **Community Initiative to assist SMEs** within the framework of the Structural Funds. This new Community initiative, with financing of ECU 1,000 million, aims to help small and medium-sized enterprises, mainly those in Objective 1 regions, take advantage of the impetus of the Internal Market. Faced with the challenge of "growth, competitiveness and employment" these enterprises are the least well placed to benefit from the globalized economy. Consequently, they need assistance to overcome the complexity of the administrative and legal environment, to innovate, to adopt the most up-to-date management practices, to develop a strategic approach and to improve their access to finance and credit.

The Community Initiative goes some way towards meeting the Council request of 11 November 1993 and is in keeping with the White Paper guidelines on SME policy, the main aspects of which were approved by the European Council at its meeting in Brussels on 10/11 December 1993.

As set out in the White Paper, the ADAPT Community Initiative, is aimed at implementing a major transnational action programme linked to the new Objective 4 of the Structural Funds. With ECU 1.4 billion allocated to this initiative ADAPT has four interrelated objectives. These should; help to assist workers threatened with industrial change; help enterprises increase their competitiveness in manufacturing, services and the retail sector; prevent unemployment by improving the workforce's qualifications; and facilitate the development of new jobs and new activities. This new Community Initiative is largely oriented towards the needs of SMEs, and aims to complement the SME Initiative by a better utilisation of human resources and to improve the quality of management in business. The Commission will shortly adopt a definitive version of the Community Initiatives which will include the texts to be published in the Official Journal. The **LEONARDO Programme** will help by putting into effect a new Community programme in respect of vocational training.

In addition, and in the same spirit, the recent adoption of the **4th Framework Programme for Technological Research and Development** will allow new procedures to be put into place. This will help SMEs participate in specific Community RTD programmes, in particular cooperative research actions inspired by the CRAFT project, and also new measures including logistical and financial support for SMEs.

However it is recognized that the various initiatives, although complementary to each other, are often carried out in isolation with their own rationale and eligibility criteria, without necessarily taking an overall approach. Greater coordination of these measures would help to realize the full growth and employment potential of SMEs. There is a need to adopt an integrated approach, in order to achieve, within an overall framework, better coherence and visibility. The Council Resolution of 22 November 1993 provided the starting point to launch these new actions. That is why the Integrated Programme proposes launching new types of actions - actions concerted with the Member States, (because enterprise policy is largely conducted at the national level) in order to reach an overall approach and greater convergence, which with the European Union contributions, are designed to meet the objectives of the White Paper.

<b>II. NEW MEASURES</b>
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**A. CONCERTED ACTIONS**
**1. COORDINATION INITIATIVE TO SIMPLIFY THE ENVIRONMENT FOR ENTERPRISES**
*Current Situation*

Regulation may impose costs on business, which could risk damaging their competitiveness and reduces the resources available for investment and the potential for creating jobs. The costs for small and medium-sized enterprises are sometimes disproportionately high, and they are least able to spare the managerial resources to ensure proper compliance with all the regulations and administrative procedures to which they are subject. The cumulative burden of regulations emanating from different sources is a particular problem for SMEs. Minimizing the burdens for enterprises is particularly important now, in the context of the Internal Market, where enterprises, particularly the smaller enterprises, are struggling to come to terms with a different market place, the need to review their marketing strategies, and to be competitive in third-country markets.

The best way of supporting enterprises' capacity to generate and retain jobs is to develop a legal and administrative environment conducive to enterprise creation and growth.

In Article 130(1), the Treaty expressly recognizes the importance of this objective. In accordance with the Council Resolution of 3 December 1992 on administrative simplification, the Commission has in the past to some extent acted as a coordinator, monitoring the progress of administrative simplification both at Community and Member State level<sup>(13)</sup>. This was the subject of extensive debate at the Gateways to Growth Conference organized in Birmingham on 29/30 October under the United Kingdom Presidency.

More recently, several Member States (Belgium, France, Germany, the United Kingdom) have given a new impetus to their activity in this vital field. In view of the economic climate it would be highly desirable that the other Member States should follow their example.

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(13) Second Report on Administrative Simplification in the Community - SEC (92) 1867, 27.10.1992.

*Proposal*

One of the best ways of attaining this objective would be for Member States to engage in concerted action in this field, with the Commission contributing through its own administrative simplification efforts at the Community level. This concerted action would cover both administrative formalities or procedures as well as regulations (e.g. in respect of tax, administrative, social, environmental or consumer policies) which affect the way in which enterprises operate.

The aim of such concerted action would be to create a framework for consultation and discussion in order to raise the political profile of administrative simplification to the macro-economic level. This would be a guarantee against the risk of bureaucratic inertia. Within this framework, the Member States would keep each other mutually informed of their priorities for examining existing legislation which hinders the creation or development of enterprises and the penetration of new fields of activity, particularly services. They would exchange information on experiences and best practice tested successfully in one or other Member State so as to derive the most benefit from them, whilst fully respecting their autonomy of decision.

The Commission is convinced that in so doing the Member States could provide mutual support in carrying out a task which is as important as it is complex. An analysis of the impact of legislation or administrative procedures on the development of enterprises is a large exercise which is of interest to all business not just SMEs. However, SMEs represent 99.9% of all enterprises and do not have the resources to deal with the complexity of the legal and administrative environment. Taking into account the needs of SMEs in respect of the requirement for simplification will benefit all business.

It is a fact that the majority of legislation, and the burdens imposed on enterprise, continue to emanate from the Member States. However, the European Union will be able to assist with this work in areas where Community legislation has an impact on the business environment and where there is a consensus between Community institutions on the need for greater simplicity so as to reduce the burden on enterprises (see chapter B, paragraph 1.1). In addition, the national transposition of Community directives sometimes adds extra burdens for enterprises beyond the objectives contained in the directive.

The Commission considers that the setting up of a Group composed particularly of representatives from organisations in Member States who have responsibility, or a coordinating role, in respect of administrative simplification, will permit a more appropriate overall framework for such concerted action. In consulting high level representatives from business this Group would help to raise its profile and enable it to better understand the problems faced by SMEs. On the basis of this Group's work, the Commission will submit a report to the Council which would help to maintain the necessary political pressure. The Commission hopes for the full support of the Council in this initiative which will be most important in order to ensure that the work of the Group has the necessary political commitment and is effective.

## 2. CONCERTED ACTION ON SUPPORT INITIATIVES FOR ENTERPRISES

### Current Situation

An impressive array of measures exist in all the Member States to support enterprises, both at the time of their start-up and at other particularly difficult phases of their development, such as transfer. Such measures may be of national, regional or local origin. They have often evolved in an insufficiently coordinated way and suffer, owing to their very multiplicity and fragmentation, from a certain lack of visibility and attractiveness. Discouraged by the difficulties of obtaining information on the available support measures, or by the complexity of the application procedures, enterprises tend to ignore them or question the ability of any outside body to assist them.

By way of example, information available on support measures for enterprise start-ups highlights two groups of Member States, the first with about 35 measures, the second with up to 60. In a publication dated December 1993, "Growth for French SMEs", the "Enterprise and Progress" organisation advocated "a public relations campaign targeting SMEs to inform them in simple language of the various useful measures which existed and which were still unknown to most SME managers".

However, it is a fact that good support measures for enterprises greatly increase their chances of surviving and expanding. For example, it is acknowledged that the level and type of initial training for the creator of an enterprise, and the existence or otherwise of external advisory services, greatly influence the probability of an enterprise closing down or surviving. According to a 1990 survey of 16,000 French enterprises created in 1984/85, the closure rate within five years was 59% in the case of new enterprises which had not used advisory services, compared with 19% for those who had consulted experts. Similarly, in the case of financing, the ability of an enterprise to prepare a comprehensive financial plan greatly facilitates its access to sources of finance, which are often under utilized.

In its Resolution of 22 November 1993, the Council therefore requested the Commission and the Member States to "strengthen, within the framework of enlarged partnerships, the effectiveness, coherence and visibility of measures to assist SMEs while also taking into account the strategic dimension of the size of the enterprises".

Similarly, the White Paper on Growth, Competitiveness and Employment presented by the Commission to the European Council on 10/11 December 1993, suggested that there was "a need to foster, in cooperation with the Member States and the Chambers of Commerce and Industry, a demand for information, training and advice in order to overcome specific obstacles to the survival of businesses, which could be significantly improved by appropriate advice". To do this, "the potential existing among business intermediaries should be exploited to the full. In this connection, the Community could also look into the scope for improving the supply of direct advice to firms on the various aspects of their day-to-day management".

In line with the priority accorded by the White Paper to improving the management capability in SMEs, the Community Initiative Programme will enable the Community to provide financial support to national advisory and assistance projects for SMEs, aimed particularly at defining strategies for modernisation, introducing total quality control systems, working out proposals to promote cooperation, access to research, participation in public procurement contracts, or in vocational training.

*Proposal*a) Discussion forum on services to assist enterprises

While it is clear that it is mainly the Member States (and in some cases other parties within these countries) which are responsible for drawing up measures to assist SMEs, it would undoubtedly be of great benefit if the Member States were to engage in mutual consultation on ways of improving the effectiveness of their actions. There has been no systematic attempt to make a comparative analysis of best practice at Community level. The reason for this is the extremely large number of initiatives at very different levels, where the various procedures are as much a reflection of administrative structures as of the situation of enterprises in the various Member States.

The method proposed is to create one or several panels where Member States could present and compare what they consider to be their "best practice" as regards SME support measures in the key phases of creation, growth and transfer. In this context, growth support measures are of particular interest in that they are likely to contribute to increasing employment rather than simply stabilizing it. In view of the fact that only a small percentage of enterprises (5% to 6%) have the ambition to grow, comparisons of measures relying on the spontaneous emergence of such enterprises and forming part of a growth policy would be the most useful. For its part, the Commission would contribute through some of its pilot projects which have proved successful in this field (e.g. Euromanagement RDT and Plato).

In the context of "best practice", the measures facilitating SMEs access to sources of finance should also be examined such as those tested within the seed capital pilot project, since this is a crucial factor in each of the development phases of an enterprise.

Another particularly relevant topic is the improvement of productivity in service enterprises, which are among the most important sources of employment and growth. If the discussion forum shows that a coherent approach does not exist, it will be necessary to consider defining a common approach for any necessary strategy, in order to respond to this important objective for international and European competitiveness.

Lastly, such exchanges of experience should cover a better knowledge of markets, which is required increasingly by enterprises in order to take advantage of the Internal Market. Among these new markets that of the environment presents opportunities for business including SMEs. SMEs could in particular be encouraged to follow the example of those who have already adapted their business strategy to meet environmental regulations and to the demand for more environmentally friendly products.

Such exchanges would enable the Member States, while identifying best practice, to also identify any gaps in their assistance measures.

This discussion framework could take the form of one or several conferences organized by the Commission, which would be responsible for reporting on them to the Council. In the case of regional support measures the Committee of the Regions would be well placed to organize such conferences.

The creation of one or several discussion panels would greatly benefit from the positive support of the Council.

b) Concerted action to encourage greater use by enterprises of information, training and advisory services

Recent position papers on enterprise policy have underlined the lack of visibility of the support measures for enterprises mentioned above which results from the great proliferation of programmes in the European Union, inevitable because of the wide diversity in the Member States themselves<sup>(14)</sup>. These papers clearly show the need for targeted and systematic action demonstrating the added value of concerted action at the European Union level which would significantly increase the effectiveness of measures to be taken in the area of communication with enterprises. These include:

- firstly, greater visibility through a better targeted and more transparent presentation ("repackaging") of the services available at the three critical phases in the life of an enterprise. Indeed, in order to facilitate the promotion of these services it would be better to present the whole range of services topic by topic and in an understandable form for SMEs;

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(14) See the European Initiative for the Improvement of Innovation and Investment Capacity for SMEs and the Promotion of the Creation of Enterprises by the Gemeinschaftsausschuß der Deutschen gewerblichen Wirtschaft, May 1994, particularly paragraph 5; and "SMEs in the United Kingdom", research undertaken by the Economic and Social Research Council with the help of the Department of Trade and Industry.

- secondly, to initiate action to stimulate demand to overcome the weakness of communication between the entrepreneur and the different organisations offering services, and to improve the response time of the services provided.

In putting together the idea of this single message at the European Union level, together with the need to decentralize its distribution so that it reaches all levels of business, an extensive communication operation could be undertaken without the need for extra finance. In order to do this it will be necessary to work together with all those concerned in partnership organized at the European Union level, but relying on voluntary contributions from all business support organisations.

Such an initiative would benefit from a political consensus on the part of Member States and the active participation of the main intermediaries providing services to enterprises. Moreover, the procedures in respect of information and publicity relating to the use of the Structural Funds<sup>(15)</sup> encourage the promotion of actions undertaken including those within the Community Initiatives.

## **B. COMMUNITY CONTRIBUTIONS**

The Integrated Programme is based on a concept of creating a synergy and increased partnership between all parties with a role to play in developing SMEs. In the first part of the Integrated Programme, emphasis has been placed on consultation between Member States, insofar as the latter control the main instruments for exploiting the growth and employment potential of SMEs. Nonetheless, the Community has a variety of legal and fiscal instruments at its disposal to influence the business environment of enterprises and related services.

These instruments are derived not only from the June 1993 multiannual programme of measures to assist enterprises, but also on Community policies based on the various provisions of the Treaty. The intention is to insert the various actions within the framework of the Integrated Programme.

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(15) Commission Decision n° C(94)1351 on information and publicity measures to be undertaken by the Member States in relation to interventions of the Structural Funds and the FIG.

## 1. IMPROVING THE ENVIRONMENT FOR ENTERPRISES

### 1.1. Consideration of enterprises' needs when compiling Community legislation

#### Current Situation

The Commission is continuing its efforts to improve and strengthen its system for evaluating Community legislation (see declaration on relative costs under Commission proposals)<sup>(16)</sup>. Where a Commission proposal for legislation is likely to have a significant impact on business, the Directorate General responsible has to complete an impact assessment.

The compliance costs and other administrative burdens therefore have to be weighed against the potential benefits usually in terms of essential protection, for example to health and safety or environmental controls.

At the time of the negotiations leading up to the Treaty on European Union in Maastricht there was considerable discussion about Community legislation and the decision-making process which leads up to legislative proposals being agreed by the Commission. These discussions were conducted against the background of Member States' concern for the principle of subsidiarity, particularly in respect of the proportionality concept for legislation. In order to put into effect the declaration annexed to the Treaty on European Union, the Commission is considering new guidelines for regulatory policy to include a possible methodology for analysing the costs and benefits of proposed legislation. In addition the Commission is undertaking an audit of existing Community legislation referred to by the Brussels European Council of 11 and 12 December 1993.

#### Proposal

On the basis of the work carried out in respect of legislative policy and of an evaluation of the current implementation of the business impact assessment system, the Commission will adjust and strengthen its internal working procedures on the evaluation of the effects and impact of its legislative proposals, to include the consideration of cost-effectiveness or cost-benefit analysis. This will help to prepare a more comprehensive business impact assessment, with particular reference to SMEs, which will be part of the documentation to be considered by the Commission, and subsequently the Council, Parliament and the Economic and Social Committee.

In respect of existing legislation the Commission will propose codification each time it is necessary in order to simplify the application of Community law, and will make the necessary proposals to take into account the experience gained from the implementation of secondary legislation.

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(16) Annex to the Treaty on European Union, page 230.

## 1.2. Improving the conditions for the transfer of enterprises

### Current Situation

While it is true today that SMEs play an important role in creating growth and jobs, which is recognized by the Commission and the Member States, the fact remains that thousands of SMEs disappear every year because they have not been able to overcome difficulties linked to their transfer. Thus, it is estimated that almost 10% of business closures in the European Union have their origin in a badly administered estate, calling into question at least 30,000 enterprises and 300,000 jobs per year. This closure rate is seen in all the Member States and the problem will become increasingly acute in the future, since the generation of post-war entrepreneurs is now reaching retirement age. It is therefore necessary to adopt measures to facilitate the transfer of enterprises and consequently to safeguard the fabric of SMEs and protect employment.

The Commission invited experts from all the Member States to a symposium held in Brussels on 29 and 30 January 1993. It emerged that transfer problems lie partly in the legal framework for enterprises, which is not very favourable to partnerships, and does not allow the flexibility which is available to incorporated businesses. For its part, the law on succession has scarcely changed for decades and is not suited to current needs, particularly when the enterprise has not adopted corporate status. On top of these problems there is a very heavy tax burden which substantially undermines the enterprise's assets. The experts confirmed the need for Community measures to facilitate transfer and proposed a series of concrete measures on which the Commission plans to take action with the following proposals.

### Proposal

Advisory services for entrepreneurs are vital to make them consider and define a transfer strategy. This will be encouraged as part of the concerted action between Member States on services to enterprises (see A.2. above).

However, such services are not sufficient to ensure successful transfers, given the continued existence of legal and fiscal obstacles within the national laws. This is why it is highly desirable that the legal and fiscal environment for SMEs is improved at the same time. The Commission therefore plans to facilitate the circulation of various countries' best practice, without imposing binding procedures on Member States.

The Commission will launch a wide consultation of all interested parties covering a certain number of issues aiming to provide enterprises with a more favourable legal and fiscal environment for their transfer which:

- facilitates the continued operation of a sole proprietorship or partnership in the event of the death of the head of the enterprise or one of the partners;
- facilitates in particular, with a view to transfer, the change from sole proprietorship or partnership to corporate status, based on a joint examination of the most appropriate procedure;
- facilitates the adoption by SMEs of public limited-liability status by reducing the administrative formalities and the cost of access to this status, in a manner which is compatible with the protection of partners and third party interests;
- reduces the fiscal burden on legatees who continue to operate the enterprise.

After this consultation the Commission will address a Recommendation to the Member States aimed at eliminating the main obstacles to successful transfer by the introduction, throughout the European Union, of initiatives which have hitherto remained fragmentary at Member State level. The implementation of such a Recommendation by the Member States would help to ensure the continuity of enterprises and the jobs they provide.

The problem of the double taxation of estates which can arise when the deceased, the heir and the assets are situated in different Member States of the European Union, will also be the subject of a consultation in order to see whether the Commission should adopt a Recommendation or propose other appropriate actions.

### *1.3. Improving the fiscal environment for SMEs*

#### *Current Situation*

Generally speaking, SMEs find it more difficult than large enterprises to obtain adequate financing for their investments. To make the most of the growth and employment potential of SMEs, it is vital to improve their ability to raise finance from their own resources while taking other initiatives regarding access to external sources of finance (see 2.1. below).

It is a fact that current taxation rules governing SMEs are likely, in some circumstances, to hamper their ability to raise finance from their own resources, depending on whether or not they have corporate status. Thus, owing to their legal status, sole traders and partnerships, in the absence of a distinction between distributed income and reinvested income, are often taxed on their entire income at marginal income tax rates, which can be higher than the tax rates applying to corporations. Consequently, in such a situation, owing to their heavier tax burden, sole traders and partnerships have less ability to raise finance from their own resources than corporations of a similar size. In 1992 the Ruding Committee of Experts on Corporation Tax drew the attention of the Commission and the Council to this problem.

Discussions have taken place to remedy this situation; this may involve either reducing the fiscal charges applied to the non-distributed portion of income for sole proprietorships and partnerships on the basis of rules to be left to the choice of Member States, and by giving those enterprises the right to opt for transfer into incorporated businesses.

Furthermore, SME financing conditions would be improved by tax changes for investors, and in particular venture capital funds, which eliminated the double taxation likely to arise in the financing chain.

In addition to its role in financing SME investments, taxation can also influence, or indeed hamper, enterprises' development owing to the diversity of tax systems in the Community. For this reason SMEs often refrain from expanding their activities in other Member States through permanent establishments, fearing an excessive increase in administrative charges arising from the need to comply with other tax laws. The Commission is therefore examining the possibility of applying the tax legislation of the Member State of the enterprises' head office to permanent establishments in other Member States during the start-up phase.

### Proposal

As announced in the Strategic Programme for the Internal Market, the Commission has submitted in parallel a Communication to the Member States on improving the fiscal environment for SMEs, aimed at reducing obstacles to their development and thereby improving their job creation potential. This Communication is complemented by a Recommendation concerning the way businesses are subject to taxation.

In respect of indirect taxation, a certain number of measures have been taken to reduce the administrative charges arising out of the transitory VAT regime<sup>(17)</sup>. In addition the Commission will be making proposals before the end of the year in order to revise the VAT system.

#### *1.4. Improving payment periods between enterprises*

##### *Current Situation*

The trend observed in recent years towards a growing number of increasingly late payments is causing serious concern in business circles. A survey published recently by a major firm of auditors confirmed this trend, with 65% of European enterprises interviewed of the opinion that the situation had deteriorated in 1993.

Some enterprises regard the systematic use of payment delays as sound financial practice. The excessive lengthening of payment periods is very damaging to enterprises, particularly small and medium-sized enterprises. By increasing their financial and administrative burdens, such delays undermine the entire economic fabric and endanger the survival of many enterprises.

In 1993, the Commission entered into extensive consultations with all interested parties on the basis of a Working Document<sup>(18)</sup>. It received the comments of the European Parliament, the Economic and Social Committee as well as from more than 130 professional and business organisations. A public hearing on the issue took place in Brussels on 7/8 July 1993. It emerged from these consultations that there was very strong support for Community initiatives, given the extent to which payment difficulties are seen as an obstacle to the development of enterprises - and particularly SMEs - and to the efficient working of the Internal Market.

The Round Table of Leading Representatives from the Banking Sector (mentioned in the introduction) considered that "inter-enterprise credit" was one of the key problems of SME financing. It recommended that the Member States adopt measures aimed at encouraging, even imposing, adherence to payment periods and at developing appropriate financial instruments accessible to SMEs.

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(17) Council Directive 92/111/EEC of 14.12.1992, O.J. L 384 of 30.12.1992, p. 47. Commission proposal for a Directive of 09.03.1994, COM(94)58 final, O.J. 107 of 15.04.1994, p. 7.

(18) SEC(92)2214, 18.11.1992.

In its Strategic Programme for the Internal Market, the Commission announced that related proposals would be presented in the second quarter of 1994. In the same way the Commission will also examine the question of transfrontier payments in respect of their costs and the delays which are a financial burden for business.

It emerged clearly from the consultation:

- that the problem of late payments, in particular transfrontier payments, has an obvious impact on the proper functioning of the Internal Market.
- that the nature of the problems and the possible solutions differed depending on whether the problem was one of longer contractual payment periods or of payment delays, the latter having priority;
- that certain disciplinary rules should be applied to states' authorities;
- that a "package" of different measures - both legal and practical - might improve the situation.

### Proposals

In view of these comments and of all the suggestions made during the consultations, the Commission initially plans to address a Recommendation to the Member States.

The Recommendation will mainly aim to improve the current legal framework since this was not considered sufficiently dissuasive for bad payers. It will deal specifically with the right to interest on overdue payments, appeal procedures for non-contested claims, and to improving payment discipline on the part of public authorities. Choosing this non-binding legal instrument should allow Member States to adopt the measures most suited to their specific legal framework and commercial practices. However, if the Recommendation were to have no effect, the Commission reserves the right to make more binding proposals.

Regarding the specific difficulties to crossborder trade the Commission will examine the scope for promoting joint action by the Member States under the third pillar of the Maastricht Treaty (legal cooperation) in order to speed up the procedures for obtaining an injunction for non-contested claims.

The Commission will also adopt measures to alert the business organizations and intermediaries to their role in informing and training SMEs in the field of financial management and payment periods. These same organizations will be encouraged to promote, for example through professional agreements, standards which are recognized and respected in this field.

*1.5. Facilitate an environment favourable to the creation of new employment in local services*

*Current Situation*

Within the context of the White Paper the Commission is working on ideas for creating new jobs particularly in areas not so far exploited, such as local services or protection of the environment.

*Proposals*

The Commission will identify models for such service activities (like voucher schemes, e.g. "cheque service") and will eventually support their diffusion. The objective is to analyse ways to support the development of such service activities without conflicting with the interests of existing enterprises. A synthesis report will be presented to the Essen European Council in December 1994.

**2. SUPPORT MEASURES FOR ENTERPRISES**

**Supporting the development and adjustment of SMEs** is a vital aspect of ensuring the full effectiveness of the Internal Market and an adequate level of competitiveness for enterprises.

To do this various measures will be made available at a Community level beyond the SME multiannual programme 1993-96 already mentioned in chapter I. These are:

- a Structural Fund measures in particular the SME Community Initiative, principally in objective 1 regions, aimed at helping enterprises to handle the administrative and legal environment successfully, to embrace innovation and modernization, and to give preference to the latest management methods as part of a strategic approach; other Community Initiatives will be put into effect with Structural Funds support, in particular training actions oriented towards employment; to this effect the ADAPT Initiative, helping adjustment to industrial change could benefit many SMEs;

- b measures implementing the Fourth RTD Framework Programme recently approved by the Council and the European Parliament. This programme recognizes the role and needs of SMEs in the field of research and technological innovation and favours their participation in Community RTD programmes and stimulates the diffusion of the results of research in SMEs by encouraging the transfer of know-how through increased assistance at the preparatory stage of the research project<sup>(19)</sup>;
- c in the implementation of the LEONARDO training programme project presented by the Commission on 22 December 1993 which was welcomed by the Parliament on 4 May 1994 and which will shortly lead to a common position in the Council. Promoting the support of access to continuing vocational training linked to broader based initial training is a necessary condition to improve the skills of workers and support the competitiveness of SMEs;
- d work is in hand to put into effect the information Society. In this context the spread of new technologies is still not wide enough to provide SMEs with all the information which they need to improve their management capability. It is therefore necessary to take action to allow SMEs' access into advanced telematic services, such as electronic mail, video conferencing, and electronic data interchange (EDI). Through the information autoroutes it will be possible to access, in real time, networks dealing with accounting, financial institutions, marketing and training. The Community information and cooperation networks already in place as part of enterprise policy will play a part in these developments. As the work on developing the information Society evolves the Commission will take appropriate initiatives for SMEs.

The support measures must meet in particular the three major objectives already set out in the White Paper:

- improving access to financing and credit;
- supporting cooperation between firms;
- improving management quality.

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(19) For example MINT (Managing the Integration of New Technologies) launched within the SPRINT programme. MINT envisages SMEs having the opportunity to use new technologies by the use of consultants specialized in the management of innovation, notably a technology audit, including quality, design, and an analysis of the value of transnational technical cooperation between enterprises. Following on from the audit within the context of MINT the SMEs will be encouraged towards support measures at the national, regional or Community level most appropriate to their needs.

## *2.1. Improving access to finance and credit*

### Current Situation

The European Union has introduced several financial instruments which can benefit SMEs. Apart from the support to enterprises under various Community programmes (for example in research, training or financial engineering), these consist mainly of actions financed by the Community Structural Funds and global loans from the European Investment Bank (EIB).

These instruments are undoubtedly of great value to enterprises. However, studies show that their potential could be better exploited by SMEs.

Also, new initiatives were taken in this field at the Edinburgh and Copenhagen European summits. On the one hand, the decision was taken to create a European Investment Fund (EIF) with a capital of ECU 2,000 million, which can provide guarantees for loans to SMEs and trans-European networks. Secondly, a special tranche of EIB loans amounting to ECU 1,000 million was earmarked for SMEs, combined with interest rate subsidies. How the procedures for implementing these instruments are defined will be decisive in determining their value to SMEs.

In addition the Report from the Round Table of Leading Representatives from the Banking Sector and SMEs in particular insists that an important part of the EIF funds must be reserved for financing SMEs. The EIF must act in as flexible manner as possible. It must be able to support the guarantee systems existing in the Member States. As for interest rates on EIB loans the Round Table recommends a flexible approach towards applying the employment criterion. It emphasizes that the 2% interest rate benefit should be passed on entirely to the SMEs, and that the intermediaries used must be specialized in the financing of SMEs. The Round Table report, which will be published, also contains recommendations addressed to the Member States, to the banks, and to SMEs.

Finally, the Community Initiative for SMEs approved by the Commission on 16 February 1994 provides for the co-financing of national measures aimed at facilitating SME access to credit and finance, as provided for in Article 1c of the FEDER Regulation<sup>(20)</sup> for all interventions within regional policy.

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(20) Council Regulation 2083/93 of 20 July 1993 concerning the European Regional Development Fund. O.J. L n° 193 of 31.07.1993, p. 34.

### Measures

The Commission will continue to support pilot projects under existing Community programmes where these projects aim to introduce new financial instruments (for example in the field of mutual guarantees and venture capital) or to improve the functioning of Community financial markets (for example by encouraging the development of capital markets aimed at promoting share holdings in SMEs). In addition within the framework of the Structural Funds, and in particular under the Community Initiative for SMEs, the Commission will encourage, on the basis of cofinancing, national support measures particularly in respect of access to risk capital for SMEs and other financial engineering instruments.

Regarding the EIB global loans, the Commission attaches special importance to improving procedures for implementing these Community instruments to assist SME financing and combine this with Structural Funds cofinancing. In this context the choice of financial intermediaries would appear to be decisive.

The Commission will examine the Round Table's recommendations in this respect and consider any necessary follow up.

### 2.2. Supporting cooperation between enterprises

#### Current Situation

In view of the globalization and internationalization of manufacturing and trade, particularly in the less developed Community countries, there is a need to improve the competitiveness of SMEs by **encouraging partnerships and alliances** between European enterprises while respecting the Community's competition policy. This objective can be attained by implementing an array of measures in the following fields.

#### Measures

2.2.1. The Community could henceforth step up its efforts to stimulate cooperation between enterprises by providing support beyond the first phase of partnership search. It has already taken action (in particular through BC-NET, BRE, Europartenariat, INTERPRISE, Sub-contracting projects and the SPRINT Network) aimed principally at helping with the search for partners and establishing the first contacts between entrepreneurs. However, very often, to follow up on the initial phases of a matching process it is necessary to be close to the enterprises (at a national or regional level) and to provide suitable backing over a certain period of time.

An initial pilot project is being developed in support of craft industries as part of the SME multiannual programme. It should also be stressed that Community co-financing is among the measures of the SME Community Initiative selected to promote interregional and transnational cooperation between these enterprises by providing support beyond the first phase of seeking partners until the conclusion of the contractual relationship.

- 2.2.2. There is room for an additional measure to support SME efforts to participate in **enterprise networks**, for example in order to introduce flexible and specialized production systems. The Community Initiative for SMEs has also considered the possibility of assisting in the development of enterprise networks, in particular by linking more advanced regions with less advanced regions thus contributing towards economic and social cohesion.

Such ideas are reflected in the contributions made by various countries, in particular Austria, to the White Paper, and the Community could help to expand and propagate practices developed in particular Community regions. For example, the Danish government has backed the formation of small groups of enterprises to encourage them to work out common marketing, design and publicity strategies; similarly, in its northern provinces, the Netherlands has given backing to the formation of groups of SMEs as a way of helping these enterprises to adjust to the certification requirements imposed by the EN 29000 standard.

- 2.2.3. In respect of the opening up of public procurement for SMEs it is still difficult to gain access because of administrative barriers and the necessity to find suitable partners in the Member States of the purchaser. Measures will be proposed in order to take advantage of the BC-NET and BRE networks with a view to creating partnerships between enterprises which can then respond more positively, either directly or through sub-contractors to the calls for tender. There will be improved notification about these calls for tender through the SIMAP project. (Information Systems on Public Procurement)<sup>(21)</sup>.

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(21) Commission Communication to the Council, "Making the Most of the Internal Market": Strategic Programme, COM(93)632 final of 22.12.1993, p. 39.

- 2.2.4. The successful grouping of small and medium-sized enterprises in **production and distribution networks** which are organized and compete at the Internal Market level should be encouraged, along the lines of the strategy underlying the "Commerce 2000" project<sup>(22)</sup>. This will mean, for example, making it easier for retail SMEs to participate in purchasing networks with computerized logistics structures through the introduction of new information and management technologies and appropriate management systems.

For example, if the Member States were to adopt some "Commerce 2000" pilot projects, co-financing could be arranged via the SME Community Initiative, more specifically under the telematics provision.

- 2.2.5. **Sub-contracting** has become a key factor in the development of new inter-industrial relations and is playing an increasingly important role in enterprise competitiveness. This activity is further magnified by the outsourcing policy pursued by the major groups, which concentrate on their principal activities and call on SMEs to take on a significant share of the design and production of components, and even of entire systems.

These factors call for the adoption of a total quality strategy, of improved and modernized management systems and production facilities.

Closer cooperation between principals and sub-contractors should also be encouraged. In this regard, the impact of "inverted trade shows", organised by the main contractors for their potential suppliers or sub-contractors, will be developed in the light of the initial results.

In addition, cooperation between sub-contracting SMEs will be encouraged particularly in key areas such as the motor industry, so as to respond better to the significant changes affecting these sectors.

In this context it will also be necessary to encourage the creation of sub-contracting promotion centres to develop complementary areas of activity between economic regions. The multiannual programme for SMEs as well as the Structural Funds would allow the cofinancing of such actions.

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(22) Commerce 2000 is a pilot action seeking to promote cooperation between SMEs by the use of modern management methods and new technologies in the retail and distribution sector (O.J. C 277/93 of 15.10.1993, p. 14).

Community support for schemes to set up networks of sub-contracting enterprises can be particularly beneficial, in particular by helping small enterprises to meet the demands of the major contractors. In this way they will be helped significantly by working together on common projects, particularly those involving the quality, design or marketing approach.

In addition main contractors are increasingly asking their sub-contractors to comply with strict quality controls. One of the major aims of the SME Community Initiative will be to improve SME production and organizational systems, both by introducing a strategy of total quality and through cooperation.

### 2.3. Support for improving management quality

#### Current Situation

It is a fact that in SMEs most of the management functions are exercised by the head of the enterprise himself and that he does not always have the necessary qualifications. As a result an improvement in the skills of entrepreneurs, either at the start up phase of an enterprise, or to overcome structural weaknesses, is a crucial factor in supporting the competitiveness of SMEs and their ability to retain jobs in the long term.

#### Measures

- 2.3.1. The effectiveness of measures already launched in this field would be greatly improved if coordinated action was taken by all the intermediaries to emphasize a certain number of key issues, thereby alerting the SME manager to the changes necessary in his role.

To this end, it is necessary to mobilize all the existing potential among enterprises' intermediaries. In this context, the Community could also examine the scope for improving the available advisory services which deal with various aspects of day-to-day management, as well as the usefulness of a European standard defining the quality criteria for consultants who hope to participate in Community programmes.

The Community SME Initiative is mainly geared to non-tangible investments and will be able to actively support efforts to ensure that the managers of enterprises are adequately trained.

- 2.3.2. Another specific measure is to provide backing for enterprises wishing to enter a growth phase. External expertise is vital in such cases, given the significant implications in terms of organization and industrial and financial management. Such enterprises should be identified through a mainly voluntary scheme and then be given support in their modernization and innovation efforts.

The EUROMANAGEMENT project adopted by the Commission involves action by specialized consultants within a sample of enterprises wishing to engage in transnational technological cooperation. A central coordinator develops the audit methodology and monitors and ensures the quality control of the consultants' work, in cooperation with the Commission. Such quality control makes it possible to confer on those enterprises taking part in such audits the recognition that they are capable of participating in national or Community RDT programmes.

A similar project has been developed to deal specifically with quality and certification questions and could be developed in the field of the environment.

Certain pilot projects promoted by the Commission - such as the PLATO programme developed in Belgium, which makes use of enterprise synergy to promote growth - could also be used successfully at a national level to identify those enterprises with the ambition to grow and to back up their efforts through assistance and sponsorship activities in which the large enterprises could participate.

The Community Initiative to assist SMEs is particularly well placed to back up the efforts of SMEs with an ambition to adopt a growth strategy combining management quality and production quality, in conjunction with a series of measures to assist SMEs under other Community support programmes. Where Member States include in their proposals such actions, the European Union could support them, either as part of operational programmes or via global grants to assist qualified intermediaries, while still retaining the role of coordinator and organiser of networks aiming at transnational cooperation.

## CONCLUSIONS

This Integrated Programme for SMEs and the craft sector pulls together various initiatives into a global framework to ensure their coherence and their visibility, and proposes 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 of these measures. In terms of specific concrete measures to help achieve the objectives of the White Paper, the implementation of the Integrated Programme will encourage a return to growth and competitiveness while improving the employment situation. To this end, the Community will make every effort to stimulate, innovate, and supplement the range of existing measures in a new form of partnership.

This partnership calls for close, concerted action by the Community, the national authorities and all intermediaries, whether they be employers' federations, professional associations or Chambers of Commerce and Industry, to realize this common objective, namely the mobilization of SMEs as a major source of job creation.

All available means must be used in order to ensure the success of an Integrated Programme which relies as much on concerted initiatives - taken jointly by the Member States to strengthen the coherence of measures in support of SMEs - as on the effectiveness of Community contributions and actions, without the need to add to budgetary provisions.

**COMMUNICATION FROM THE COMMISSION CONCERNING  
IMPLEMENTATION OF AN INTEGRATED PROGRAMME  
IN SUPPORT OF SMEs**

**FINANCIAL STATEMENT**

**1 TITLE OF OPERATION**

*Integrated programme in support of SMEs.*

**2 BUDGET HEADING INVOLVED**

*See point 7.2 below.*

**3 LEGAL BASIS**

*Treaty on European Union, in particular Article 130.*

**4 DESCRIPTION OF OPERATION**

**4.1 Specific objectives**

*The European Union attaches high priority to improving competitiveness and creating employment. Since SMEs have emerged as the main potential source of employment in the 1990s, and since they face a number of obstacles to realizing their employment-creating potential to the full, the European Institutions are fully committed to the specific measures benefiting SMEs which have been developed over the last eighteen months.*

*The purpose of the Integrated Programme is therefore to initiate in a concerted manner the set of measures described below, giving due regard to financial constraints, and to place activities carried out at micro-economic level in the macro-economic context of the White Paper.*

*The Integrated Programme will therefore have to contribute to achieving the aims set out in the White Paper, both in the short term (identifying and reducing obstacles of a fiscal, social, administrative and financial nature and other obstacles to the creation or safeguarding of SMEs, and improving the financing of enterprises) and in the medium term (supporting cooperation between enterprises, improving the quality of management, supporting the development of enterprises with a high growth potential and promoting employment by SMEs in the service sector).*

*In order to achieve these objectives, the Integrated Programme provides for two types of action, as part of a close partnership between all parties concerned in the development of SMEs:*

- A) Measures facilitating reciprocal consultation between the Member States and, where necessary, coordination between Member States with a view to:
 
  - *improving the business environment by simplifying administrative procedures, thus reducing the burden on enterprises and unlocking their potential for creating employment;*
  - *promoting support measures for enterprises operating at national or regional level;**
- B) identification of ways in which the Community can contribute to the development of enterprises, both in terms of the legal and fiscal environments, and of more direct support in the form of policies and measures to be implemented under the provisions of the Treaty.*

*Basically, the measures which are proposed will be taken pursuant to the following Decisions and Resolutions:*

- *the Initiative on Growth and the proposal by the Edinburgh European Council in December 1992 to create a European Investment Fund (EIF);*
- *Council Decision of 14 June 1993 on a multiannual programme in support of SMEs;*
- *the decision of the Copenhagen European Council to increase the funds available under the EIB temporary loan mechanism adopted in Edinburgh;*
- *Council Resolution of 22 November 1993 on strengthening the competitiveness of enterprises, in particular of small and medium-sized enterprises and craft enterprises, and developing employment;*
- *the White Paper on Growth, Competitiveness and Employment presented by the Commission at the end of 1993;*
- *the conclusions reached by the European Council in Brussels on 10 and 11 December 1993; and*
- *a number of measures implementing the above, most notably:*
  - *the decision to grant low-interest loans by the EIB;*
  - *Commission Decision of February 1994 on the launch of a Community initiative benefiting SMEs, and the ADAPT initiative, which is geared primarily to the needs of SMEs.*

4.2 Period covered: 1994-1999.

4.3 Target population

*Member States, regional and local authorities, enterprises (in particular, SMEs), consular authorities, etc.*

## 5 CLASSIFICATION OF EXPENDITURE OR REVENUE

5.1 Compulsory/Non-compulsory expenditure

5.2 Differentiated/Non-differentiated appropriations

5.3 Type of revenue involved: *Not applicable.*

## 6 TYPE OF EXPENDITURE OR REVENUE

*The types of expenditure are appropriate to each of the measures described in point 7.2.*

## 7 FINANCIAL IMPACT

7.1 Method of calculating total cost of operation (definition of unit costs)

*This integrated programme will have no new budgetary impact.*

7.2 Itemised breakdown of cost

*This Integrated Programme will have no additional budgetary impact and will be implemented under the budgetary planning for the period 1993-99. The Programme also involves more direct support measures, to be implemented pursuant to the provisions of the Treaty. The most important of these measures are set out below, together with a statement of the approximate amounts provided for in the Decisions and the budgetary planning for 1993-99:*

*Multiannual programme for SMEs 1993-96: ECU 112.2 million.*

*Community Initiative for SMEs 1994-99: ECU 1 billion.*

*ADAPT Initiative 1994-99: various projects for SMEs within the ECU 1.4 billion global allocation.*

*EIB global loans: ECU 1 billion for SME competitiveness.*

*Interest-rate subsidies (2%): ECU 45 million for 1994 and ECU 22.75 million for 1995.*

*EIF: ECU 2 billion in the form of guarantee capital, followed by direct holdings.*

*R&TD framework programme 1995-99: Numerous objectives concerning SMEs involving specific programmes and the funds for their implementation.*

*Structural funds 1994-99: Numerous objectives concerning SMEs in the context of Community Support Frameworks (CSFs) and operational programmes.*

7.3 Operational expenditure (studies, meetings of experts, etc. included in Part B) Not applicable.

7.4 Indicative schedule of appropriations: Not applicable.

## 8 FRAUD PREVENTION MEASURES; RESULTS OF MEASURES TAKEN

*Anti-fraud provisions are incorporated in each of the measures described in point 7.2.*

## 9 ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

### 9.1 Specific and quantified objectives; target population

*The Integrated Programme in support of SMEs, which is designed to bring various initiatives together in a global framework, is an essential ingredient for strengthening the coherence and visibility of those initiatives. In order to increase the convergence of these measures, it is proposed that a close partnership be created between all parties concerned at Community, national and regional level, a partnership which will not have any additional financial impact.*

### 9.2 Grounds for the operation

*In view of the aims described in point 4, it should be pointed out that the Integrated Programme is not intended to replace the various measures being taken at national or Community level, nor to interfere in the decision-making processes relating to those measures. Rather, the intention is to mobilise the contributions of each of them, and to increase their effectiveness by identifying best practices and promoting their more widespread adoption, and by enhancing the visibility and profile of measures in support of the enterprises in question.*

- Cost: Not applicable.

- Benefits:

*Given greater cohesion between measures taken by the various parties, the Integrated Programme should make it possible for SMEs in particular to confront the challenges facing them and overcome the obstacles to growth and competitiveness, and to increase SMEs' potential - already considerable - for creating employment.*

### 9.3 Monitoring and evaluation of the operation

*Regular evaluation is planned in a manner appropriate to each of the measures described in point 7.2.*