

***SMALL AND MEDIUM-SIZED ENTERPRISES
A DYNAMIC SOURCE
OF EMPLOYMENT, GROWTH AND
COMPETITIVENESS
IN THE EUROPEAN UNION***

***REPORT PRESENTED BY THE EUROPEAN COMMISSION
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INTRODUCTION

There is now widespread recognition within the EU that small and medium-sized enterprises (SMEs) are the key sector for generating employment opportunities and growth in the European Union¹.

The Community and Member States at national, regional and local level, already try to unlock the potential of SMEs through an array of policy measures and support schemes, but many of these initiatives are narrowly targeted and too disparate to be easily accessible by most SMEs. The challenge is to improve their transparency, ensure better coordination between them, increase their uptake, so as to render them all more effective. But there is perhaps a bigger challenge : to make the life of the European entrepreneur simpler in every respect, less burdened with costly, unnecessary bureaucracy, so as to really encourage entrepreneurship, creativity and innovation throughout the Union.

At the Madrid European Council there is a real opportunity for the European Union to give fresh impetus to SMEs of all kinds (manufacturing, business services, craft industry and commerce) and so maximize their vital contribution to European society and in particular to reducing unemployment which is the Union's most pressing problem.

¹ To maximise this potential, the European Council in Cannes requested the Commission to explore ways to improve the efficiency of current SME policies (Conclusions of the Presidency, SI(95)500 of 27 June 1995, p.5). This Paper responds to that request.

I. SME POLICY TODAY

All Member States have recently strengthened their policies for SMEs (see Annex I) and there is now a considerable degree of convergence between these policies. The objective of many of these measures is to both preserve jobs by supporting existing SMEs and create new jobs by supporting business start-ups and the development of firms with high growth or employment potential.

In 1993, the Commission introduced an Integrated Programme in Favour of SMEs and the Craft Sector² in line with the White Paper on Growth, Competitiveness and Employment which highlighted the need to improve SME policies. This Programme has demonstrated that the European Union plays an important complementary role by reinforcing the co-ordination of regional, national and Community policies and programmes.

Furthermore the EU helps to create an open and stable business environment for enterprises through two of its major strategic goals, namely by implementing the Internal Market and establishing Economic and Monetary Union.

It is the Commission's view that, although SME policy now ranks higher than ever on the political agenda, much more can be achieved by a fresh approach focusing on a number of priority issues.

² COM(94)207 final. See also Second Multi-annual Programme to assist SMEs, OJ N° L 161/68 of 2.7.93 and Commission Communication of 26.10.95 on the Craft Industry and small enterprises, keys to growth and employment in Europe, COM(95)502 final.

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II. SMEs' CONTRIBUTION TO EUROPEAN EMPLOYMENT AND GROWTH IS NOWHERE NEAR FULL POTENTIAL

Net job creation in SMEs has more than compensated for job losses in large enterprises during the period 1988 to 1995. Enterprises with fewer than 100 employees have been responsible for almost all the job creation at a rate of 259,000 net jobs per year (see Graph 4). This trend is expected to continue. During periods of recession small enterprises shed jobs more slowly and absorb economic shocks better than large companies.

SMEs account for 99.8% of all companies, 66% of total employment and 65% of business turnover in the European Union (see Graphs 1-3). In particular, **those at the smaller end now play a key role in terms of growth and generate an above average share of new jobs**

Despite some encouraging data concerning the recent economic performance of the Community, **employment creation in Europe has been unimpressive** and unemployment has not been reduced significantly. Furthermore, the rate of job creation in SMEs is not accelerating despite positive economic trends. By way of comparison, in 1994 employment in small businesses in the United States increased by 4.7%, generating 2.1 million net new jobs.

Therefore European SMEs' full potential for growth and employment creation is not being properly realised. On average 50% of SMEs in the EU fail within the first five years of start-up³, a significant attrition rate with corresponding job losses. In addition, 30,000 enterprises and 300,000 jobs are threatened every year simply because SMEs fail to overcome the difficulties involved in the transfer of ownership⁴.

There are considerable differences in net job creation between SMEs and large enterprises, as well as in survival rates of enterprises between Member States, which demonstrates the potential for additional job creation (See Graph 5). Among the factors offering new opportunities for SMEs are the growing importance of the service sector (in particular business services), the increasing role of technologies favouring small scale production, easier access to global markets (including the Information Society) and the move towards outsourcing, subcontracting and downsizing by large firms. SME development is also essential for maintaining social and economic cohesion and assisting rural development.

The available evidence suggests that growth and job creation in SMEs has been inhibited by

³ Enterprises in Europe, third report, 1994, p. 230.

⁴ Commission Recommendation of 7 December 1994 on the transfer of SMEs, OJ N° L 385/14 and C 400/1 of 31.12.94.

basic market and policy imperfections or failures which have not yet been adequately addressed. There is now an urgent need to develop remedial measures.

III. THE MAJOR MARKET FAILURES

A. Excessive Costs Arising from Regulation

- The Administrative Environment Results in a Structural Bias against SMEs

European enterprises face an increasingly complex legal, fiscal and administrative environment. While the cost of non-regulation has never been measured, the total annual cost of administrative burdens on all enterprises in Europe has been roughly estimated to be in the order of 150-250 billion ECU⁵. Although part of this burden is unavoidable, what matters most is the relatively much higher impact on SMEs⁶ than on large companies. SMEs do not have the human resources to cope with this burden and often cannot afford to pay for outside help.

According to a German study, the average time spent by businesses on administrative work amounts to over 700 man hours a year. A business with up to 9 employees devotes **62 hours per employee** to administrative formalities. For a larger company, however, this figure is much lower at 5 1/2 hours. The same study stated that the relative cost of administrative burdens per employee is **more than 20 times higher in smaller enterprises than in larger ones** (see Graph 6). Administrative complexity is particularly important in the areas of labour, environmental and tax legislation. In the UK, for example, a study estimates that the smallest enterprises pay 2% of their turnover in VAT compliance costs whereas for larger enterprises the cost is negligible. This effectively amounts to a **2% surcharge or penalty on smaller enterprises** (see Graph 7), negatively affecting their competitiveness. In the area of VAT, SMEs face additional difficulties and costs in intra-Community trade, mainly because of the complications of the transitional VAT system with its numerous special schemes.

⁵ European Observatory for SMEs, Third Annual Report, 1995.

⁶ According to a 1995 study by the Institut für Mittelstandsforschung, SMEs are bearing 96% of this burden.

Such excessive compliance costs not only **discourage new business creation but also recruitment**, entrepreneurship and innovation as well. Slow and costly administrative procedures which start-ups must go through in some Member States to obtain the necessary authorisations are a further disincentive.

- *Regulatory Barriers to the Successful Transfer of Businesses*

Regulatory barriers, in particular fiscal burdens, often prevent the successful transfer of a business from one generation to the next. Payment of inheritance or gift tax may threaten the financial equilibrium of the enterprise and even its survival. At least 30,000 businesses and 300,000 jobs a year are lost due to unsuccessful transfers of businesses in the EU⁷.

A 1992 French study estimated that, to enable the payment of inheritance tax, a business in France might have to set aside, **for a period of eight years, up to 88 % of its profit**, in Belgium 46 %, in Italy 33 %, in the UK 30 % and in Germany 21 % (see Graph 8 and Annex I).

B. The Innovation Market

- *Limited Creation of New-Technology-Based-Firms*

Although Europe's performance in scientific research is often excellent, its performance in converting scientific discoveries into marketable products through innovation is worse than its major competitors. The business environment in Europe (in particular, the lack of sufficient risk capital, the existence of significant regulatory barriers and a lower propensity to take risks) are not as conducive to the development of new-technology-based firms (NTBFs) as in the US. As a result, the EU's industrial structure does not generate new enterprises quickly enough to continuously improve its overall competitiveness and sustain employment.

- *Restrictions on Technology-Intensive SMEs*

Technology-intensive SMEs need much better access to Community-funded R&TD programmes. One obstacle to their participation in these largely pre-competitive programmes is the fact that SMEs tend to conduct R&TD on a short term basis, aimed at developing immediately marketable products. There is a lack of networking with each other and with large companies to exploit business synergies.

But there is another problem which also needs examining - namely the complexity of the Commission's own procedures in the research area. The Commission has already begun examining the situation with a view to making them more efficient and especially simpler.

- *Limited Technology Take-up by SMEs*

⁷ Commission Recommendation of 7 December 1994 on the Transfer of SMEs, OJ N° L 385/14 and C 400/1 of 31.12.1994.

The vast majority of SMEs, who are not technology-intensive, need to make use of readily available research results in order to remain competitive, but lack the expertise and resources to do so. In particular, SMEs need to develop better access to the new information technologies which offer immense potential for improving the overall performance of their business. The flexibility of the forthcoming Information Society can be of huge benefit to SMEs - for networking, for marketing their products and services, for facilitating exporting and for designing made to measure training modules etc.

C. The Labour and Human Resources Market

- The Cost of Labour

The current labour market environment acts as a disincentive to job creation in SMEs. Due to their limited market influence, individual SMEs must be able to respond to changing market conditions. However, recruitment of an additional employee is frequently perceived as a liability rather than as a means to increase business. This lack of flexibility can seriously jeopardise the viability of SMEs and discourage them from recruiting.

The general trends in taxation in the 15 Member States since 1980 show that taxation of labour has increased steadily, whereas taxation of other factors of production has decreased. Relatively high taxes and social security contributions on labour hit SMEs hardest. They are a financial disincentive to take on employees, in particular for the smallest firms with very limited resources to reallocate to new tasks.

- Insufficient Focus on Training in SMEs

Although qualifications are a key to competitiveness, training in SMEs is undertaken significantly less often than in large companies, partly because the training available does not meet SMEs' needs. Initial training programmes do not always provide for the necessary multidisciplinary skills and core competences they need. Traditional away-from-the-job training is often unsuitable for SMEs and the training infrastructure is notoriously weak in sectors dominated by SMEs.

- Training Barriers to Employment in the Craft Sector

The craft industry and small enterprises can make a significant contribution to employment and economic development, a fact highlighted in a recent Commission Communication⁸. However, there is still insufficient creation of businesses and jobs in this sector, due to a still inadequate level of vocational and management training for apprentices and potential new entrepreneurs.

D. The Financial Market

Compared to larger firms, SMEs are much more dependent on internal sources of funds (i.e.

⁸ Commission Communication of 26.10.95 on the Craft Industry and small enterprises, keys to growth and employment in Europe, COM(95)502 final.

owners' own capital and retained profits) than external sources of finance. They clearly have problems accessing bank loans at reasonable rates, or equity raised on the markets, frequently relying on informal sources (family, friends) for external funding. The major problems are:

- *Under-Capitalisation of European SMEs*

European enterprises are under-capitalised in comparison with their counterparts in the US partly because **national tax systems in the European Union discriminate in favour of debt financing and against equity financing**. This discourages enterprises from building up their own equity base and reinvesting the retained profits in their business. SMEs are particularly affected, since they have fewer financing options than large enterprises.

For example, an entrepreneur who invests a given sum from his business' earnings in his company is being taxed, whereas if he borrows the same amount from a bank, this operation will not only be tax-free but he will be able to deduct interest from his tax bill. In other words, the natural behaviour that should be encouraged by all Member States, i.e. reinvestment of savings in one's own enterprise, attracts a **tax penalty**, whereas the economically less efficient and more costly option of debt financing attracts a **tax bonus**.

This system produces a clear bias that leads all enterprises, in particular SMEs, to neglect, even reduce, their equity base, while accepting a high proportion of debt financing. In addition, this causes cash flow problems since debt repayments must continue even in times of recession whereas dividends can be temporarily suspended. Moreover, the present adverse tax treatment discourages entrepreneurs and managers from going into business and providing equity finance.

- *Difficulties in Obtaining Loans*

Compared to larger enterprises, SMEs, with their limited assets, encounter greater difficulties in obtaining loans. In any case, SMEs typically pay an interest rate two to five percentage points higher than large enterprises⁹. While this interest rate differential is due to factors such as higher administrative costs and higher perceived risks of bank loans to SMEs, this additional burden has a negative impact on the potential of SMEs for growth and job creation.

- *Absence of European Capital Markets for SMEs in Europe*

An important weakness in the present European financial system is that, in most Member States, there is no market in the equity of SMEs. This means that there is no interface between SMEs who need equity capital and investors who are willing to provide it.

⁹ European Observatory for SMEs, First Annual Report, 1993.

The US NASDAQ (National Association of Securities Dealers Automatic Quotation) electronic stock market (the world's second largest capital market in terms of dollar volume of equity trading) provides upwards of 400 suitable smaller companies each year with ready access to equity capital through a public offering of their shares. In Europe, only **10 to 20 % of this number** tap the secondary markets and many choose a NASDAQ listing instead, with a corresponding reorientation of their strategy towards the US markets. The number of companies newly listed on US stock markets represents **more than 200 %** of the number in the EU (See Graph 9).

The lack of such a capital market for SMEs in the EU retards the development of fast-growing European companies, particularly those engaged in high technology activities, needing regular injections of equity capital. The difficulties in creating successful secondary markets on a national scale demonstrate the need to create the right regulatory framework necessary to encourage a European-wide initiative.

E. The Product and Services Market

- Distortions of Competition

Under Community competition rules, SMEs benefit from certain procedural advantages aimed at reducing the administrative burdens upon them. Moreover, in the application of competition rules, the Commission has always taken account of the more limited effects on competition of State aids or agreements among SMEs due to their size.

However, within the EU, SMEs are often hampered by legal and de facto monopolies or other anti-competitive practices¹⁰, such as distortions arising from State aid. It is significant that only 9% of the total volume of State aid to the manufacturing sector in the EU (**which amounts to more than ECU 93 billion over the period 1990-1992**) is granted with SME development as a primary objective¹¹. While SMEs may also benefit directly under other schemes, large businesses tend to receive more government support in particular in the areas of rescue and restructuring aid as well as aid for R&TD purposes. On balance, this support does not filter down and benefit SMEs. There is therefore an evident need to look much more closely at the opportunity cost of State aid expenditure.

- Barriers to Accessing the Internal Market

Despite clear evidence that the Internal Market legislative programme has already begun to reap benefits for business, SMEs in particular are still having difficulties in gaining access to significant parts of the market. The remaining problems include:

- . Delays in national transposition and differences in compliance, interpretation and enforcement of

¹⁰ 1994 Study by McKinsey Global Institute on employment performance.

¹¹ Fourth Survey on State Aid in the EU in the manufacturing and certain other sectors, COM(95) 365 final of 26.07.95.

Community law. Over-bureaucratic implementation, so-called "*gold plating*", often negates the beneficial effects of Community-wide harmonised legislation, creating unnecessary bureaucratic barriers.

- Persistence of technical barriers to trade resulting from a lack of acceptance of the mutual recognition principle, the slow pace of the European standardisation and certification procedures, unnecessary local transfrontier barriers, and the lack of SME involvement.
- Barriers to participation in public procurement : **Public procurement markets across the Union are worth approximately ECU 930 billion on an annual basis (i.e. 15% of EU GDP).** But only a minimal share of cross-border public procurement contracts is currently awarded to SMEs. A major reason for this is SMEs' lack of awareness of the possible opportunities, particularly those in other Member States. This arises partly because existing EU legislation only requires larger contracts, which are of limited interest to SMEs, to be advertised. There are particular difficulties for SMEs arising from pre-qualification requirements, the need for a trading record or financial guarantees and the requirement to conform to national technical standards (in the absence of European-wide standards).
- Lack of compliance with agreed payment terms : SMEs are reluctant to engage in cross-border trade since it is often more difficult to recover debts abroad than in the national market.

- ***Lack of Comprehensive Global Market Intelligence***

Success in the global market place requires long term commitment. But a starting point is to have access to the essential market information with which to make strategic business plans.

European SMEs lack access to global or regional market intelligence compared to their US counterparts. Additional barriers to internationalisation include limitations on capital, management weaknesses, lack of specialised human resources and difficulties in identifying suitable partners.

IV. THE REQUIRED POLICY MIX

Based on the analysis in Section III, the Commission considers that the following policies and concrete actions are essential to strengthen SMEs' job creation and growth potential in the European Union.

A. The Regulatory Environment

- *"Think small first" : Reduce the Structural Bias against SME Creation and Development resulting from Excessive Bureaucracy*

Major administrative reforms to cut bureaucracy and to simplify the legal and fiscal environment for SMEs need to be implemented.

Member States should develop a bold strategy for administrative simplification, based on work programmes **which set concrete dates and targets in terms reductions of cost and time for SMEs**. These should include measures such as:

- Drastically cutting administrative work resulting from SMEs' dealings with tax and social security administrations by harmonising and simplifying definitions and procedures at national level.
- Developing a full service approach by setting-up *"first-stop-shops"* providing information and advice to SMEs and implementing simplified start-up procedures for new SMEs (e.g. the French *"déclaration unique de création d'activité"*).
- The automatic granting of licences or authorisations failing reaction from the administration in a given time period following receipt of an application.
- Developing (in a concerted action with Member States) methods for benchmarking in the area of administrative simplification.
- Setting benchmarks in the area of support services for the creation and development of SMEs.

The Commission for its part will similarly step up its efforts to reduce administrative and regulatory burdens on businesses. Concrete measures will include:

- Simplifying and improving the quality of Community legislation and reinforcing policy coordination¹².
- Proposing a simple VAT system as requested by the Council¹³.
- Strengthening the role of the Euro-Info-Centres (EICs) as a "*first-stop-shop*" by co-ordinating all SME-relevant Community networks in the new multi-annual programme.

- *Facilitate the Successful Transfer of Businesses*

Given the high number of jobs lost in transfers or handovers of businesses each year, the legal and fiscal framework should be adapted to make transfers easier and less burdensome¹⁴. Member States should now urgently consider adopting further measures in order to increase the survival rate of businesses at this crucial point in their life cycle.

- *Ensure better SME Representation in Policy-Making*

Member States and the Commission should take steps to improve the consultation of SME organisations when preparing policy action which directly affects them and should encourage their full involvement.

B. The Innovation Market

- *Encourage the Creation of New-Technology-Based Firms (NTBFs)*

NTBFs open entirely new areas for growth and job creation but the high risks involved in early stage venture capital for NTBFs have made this segment unattractive for the majority of European investors. In view of the cross-border nature of the two main markets involved (finance and technology), there is a strong case for a pilot action to be taken at European level. Actions should also focus on researchers and engineers employed in research institutes in order to encourage them to market their inventions by creating their own companies (inter alia by providing certain financial safeguards in the area of social security). As the second Ciampi report says "*...the main challenge is the ability to ensure the results of successful research are translated into marketable innovation...*".

¹² "*Legislating better*", Commission Report on the Application of the Principles of Subsidiarity and Proportionality, Simplification and Codification, COM (95) 580.

¹³ Conclusions of the Council of 24.10.94.

¹⁴ Commission Recommendation of 7 December 1994 on the Transfer of SMEs, OJ N° L 385/14 and C 400/1 of 31.12.94.

- Facilitate Innovation and Research by Technology-Intensive SMEs

While progress has been made in facilitating access by SMEs to Community research programmes, the Fourth Framework Programme has not addressed the issue of alternative financing incentives specially adapted to the needs of SMEs. This could be examined in the context of the Fifth Framework Programme. In the meantime, the Community should launch a pilot action to provide soft loans for short term development work undertaken jointly by SMEs of different Member States.

Experiences in some Member States show that clustering and high-level customer-supplier relations may help to realise scale effects, upgrading and learning processes. Collaborative projects between SMEs and large companies or universities and research institutes with complementary technologies should be encouraged, together with other actions promoting innovation which will be proposed in the Commission's Green Paper on this subject.

- Promote the Use of Information Technologies by SMEs

The Community and Member States should promote the use of information and communications technologies in a way which is suited to the needs of SMEs. Networking with other businesses, including those which create or disseminate such technologies, should be stimulated by pilot actions.

C. The Labour and Human Resources Market

- Ensure Lower Non-Wage Labour Costs

The Essen European Council identified the reduction of non-wage labour costs as one of the five priorities for an improvement of labour market policies, recommending that these reductions be large enough to ensure a noticeable effect on decisions concerning the taking on of employees, and in particular unqualified employees. Such a move would have a particularly strong effect in SMEs and should be vigorously pursued by Member States

Simplifying labour legislation and introducing more flexible working time are other essential elements to encourage employment generation in SMEs.

- Encourage an Entrepreneurial Culture

In the medium and long term, education and training should aim to encourage an entrepreneurial culture which will lead to business start-ups and job creation as envisaged in the White Paper on Education and Training¹⁵.

¹⁵ COM (95) 590 Commission White Paper on education and training.

- *Adapt Training to the Needs of SMEs and Encourage good Management Practice*

Member States should put in place easily accessible training programmes and an infrastructure which take into account the special needs of SMEs. Specific actions should focus on:

- Encouraging apprenticeships which combine school and college-based training with work experience ("*sandwich courses*").
- Promoting management training prior to business start-up.
- Improving access to training for women, who currently manage or own 30 % of all enterprises.
- Encouraging continuous training in new technologies.

- *Introduce Incentives for SMEs to Invest in Training*

Policy measures should seek to promote a change of attitude of entrepreneurs towards training through a range of measures so that training is integrated into SMEs' investment decisions. Such measures could be, for example, tax incentives or equivalent allowances for training and reduced social security contributions for trainees.

D. The Financial Market

- *Reduce Tax Discrimination between Debt and Equity Financing for SMEs*

If the existing under-capitalisation of SMEs is to be reduced, tax treatment of equity and debt financing should be even-handed¹⁶, recognising that a step-by-step approach will probably be necessary because of the overriding necessity to reduce public deficits. A number of Member States have moved in this direction. A starting point could be for Member States to provide tax relief for enterprises to use part of their profits to build up their own capital. The ultimate goal, however, should be to provide the same level of tax relief for the cost of equity or own investment as for interest payments on debt.

¹⁶ This tax incentive could consist of a deductible allowance which reflects the cost of raising equity. Mediocredito Centrale, Report on "Tassazione e Riequilibrio Finanziario delle Imprese Italiane", 1995 and M. DEVEREUX and H. FREEMAN, "A General Neutral Profits Tax", Fiscal Studies, 1992.

- *Improve Access to Credit through an Extended Edinburgh SME Facility*

The Edinburgh SME soft loan facility has already proven its worth by creating at least 42,000 new jobs at very low cost to the tax payer (ECU 2,250 on average per job created). However, a one-off operation does not sufficiently address the financing and unemployment problems which largely remain. Now that a network between the European Investment Bank and participating banks has been established, it would be wasteful not to continue exploiting their full potential. The fact that the initial scheme was oversubscribed by more than 50% demonstrates its utility and powerfully underlines the need for its prolongation. The Commission should be invited to present a proposal along these lines, with particular attention to the needs of small and craft enterprises. In such a scheme, participating banks could be invited to report on organisational and structural changes they have introduced to ensure a better partnership with their SME clients¹⁷.

- *Facilitate Access to Credit through the European Investment Fund Guarantees*

The European Investment Fund (EIF) has been in operation since June 1994 but thus far its interventions in favour of SMEs have been limited. In view of the difficulties faced by SMEs, in particular the smaller ones, in gaining access to sources of bank finance, the EIF could play an important role through the extension of direct or indirect loan guarantees in favour of this category of borrowers. The cost of the guarantee premium would be borne by the Community budget. Such an initiative could be made complementary to the Edinburgh facility, in the sense that small enterprises (less than 50 employees) participating in the SME Facility would enjoy the supplementary benefit of a partial (50 %) loan guarantee extended by the Fund or other guarantee schemes.

- *Increase the Supply of Equity Capital through the European Investment Fund*

While the EIF's Statute covers both guarantee and equity operations, the latter can only start at the earliest two years following the formal establishment of the Fund (June 1994), subject to a favourable decision by the Fund's General Meeting. As a decision on equity provision is likely to come up in June 1996, the Commission strongly recommends that the Community, as well as the other shareholders of the Fund, take a positive attitude towards equity operations.

- *Facilitate the Creation and Operation of European Capital Markets for SMEs*

Private initiatives are underway to launch a European capital market for SMEs (e.g. EASDAQ¹⁸ and the "Nouveau Marché") in 1996. The Commission and Member States should ensure that their creation and operation are facilitated by removing **all remaining barriers by the end of 1996**.

¹⁷ For instance, by making use of a Technology Rating scheme such as the one initiated by the ING Bank in the Netherlands or a management rating scheme (e.g. developed by the European Foundation for Business Qualification).

¹⁸ European Association of Securities Dealers Automatic Quotation (EASDAQ).

- Urgent and accurate transposition of the Investment Services and Listings Directives in all Member States is required and is a prerequisite for such markets¹⁹.
- Existing legal, regulatory and fiscal barriers both to investors (such as pension funds) and to small firms wishing to enter these European capital markets should be identified and removed by the end of 1996.

E. The Product and Services Market

- Remove Entry Barriers to Markets and Reduce Distortions Resulting from State Aid

In order to ensure open and competitive markets for SMEs, Member States and the Commission should step up their efforts to:

- Introduce competition in those fields which are still protected by legal or de facto monopolies and other anti-competitive practices, whilst respecting public service obligations.
- Reduce the level of State aid, taking account of regional differences and other Community objectives, by subjecting it to tighter control (as recommended by the Council)²⁰.

- Improve Access to the Internal Market

- Opening up cross-border public procurement opportunities for SMEs, publicising more widely contracts which are currently below the existing advertising thresholds and improving the access to information concerning the tender processes and documentation for contracts between Member States.
- Stimulating cross border trade by removing local trade barriers, thereby promoting new cross frontier regional economic areas in the European Union (e.g. the France-Belgium cross-frontier INTERREG initiative).
- Combating late payment by taking urgent measures along the lines of the Commission Recommendation²¹ on this subject. National administrations and the Commission itself should increase their own efforts in this domain and lead by example.

¹⁹ Commission Communication of 25.10.95 on the feasibility of the creation of a European Capital Market for smaller entrepreneurially managed growing companies, COM(95)498 final.

²⁰ Council Conclusions of 6-7 November 1995 on competition policy and industrial competitiveness.

²¹ Commission Recommendation of 12 May 1995 on payment periods in commercial transactions, OJ N° L 127/19 and C 144/3 of 10 June 1995.

- *Help SMEs to Internationalise*

Helping SMEs to internationalise is a key factor in enhancing their competitiveness in the Internal Market and beyond. This will be one of the main objectives of the Multi-Annual Programme in favour of SMEs and the craft sector (1997-2000) which the Commission will propose early in 1996. This programme will include measures in the field of business support focusing on, inter alia, improved access to market intelligence, networking, business co-operation networks, exporting assistance and industrial cooperation programmes.

V. PRIORITY ACTIONS FOR MEMBER STATES AND THE EU

The importance of encouraging entrepreneurship at all levels must now be given full recognition by policy makers throughout the Union. The primary goal must be to recreate and stimulate a truly entrepreneurial culture, based on values such as self-reliance, risk-taking and a sense of personal commitment. This refocused effort is required above all to create more jobs across all sectors of the European Union's economy.

This requires action to change attitudes, starting from the educational and training systems and covering the relationship between the entrepreneur and public administrations, financial institutions and large businesses.

But to create a more open and stable business environment for SMEs will require a very significant effort by all concerned. Furthermore, boosting SME competitiveness, both internationally and domestically, will also require a sustained policy effort over a number of years.

With this in mind, the Commission has identified a number of priority policy objectives and measures among those identified in Chapter IV which are outlined below linked to the major problem areas.

The Commission considers that these policies should form the basis of the next Multi-annual Programme for SMEs and the craft sector for the period 1997-2000. Progress towards achieving these policy objectives should be monitored. The priority policies and measures are:

1. Reduce Red Tape which Hampers European Entrepreneurship

- Member States and the Commission should develop a bold strategy of administrative and regulatory simplification based on benchmarked cost-reduction targets and including a simple VAT system.
- Access to all SME programmes must become simpler and streamlined. Member States and the Commission should work towards the principle of "*one stop shops*". In this context the role of the Euro-Info-Centres (EICs) as a "*first-stop-shop*" for Community programmes will be promoted.

2. Ensure Better Involvement of SME Organisation(s) in the Decision-Making Process

Member States and the Commission should improve consultation of SME organisation(s) when preparing policies of relevance to them, and should encourage their full involvement.

3. Help Finance SMEs which Create new Jobs

- Tax discrimination between debt and equity should be reduced (and eventually eliminated).
- The Commission and the Member States should take the necessary steps to encourage the creation of capital markets for SMEs in Europe; in particular they should ensure that the creation and operation of the pan-European capital market for SMEs (EASDAQ) is facilitated by removing all remaining barriers, legal, regulatory or fiscal, by the end of 1996.
- The Edinburgh SME Loan Facility should be extended by ECU 2 billion, with interest subsidies for SMEs creating new jobs. There should be additional encouragement from the Community budget for small enterprises in the form of cost-free loan guarantees extended in particular by the European Investment Fund.

4. Reduce Market Distortions and Inefficiencies

The Commission and the Member States should ensure that competition should be progressively introduced in protected markets and market distortions from State aid minimized. Public procurement opportunities for SMEs, including cross-border procurement, should be expanded.

5. Vigorous Action to Promote Research/Innovation/Training to Assist SMEs

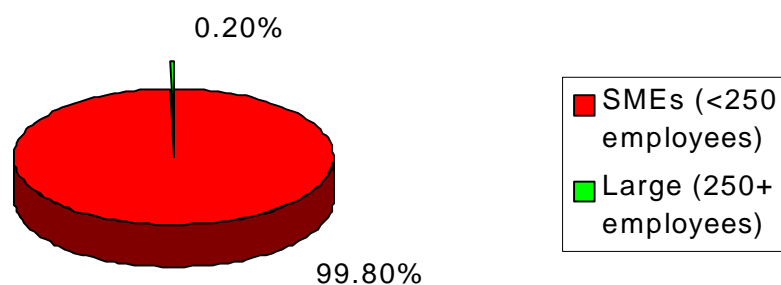
The Commission and the Member States should encourage the creation of new technology based firms by all appropriate means and ensure higher participation of SMEs in the Community's major research and training programmes so as to stimulate innovation, the application of new technologies and entrepreneurship across the Union.

6. Enhance Competitiveness and Internationalisation of SMEs

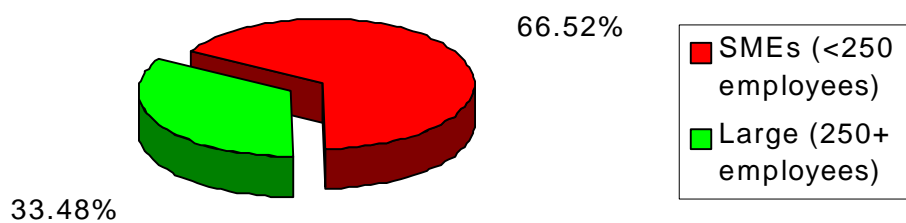
Building on existing policies, completing the Internal Market, improving networking, export assistance and industrial cooperation are key axes for reinforcing the internationalisation of SMEs and will form part of the next SME Multi-annual Programme.

GRAPHS

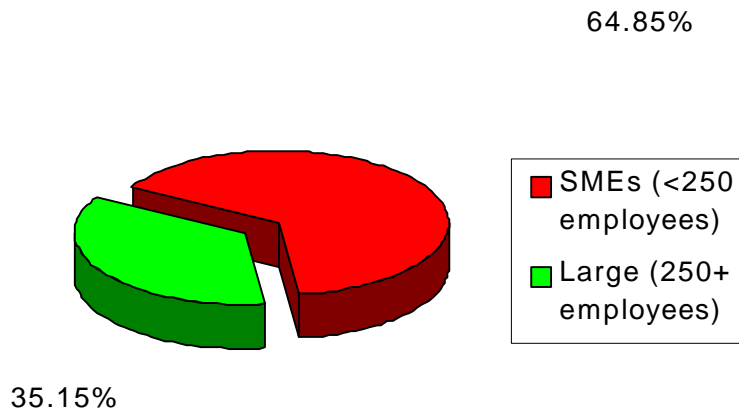
Graph 1 Share of SMEs in the global number of EU enterprises



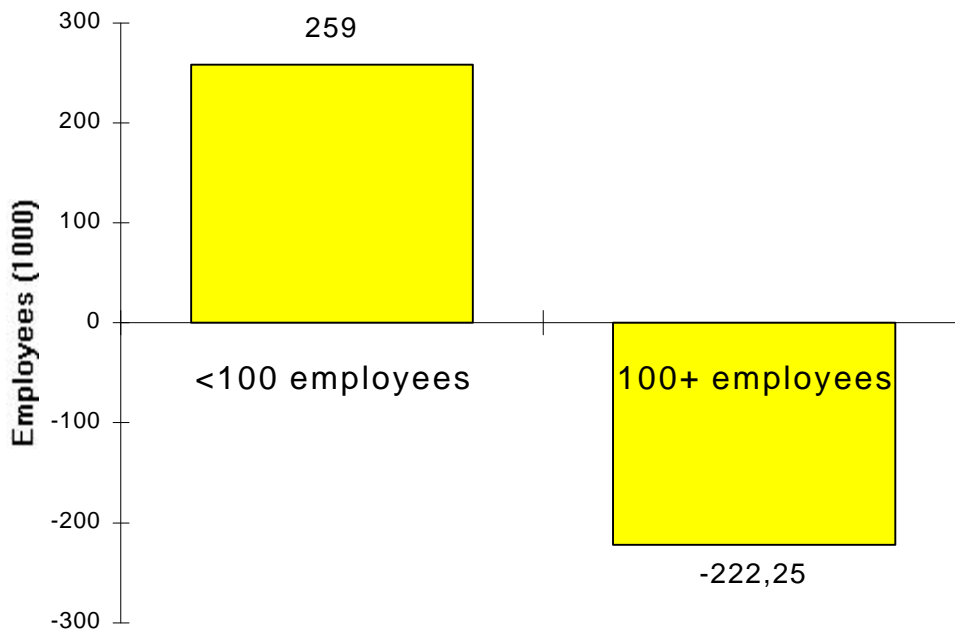
Graph 2 Share of SMEs in overall EU employment



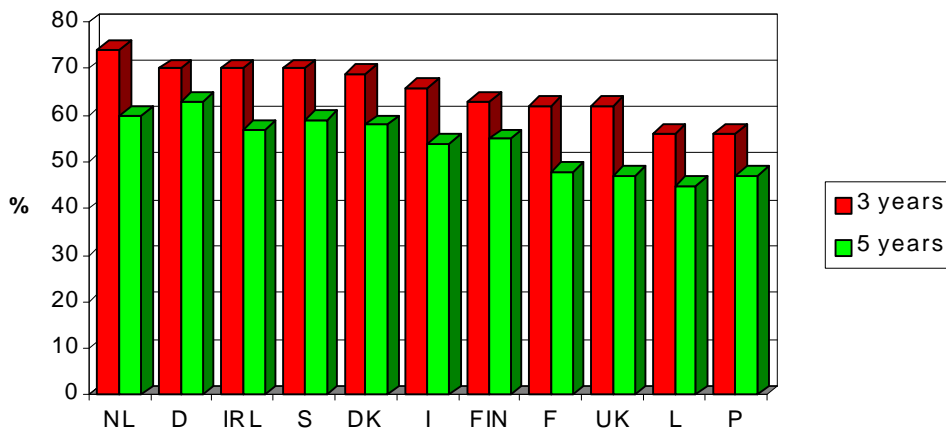
Graph 3 Share of SMEs in overall EU turnover



Graph 4 Annual net job creation by enterprise size in EU and Norway (1988-1995)



Graph 5 Survival rate of newly-registered and newly-established firms after three and five years



Graph 6 Cost of administrative burdens per employee in Germany (1994)

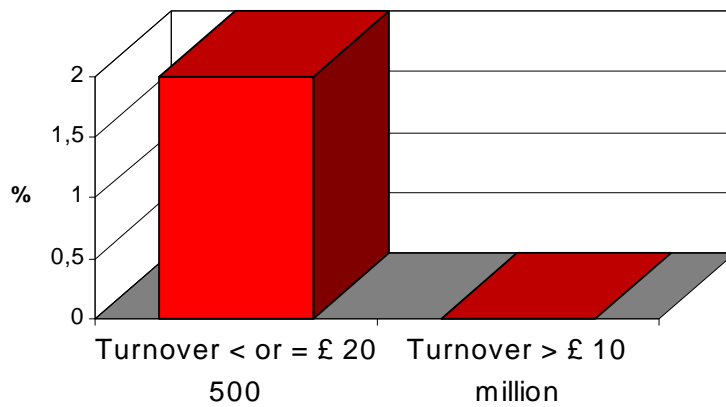


Estudi sobre les barreres d'entrada i els incentius a la creació de microempreses.

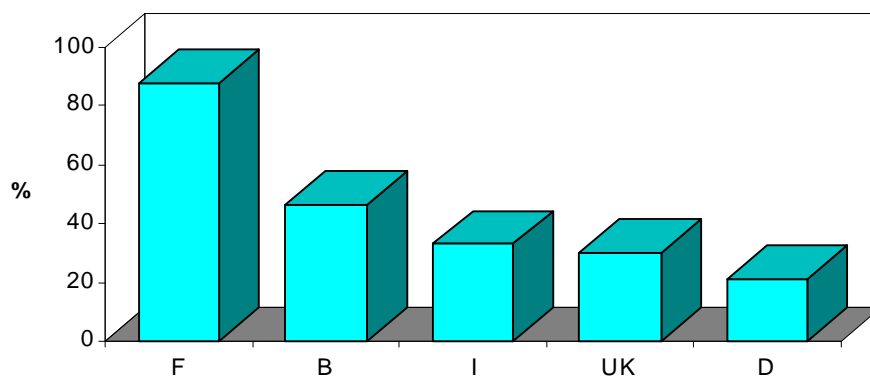
CP'AC- Albert Colomer i Espinet

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Graph 7 VAT compliance costs as a percentage of turnover in United Kingdom



Graph 8 Share of profit committed to funding succession rights (1991)



Estudi sobre les barreres d'entrada i els incentius a la creació de microempreses.

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Graph 9 Number of domestic companies newly listed in the USA and in Europe

