

## Opinion of the European Economic and Social Committee on 'The role of micro and small enterprises in Europe's economic life and productive fabric'

(2003/C 220/12)

On 23 January 2003 the European Economic and Social Committee decided to draw up an opinion, in accordance with Article 29 of its Rules of Procedure, on: 'The role of micro and small enterprises in Europe's economic life and productive fabric'.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 4 June 2003. The rapporteur was Mr Pezzini.

At its 400th plenary session on 18 and 19 June 2003 (meeting of 18 June), the European Economic and Social Committee adopted the following opinion by 89 votes to 12 with 11 abstentions.

### 1. Introduction

1.1. The role played by small and medium enterprises in economic growth and development in Europe is officially recognised, both in economic literature and in official European Community documents.

1.2. It has been a predominantly cultural process, moving from an economic approach that focused strongly on large enterprises, to one that takes account of categories that are closer to smaller businesses. The process has been neither easy nor swift, and has yet to be completed.

1.3. The approach taken thus far has proved productive and significant, but does not go far enough, considering that the term 'SME' covers businesses with often very differing features, sizes and needs (the term covers enterprises employing between 1 and 249 employees in a range of sectors). The result is that initiatives are often designed to encompass all businesses, when in many cases, only the larger businesses stand to reap the benefits.

1.4. Consequently, new categories relating to the needs of smaller enterprises have had to be defined, first of all cultural categories, and then economic and statistical categories. The Charter for Small Enterprises is undoubtedly the basis for such an approach, with measures designed to stimulate and support small enterprises.

1.5. In Feira, Portugal, during the Portuguese presidency, the European Council approved the Charter<sup>(1)</sup>, which highlights the role played by enterprises employing less than fifty members of staff, both in terms of employment and promoting innovation for socio-economic integration. The Charter has become a cornerstone of the Commission's enterprise policy and a point of reference for both current and future EU Member States.

1.6. The European Commission has already presented the first (2001), the second (2002) and the third (2003) Report on the Implementation of the European Charter for Small Enterprises<sup>(2)</sup>, which reveal some interesting developments, despite the difficulty of quantifying action by Member States in this field.

1.7. Some such developments can be summarised as initiatives designed to yield long-term benefits, such as business education and simplifying legislation. Others are designed to have a positive effect in the short term, such as policies to streamline procedures to set up new businesses (in eight Member States a business may be set up within a week at minimal costs), and policies to facilitate access to credit, with credit approval subject to the business plan rather than to actual guaranties, which remains one of the major obstacles for small-scale entrepreneurs (especially in challenging economic climates, such as the current one).

1.8. According to the Commission reports, both the effects of these initiatives and the priority they receive vary from Member State to Member State and are, of course, subject to further change.

1.9. Moreover, collecting and aligning data on small enterprises is not always a simple, straightforward task, compared to that for larger enterprises, due to the legal requirements for publishing company accounts, internal roles and duties etc. The Commission should encourage the compilation of and access to statistical data on micro and small enterprises, which is still underprovided in Europe<sup>(3)</sup>.

<sup>(1)</sup> The Charter for small enterprises was approved on 19 and 20.6.2000.

<sup>(2)</sup> COM(2002) 122 final of 7.3.2001, COM(2002) 68 final of 6.2.2002; COM(2003) 21 final of 21.3.2003.

<sup>(3)</sup> DG XXIII of the European Commission commissioned the Guglielmo Tagliacarne Institute of Rome in 2001 to carry out a methodological study on the importance of craft businesses in the European Union.

1.10. To achieve the desired results, the Charter should have legal status and funding should be provided to help attain the defined objectives, with particular attention given to promoting entrepreneurship. Furthermore, it may be useful to insert a reference to Chapter 16 of the Community acquis (on protection of small and medium enterprises) in the European Convention.

1.11. As indicated in the Green Paper <sup>(1)</sup>, 'Europe needs to foster entrepreneurial drive more effectively. It needs more new and thriving firms ...', and also initiatives to bolster the existing productive fabric, currently marred by high levels of bankruptcy of small enterprises, especially during the first two years of business. Unlike their American counterparts, European small enterprises are experiencing difficulties in growing.

1.12. Moreover, enlargement policy should include a strong commitment to small enterprises in candidate countries, with particular focus on management culture and training.

1.13. To this end, in order to help to bridge a number of information gaps, and considering the need to begin developing policies that focus more closely on the needs of micro and small enterprises, specific areas for intervention could be identified by exploring the following avenues:

- the contribution of very small enterprises to EU economic growth <sup>(2)</sup>;
- focus on certain areas of specific interest and 'niche' topics, including:
  - self-employment;
  - undeclared employment;
  - access to finance and investments with venture capital or stock market quotations in specific sectors;
  - the business service industry;
  - administrative costs for enterprises;
  - standardisation;
  - the costs involved in setting up new enterprises;
  - women in business;
  - innovation and research;
- problems associated with international representation;

<sup>(1)</sup> COM(2003) 27 final of 21.1.2003.

<sup>(2)</sup> See the results of the First (1994) and the Second (1996) seminar on statistics on craft industries in Europe organised in Rome by the Guglielmo Tagliacarne Institute, supported by DG Enterprise (then DG XXIII) of the European Commission.

- the role of micro and small enterprises in the development of economic democracy.

1.14. Therefore the objective will be to highlight the contribution of small enterprises in the growth of the EU economy (in terms of new enterprises, GNP, employment etc.). This will be achieved by emphasising the role they play in developing economic democracy, with specific attention to certain strategic areas that could help identify specific areas for action to be incorporated — where necessary — into EU programmes for the growth of small business.

## 2. The economic and statistical situation

2.1. In the recommendation on the definition of small and medium enterprises <sup>(3)</sup>, the Commission defined SMEs to be enterprises with up to 250 employees, sub-divided into medium-sized enterprises (with 50-249 employees), small enterprises (10-49 employees) and micro enterprises (up to 9 employees).

2.1.1. The Commission has recently taken a fresh look at the definition of micro, small and medium-sized enterprises with Recommendation 2003/361/EC of 6 May 2003 <sup>(4)</sup>. Unfortunately, however, the numerical thresholds are unchanged, although the annual turnover ceiling varies.

2.2. The EESC, for its part, examines micro and small enterprises, as defined by the Commission, and stresses the economic and social role they play in the various Member States, and works on the basis of clearly expressed views laid down in several of its opinions, including the opinions of 1992 <sup>(5)</sup>, 1997 <sup>(6)</sup> and 2001 <sup>(7)</sup> on small enterprises and craft firms.

<sup>(3)</sup> OJ L 107, 30.4.1996.

<sup>(4)</sup> OJ L 124, 20.5.2003.

<sup>(5)</sup> EESC own-initiative opinion on SMEs and craft industries — OJ C 332, 16.12.1992.

The key aspects of the Schleyer opinion of 1992 are:

- Close link between ownership and management of the enterprise;
- Significant use of human resources associated with the latest production and management systems;
- Ability and skill of the entrepreneur in the activity of the enterprise and the production process;
- Direct, major involvement of the entrepreneur in organising the production process.

<sup>(6)</sup> EESC opinion on Craft industries and small- and medium-sized enterprises — OJ C 158, 26.5.1997.

<sup>(7)</sup> EESC opinion on The craft sector and SMEs in Europe — OJ C 221, 7.8.2001.

2.3. According to current legislation, the European Union is home to approximately 20 million enterprises (year 2000 figures), excluding the agricultural sector. Some 93,2 % of all businesses employ fewer than 9 people. 5,8 % employ between 10-49 employees and only 0,8 % employ between 50-249 employees; 0,2 % can be classed as large enterprises. This

means that 98,8 % of European enterprises, excluding those in agriculture, come under the Eurostat classification of small enterprises. The total number of small enterprises per sector is 5,56 million in trade (retail and wholesale), compared to 2,21 million in the manufacturing industry.

**Table 1: Key data for SMEs and large enterprises in Europe-19, 2000**

EU 15 + Iceland, Liechtenstein, Norway and Switzerland

		SME	Large	Total
Number of enterprises	(1 000)	20 415	40	20 455
Employment	(1 000)	80 790	40 960	121 750
Persons employed per enterprise		4	1 020	6
Turnover per enterprise	EUR Million	0,6	255,0	1,1
Percentage of turnover exported	%	13	21	17
Added value per person employed	€ 1 000	65	115	80
Percentage of labour costs in added value	%	63	49	56

Source: Estimates calculated by EIM Business & Policy Research based upon data from the Eurostat SME Database, European Economy, Supplement A, June 2001 and OECD: Economic Outlook, No. 65, June 2001.

2.4. The phenomenon of micro and small enterprises exists in all Member States, but to differing extents. The country in the EU with the highest percentage of micro enterprises is Italy, with 94,9 %, followed by Sweden (93,3 %). Both Portugal and Spain have 93 %. The percentage of micro enterprises is lower than 80 % of total enterprises in Denmark (79,7 %),

while in Germany the figure stands at 81,4 %. In the latter two countries, the percentage of medium-sized enterprises is greater, as in Austria and Great Britain (see Table 2). In addition, it should be highlighted that a wide range of legal forms have been adopted for small and micro enterprises in these Member States.

**Table 2**

	B(2)	DK (3)	D(4)	EL	E(5)	F(2)	IRL	I	L	NL(6)	A(2)	P(7)	FIN	S(8)	UK	NO(9)
<b>Number of enterprises</b>																
Micro	92,10	79,70	81,40	:	93,00	92,10	:	94,90	:	91,30	83,20	93,00	90,20	93,30	85,50	:
Small	6,70	16,40	15,50	:	6,20	6,70	:	4,50	:	7,30	14,20	5,90	8,10	5,60	12,20	:
Medium	1,00	3,20	2,60	:	0,70	1,10	:	0,50	:	1,10	2,20	1,00	1,50	0,90	1,90	:
Large	0,20	0,70	0,50	:	0,10	0,20	:	0,10	:	0,30	0,40	0,10	0,20	0,20	0,40	:
<b>Number of employees</b>																
Micro	30,00	13,90	19,10	:	40,60	24,50	:	47,80	:	22,30	22,40	43,40	22,50	28,00	21,70	25,50
Small	21,40	23,80	22,50	:	24,40	21,20	:	21,90	:	24,30	24,20	21,30	18,40	19,00	18,10	24,40
Medium	15,30	23,50	19,50	:	14,80	16,60	:	12,50	:	14,90	20,40	17,30	17,60	16,10	15,30	18,90
Large	33,30	38,80	39,00	:	20,30	37,70	:	17,80	:	38,50	33,00	18,00	41,50	36,90	44,90	31,10

	B(2)	DK (3)	D(4)	EL	E(5)	F(2)	IRL	I	L	NL(6)	A(2)	P(7)	FIN	S(8)	UK	NO(9)
<b>Turnover</b>																
Micro	24,30	11,80	10,10	:	27,80	20,40	:	30,50	:	:	16,50	32,50	15,30	19,60	16,20	:
Small	22,90	18,50	16,90	:	24,90	20,40	:	23,70	:	:	21,60	22,50	15,40	19,20	16,70	:
Medium	19,30	22,70	20,50	:	19,40	17,60	:	17,50	:	:	24,60	21,60	18,30	18,80	17,40	:
Large	33,40	47,00	52,50	:	27,90	41,60	:	28,30	:	:	37,20	23,40	51,00	42,50	49,80	:
<b>Added value</b>																
Micro	19,00	13,10	8,50	:	30,00	19,50	:	32,50	:	:	16,70	30,60	17,50	20,10	20,90	:
Small	20,90	20,70	16,40	:	23,90	19,10	:	23,40	:	:	21,70	20,00	15,60	17,70	20,00	:
Medium	18,70	22,70	20,60	:	18,60	16,90	:	16,60	:	:	21,90	20,70	16,20	17,80	18,30	:
Large	41,40	43,50	54,50	:	27,40	44,50	:	27,40	:	:	39,70	28,60	50,70	44,40	40,80	:

**Table 2b: Number of craft enterprises (given in thousands — in line with national definitions) <sup>(1)</sup>**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2002
<b>Professional</b>										
Austria	42	42	42	42	42	42	42	43	n.d.	—
Germany	598	606	614	594	598	603	605	607	608	—
Iceland	5	5	6	6	6	6	n.d.	n.d.	n.d.	—
Liechtenstein	1	n.d.	n.d.	n.d.	1	n.d.	n.d.	n.d.	n.d.	—
Luxembourg	4	4	4	4	4	4	n.d.	n.d.	n.d.	—
<b>Sectoral</b>										
France	854	857	831	811	821	828	823	819	n.d.	—
Italy	1 140	1 209	1 260	1 272	1 326	1 333	1 325	1 338	n.d.	1 429
The Netherlands	101	107	115	121	101	127	140	145	n.d.	—
<b>Artistic</b>										
Spain	14	15	15	15	15	15	15	15	n.d.	—
<b>Others</b>										
Belgium	n.d.	n.d.	n.d.	n.d.	54	n.d.	n.d.	n.d.	n.d.	—
Finland	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	164	n.d.	—
Ireland	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	—
Sweden	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	—
United Kingdom	n.d.	n.d.	17	n.d.	19	n.d.	n.d.	n.d.	n.d.	—

<sup>(1)</sup> The following tables were compiled from indications given during the 1994 and 1996 conferences organised by the Tagliacarne Institute in cooperation with the European Commission and relevant associations.

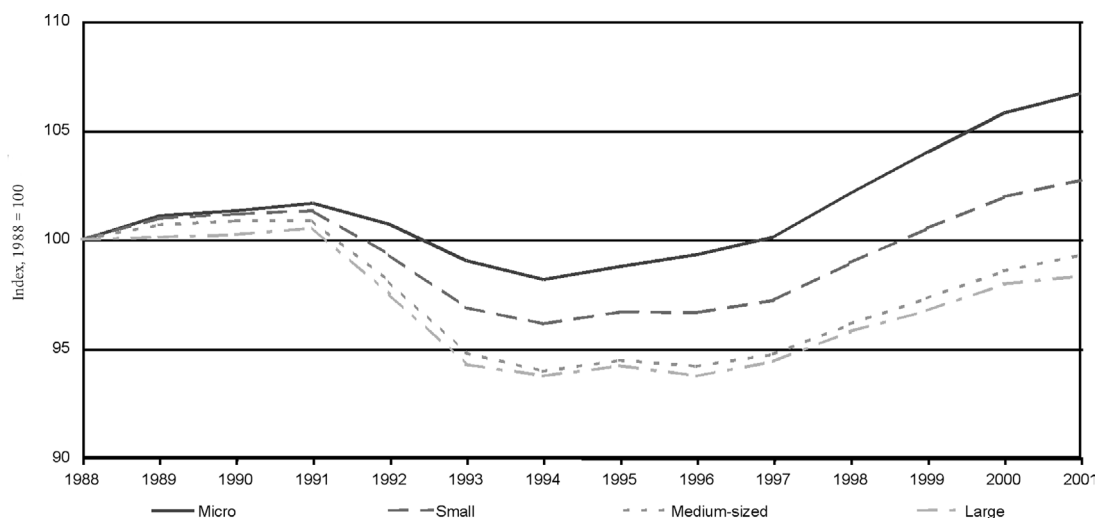
Source: G. Tagliacarne Institute, based upon data from national sources.

2.5. Micro and small enterprises together form a widespread and inter-connecting fabric within the European economy and represent a substantial pool of employment. SMEs actually provide two thirds of total employment (1), with only a third of all jobs provided by large enterprises. Out of all SMEs, the total employment is shared more or less equally between micro enterprises (those employing less than 10 people), and small and medium-sized businesses. However, the proportion per type of enterprise — classed by size and employment — differs between the Member States. For example, the percentage of micro enterprises contributing to the total figures for employment is 48 % in Italy, and at least 57 % in Greece. On

the other hand, the percentage of large enterprises contributing to total employment figures in the United Kingdom is 45 %. It is therefore clear that employment rates are strongly determined by the business structure in each Member State.

2.6. Generally speaking, large enterprises shed jobs between 1988 and 2001, whereas employment in the SME sector rose. Figure 1 shows that this growth began in 1997, predominantly among micro and small enterprises. In 2001, employment growth slowed. Therefore, between 1997 and 2001, the lion's share of employment in Europe was created by micro enterprises, whilst large enterprises were shedding posts.

**Figure 1: Employment growth per size of enterprise in Europe-19, 1988-2001**



Source: Estimate calculated by EIM Business & Policy Research, based upon data from Eurostat SME Database, the European Economy, Supplement A, June 2001 and OECD: Economic Outlook, No. 69, June 2001.

2.7. Italy, Spain and Portugal represent specific cases, where micro enterprises play a more important role than anywhere else in Europe in terms of turnover and added value (see Graph 1) which represents the wealth generated by small enterprises.

2.8. To this end, and in order to further analyse the distribution of added value generated by an enterprise according to its size, the appended graphs give a summary of the situation, listing Member States in decreasing order in respect to the EU average. It is clear that Mediterranean countries have a greater concentration of micro and small enterprises. Conversely, the larger enterprises tend to be located in central-

northern Europe. There are interesting exceptions to this pattern, however, such as Austria, Denmark and Great Britain (2).

(2) To complete the statistics given in this document, it is useful to mention the recent study carried out by Ipsos in March 2003 for the accounts of CGPME on 'The French and enterprises', which revealed the following:

- 55 % of French people have a generally positive view of enterprises and SMEs with less than 250 staff meet with the approval of 73 %;
- the difference in image connected with the size of enterprise is also felt at managerial level: directors of SMEs were given the support of 88 % of those interviewed;
- 66 % of French people perceive that SMEs generate employment;
- 62 % of those interviewed believe that SMEs encourage salary progression and provide access to a better level of training.

(1) In the private sector excluding agriculture.

2.9. The data provided show the dearth of available statistics and economic analysis on the situation of small and micro enterprises. The general practice at Community level of studying SMEs in general terms, without distinguishing the specific features of very small enterprises, has posed three problems:

- the real role and situation of small and micro enterprises in Member States, i.e. 92 % of European enterprises, is ignored and unknown;
- there appears to be no reliable data and economic analysis on small and micro enterprises in accession countries;
- the situation in different sectors, categories and types of activities carried out by small enterprises is unknown at Community level.

2.10. The EESC opinion of November 2001 on the Charter of European Small Enterprises <sup>(1)</sup> underscores the fact that the European scientific and university community has not studied small enterprises and their various components. In response to the 6th recommendation of the Charter for Small Enterprises, the opinion called on the Commission to launch five initiatives designed to fill this need. In its resolution of June 2002 on the Commission Communication on 'Sustaining the commitments, increasing the pace' <sup>(2)</sup>, the Parliament deplored the scarce understanding of enterprises and of their needs and considered that 'if entrepreneurial Europe and the policies are to gather momentum and take effect, the differences between large, medium-sized, small, and micro-scale enterprises have to be taken into account, as must the distinctive economic or social models or approaches on which enterprises are based'.

2.11. The Committee notes with regret that, hitherto, despite the increasing importance of small enterprises, the Commission has not effectively launched any initiative to address the demands of the Parliament and of the EESC. The Committee feels that it is unacceptable that such studies have not been commissioned, despite the fact that small enterprises requested them at the 1989 Conference of European Craft Industries in Avignon, and reiterated the request at both the 1994 conference in Berlin and the 1998 conference in Milan. It deplores the cessation of studies carried out by DG Enterprise on craft enterprises.

2.12. The Committee expressly asks the Commission to launch initiatives that the EESC has already requested in the past:

- to develop the existing pool of information and methodologies on craft and small enterprises <sup>(3)</sup>;
- to commission statistical and economic studies into the full range of small and micro enterprises, in particular those in the professions, trade, production, service industries and mutual and individual enterprises, by tasking Eurostat and the European SME Observatory to work alongside the relevant European organisations, notably UEAPME, Eurocommerce and Eurochambers, CEPLIS and the Avignon Academy;
- to resume research into craft enterprises;
- to undertake a programme of scientific and economic analyses of issues identified in conjunction with representative European organisations;
- to include a specific chapter on small enterprises in all Community studies concerning or potentially affecting small enterprises, with particular reference to the impact on the Single Market and on existing liberalisation processes, for example privatisation in the energy sector.

### 3. Problems concerning the creation of micro and small enterprises

This part of the opinion is dedicated to identifying some of the key problems concerning the success and growth of European micro and small enterprises. These problems represent major challenges for these businesses and as such must be the focus of discussion and action by the European Commission.

3.1. Promoting the creation of new businesses is a key priority for a series of structural reasons and objectives:

- to expand the production base and thereby reduce unemployment, in particular, youth unemployment;

<sup>(1)</sup> OJ C 48, 21.2.2002.

<sup>(2)</sup> The Vlasto Report.

<sup>(3)</sup> For example, the methodology pursued by the Tagliacarne Institute of Rome commissioned by DG Enterprise to quantify the craft industries in Europe by using statistical information on enterprises readily available from Member States and from Eurostat.

- to industrialise disadvantaged areas;
- to regenerate a sector or region in terms of population, production or organisational methods, innovation etc.;
- to expand or diversify economic and productive structures in a country/region.

3.1.1. The main problems encountered when setting up a new enterprise are largely due to the difficulties (or obstacles) they face. The following factors can affect the decision to set up a new company:

- i) Financial and credit considerations (effects of credit rationing)
- ii) Fiscal considerations (taxation that fails to encourage the creation of new companies)
- iii) Features of the labour market (high labour costs, lack of people with the appropriate professional skills)
- iv) Market information (lack of understanding of the relevant market)
- v) Unfair competition (see the section on the shadow economy)
- vi) Slow and costly bureaucracy
- vii) Excessive burden of harmonisation, often poorly suited to small enterprises
- viii) Difficulties in entering the profession
- ix) Initiatives to promote the unpaid involvement of family helpers for limited periods in the case of force majeure <sup>(1)</sup>.

3.1.2. In addition to these structural factors (the economic climate of the set-up area) there are a number of factors linked to the business cycle and to the character of the new entrepreneur. The former include the growth and state of

the market, the case for investment, cost levels, available technology etc. The latter include factors linked to the personal decision to set up a company, such as risk management, learning ability, the earnings ratio from self-employment and salaried work, etc.

3.1.3. Actions designed to promote the creation of new companies, especially micro and small enterprises, must take these issues into account.

### 3.2. Promoting self employment and small enterprises

Some areas of Europe display a structural feature which, although differing in form in individual countries, differentiates these areas from other Western countries. In 2000 there was a high percentage of self-employed workers in the EU as a proportion of the total employment figures, totalling 13,6 % of the total labour force. This figure differs widely between Member States: in Greece, the figure (31,3 %) is even greater than that for Italy (23,6 %). These figures are way ahead of those recorded in Germany (9,7 %), France (10 %) and the United Kingdom (10,9 %). Spain and Portugal record similar figures to Italy, with 18 % and 20,2 % respectively.

3.2.1. In addition, employment distribution per sector in individual Member States varies widely, as a percentage of the total figure for self-employed workers. However, the percentage of trade and service professionals is relatively low in many Member States. The figures for Italy, on the other hand, show a high level of workers employed in commerce (23,6 % compared to the EU average of 9,4 %) and craft industries (21,6 % compared to 18,6 % in the EU-15).

3.2.2. However the statistics do not show the process of profound change that self-employment has undergone in recent years, including technological change, predominantly caused by the IT revolution. There has been a radical change in lifestyle and production methods. An enormous wealth of information is now at our fingertips, businesses can buy on line some of the raw materials they need to provide their services and products and can also trade on line and acquire new customers.

<sup>(1)</sup> See Article 45 of the Italian 2003 Budget.

**Table 3: Self employment per profession in some European countries — 2000**

Profession	Denmark	Germany	Spain	France	Italy	Netherlands	Finland	UK	EU-15
<b>Percentage of total employment per sector</b>									
Government, business	43,4	47,4	78,5	40,3	42,5	36,7	42,7	15,5	39,4
Academic professions	9,7	17,8	12,8	13,3	25,9	11,7	6,5	13,8	15,5
Mid-level technical professionals	2,7	7,7	10,4	4,4	23,2	7,2	5,9	15,1	10,5
Employees	0,0	1,1	2,4	0,0	3,2	1,3	0,0	2,3	1,6
Trade and service professionals	2,2	5,3	7,6	2,1	36,1	4,3	7,2	2,6	9,8
Farmers	58,6	40,2	65,7	53,6	64,7	5,5	64,7	53,3	58,3
Craft workers	9,7	9,1	18,9	16,2	29,4	11,4	10,6	23,6	17,5
Heavy industry workers	1,7	3,1	15,0	2,4	11,3	5,2	5,7	9,8	7,3
Unskilled workers	0,9	1,3	2,6	0,0	15,1	2,4	1,7	8,2	4,8
Total	8,2	10,1	18,2	10,1	24,2	9,6	12,9	11,3	14,1
<b>Percentage of total self-employed</b>									
Government, business	38,7	27,0	33,9	29,7	7,6	42,8	31,6	20,8	23,5
Academic professions	15,3	22,6	8,1	13,8	11,1	18,7	9,5	19,6	14,1
Mid-level technical professionals	6,8	15,6	5,5	7,5	15,8	12,1	7,2	11,7	11,1
Employees	0,0	1,4	1,3	0,0	1,8	1,5	0,0	3,3	1,5
Trade and service professionals	4,1	6,0	5,9	2,6	23,6	5,2	6,6	3,5	9,4
Farmers	18,5	8,3	17,1	22,4	8,6	1,0	28,9	4,7	14,2
Craft workers	13,1	15,7	17,5	21,4	21,6	10,3	10,5	24,2	18,6
Heavy industry workers	1,4	2,3	8,8	2,5	4,4	3,1	3,9	6,6	4,5
Unskilled workers	1,4	1,1	2,0	0,0	0,0	2,0	1,0	5,6	3,0
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Compiled by Confartigianato — Tagliacarne Institute, using Eurostat data.

3.2.3. At the same time, many types of new, highly professional, individual jobs have been created and there has been a growth in atypical workers or professional agents and in their status as new economic actors. Such workers need to be recognised in socio-economic terms and they must be considered active members of the services and manufacturing industries.

the group into self-employed and employed individual workers<sup>(1)</sup>. The results showed that this group encompasses over 12 million people, including 7,4 million self-employed workers and 4,9 million employed workers, amounting to 50,6 % of the total figures for employment.

3.2.4. A recent survey of over 500 people in Italy sought to quantify the 'Individual Worker' phenomenon, and divided

<sup>(1)</sup> Survey by Censis entitled: Gli Italiani al lavoro: un'impresa individuale, I Quaderni di Impresa Artigiana, No 51, May 2002.



3.2.5. This is an extremely diverse and sub-divided group encompassing different types of professions. For example, the category of self-employed workers includes entrepreneurs and various forms of professional workers (regulated and non-regulated, affiliated, VAT registered). The category of employed individual workers is even more diverse: in addition to managers, this category encompasses 'coordinated' consultants and freelancers (which often denotes 'casual' workers, or at best, workers who are 'waiting' to be offered a permanent job, especially in Southern Italy), temporary workers, agency workers, etc.

3.2.5.1. Within this group, the concept of the micro enterprise needs to be more closely identified with the individual person. Such people tend to consider themselves their own bosses, and take a dynamic view of their own life, continually putting themselves on the line and planning medium/long-term projects. Sometimes, however, this role is assumed for economic reasons only and places stress on the individual, who would willingly give it up in favour of employed status.

3.2.6. Despite the marked diversity we have seen within the group of individual workers, the survey shows that they share a series of common values: independence, mobility, responsibility, skills and networks of relations, which could certainly apply to Europe as a whole and provide food for thought.

3.2.7. Independence appears to be the core value. Some 69,5 % of those interviewed stated that independence was the main feature of their work, and that this was a definitive decision, whilst 75,3 % considered their decision 'stable'. Moreover, 66 % of those interviewed felt loyal to themselves, whilst only 34 % felt that their loyalty lay with the organisation they worked for<sup>(1)</sup>. Only 24,7 % of the sample viewed independence as a temporary choice.

3.2.8. Cultural and professional mobility was also a key value. For 76,4 % of individual workers, it was more important to extend their skills than maintain and update those previously acquired, whilst approximately half of those interviewed (48,1 %) valued the opportunity to change jobs over relative security and stability.

3.2.9. The responsibility of the individual worker emerges clearly in at least two ways:

- forsaking the short-term economic benefits of employment in favour of investing in a personal pension plan for the future (72,8 %);
- recognising that work, whilst important, should not take over their private life.

3.2.10. The importance given to skills can be seen in the behavioural changes individual workers are willing to make in order to improve their professional standing since vocational training is part and parcel of survival and progress. It is therefore necessary to reevaluate the tools available to small entrepreneurs and professional agents to enable them to establish themselves according to their own specific professional needs. 38,2 % stated that they were willing to study; 22,1 % would be willing to change their employment status from employee to self-employed or vice versa; 19,9 % would move to another city and 18,5 % would be willing to work for longer.

3.2.11. Lastly, the network of relations was extremely significant: 72,1 % of individual workers considered the opportunity to exchange ideas with other people more important than relying on themselves to resolve problems.

3.2.12. In short, the results of the survey show that Italy and parts of Europe have undergone profound change in recent years, culminating in a different approach to the world of work, unrelated to traditional employee patterns. Moreover, this expanding group of individual workers will most probably have a substantial impact on the socio-economic system. In particular, many of them — with high earning potential and limited welfare support — will increasingly turn to the private sector for their welfare, pension and education needs. This does not affect the need to maintain high-quality public services.

3.2.13. The supply of jobs and a sound social security network continue to be of decisive importance to the prosperity and effective operation of European society.

<sup>(1)</sup> Data supplied in this paragraph has been taken from various sources, including Confartigianato and the Guglielmo Tagliacarne Institute.

### 3.3. *Bringing the shadow economy out into the open*

3.3.1. The shadow economy has long been overlooked, but has recently been the subject of specific studies and analysis, both due to an increased awareness of the impact it has on the economy (understanding that there is an element of disease), and due to its persistence, and often proliferation, within well-developed economic systems. A useful reference in this regard is the study by Professor Friedrich Schneider of the University of Linz on the shadow economy in 2003 in Germany, Austria in Switzerland: recent developments, which provides a useful comparison with the OECD countries.

3.3.2. A recent report by the Avignon Academy<sup>(1)</sup> highlighted that 'small business and craft firms are deeply affected by the shadow economy in the EU Member States ...'.

3.3.3. The issue has provoked increasing interest in Europe at political, cultural and legislative level, to the point where the European Commission called on all Member States to tackle the issue specifically in the National Employment Action Plans from 1999.

3.3.4. Over and above the very scale of the problem, the most worrying aspect is the structural nature of the phenomenon, and the realisation that the shadow economy has now dangerously become a 'logical' place in which to do business.

3.3.4.1. These factors highlight the real need for a policy that, instead of punishing such activities and treating them in the same manner as unlawful activities, seeks to bring them into the legal arena.

3.3.5. The other worrying aspect of undeclared work is its constant growth. The shadow economy continues to grow throughout Europe, and does not always correspond to official estimates of its size. This is probably due to the fact that the shadow economy is a social phenomenon, i.e. it concerns human behaviour. The decision to conceal one's work often stems from specific events (for example increased taxation — Italy being a classic example — or red tape), and therefore depends upon a series of external factors.

3.3.6. A vast and varied set of factors lay at the heart of this phenomenon and its persistence. The European Commission, in its document of 1998 exclusively dedicated to undeclared

work, emphasised that 'the main motivation for employers, employees and the self-employed for participating in the undeclared economy is economic. Working in the informal economy offers the opportunity to increase earnings and to evade taxation on income and social contributions. For employers, the incentive is to reduce costs'. To be specific, the key factors in the growth of undeclared activity in Europe are as follows:

- firstly, infringement of the tax rules by some entrepreneurs, whose behaviour is economically damaging to honest entrepreneurs;
- tax and social contribution levels. A high tax and contribution burden is an incentive to enter the underground economy both for the worker and the employer. A reduction in tax and social contribution levels (the difference between labour costs and net salary after taxation and contributions) increases disposable income for the same labour costs, or reduces labour costs for the same income;
- regulatory and administrative burdens. One of the explanations for undeclared work is the burden of excessive overheads and administrative procedures (for example, formalising an employment relationship, obtaining licenses, certain trade barriers or simply registering as a service provider). Excessive regulation is a particular burden in the labour market: the introduction of certain standards, such as the shorter working day, early retirement and part-time work, have encouraged the growth of the shadow economy;
- efficiency of public administrations. The level of government efficiency is directly related to the size of the shadow economy. The more efficient the authorities are, the more probable it is that activities will be discovered and therefore the greater the risk of having to pay the appropriate penalty. Corruption in the public sector has been the focus of particular attention as it affects all countries, although to differing extents. Studies carried out in countries with a high level of corruption (Schneider, Enste, 2000) concluded that there was a strong link between the scale of corruption and the size of the shadow economy;
- inadequate labour market legislation. Limited recognition within current legislation for new kinds of work (for example non-standard contracts or temporary work) is a contributory factor in forcing people into undeclared work and therefore swells the shadow economy.

<sup>(1)</sup> The Avignon Academy, Undeclared work: Empirical evidence and new policy issues at European level. Brussels, 2002.

3.3.7. The debate on the shadow economy has specific political, economic and social relevance, over and above the repercussions on economic policy. The existence of a substantial shadow economy has a significant impact mainly in terms of:

- quantifying macro-economic variables;
- achieving economic policy objectives;
- distortions in competition due to costs (administrative, fiscal and contributory, labour).

3.3.8. In this case the unemployment rate therefore appears excessively high, at least insofar as some individuals form part of the labour force but are employed in underground activities, escaping the employment statistics. The extent to which unemployment figures are overestimated clearly depends upon the size of the shadow economy. Since the Member States' economic policies are largely based on these macro-economic variables, the action lines chosen may be based upon different values, thereby doing more harm than good.

3.3.9. In addition, the shadow economy reduces funding for public services and social welfare. A decrease in state revenue leads to a reduction in the level of services that Member States are able to provide, thereby creating a vicious circle, since a fall in fiscal receipts due to the growth of the shadow economy increases the public deficit. In turn, the state, in order to continue to provide services, increases taxation, thereby further fuelling the rise of undeclared work <sup>(1)</sup>.

#### 3.4. *Improving access to credit for small enterprises*

3.4.1. Access to credit is essential for the growth of a business, and practically a pre-requisite for the development of small enterprises, for which access to credit is often impeded by over-estimating the risk. The high turnover of enterprises set up and closed down should not give rise to generalisations. On the contrary, it should stimulate the need for more in-depth analysis of entrepreneurial quality and of the market prospects specific to each enterprise.

3.4.2. Consequently, adequate financial resources for the business plan the company intends to implement <sup>(2)</sup>, and an efficient method of financial support are a precondition for the growth of small enterprises.

3.4.3. With this in mind, it is essential that alongside the mergers and acquisitions of European banks which are radically altering the EU lending environment, support structures be set up for smaller enterprises. In this context, it is also important to stress the importance of regional banks, which, although forming part of a larger group, are able to win over customer confidence.

3.4.4. Direct contact with enterprises and an understanding of specific local funding problems is the only way to maximise the positive effects of financial support. Equally, this will prevent excessive inflexibility in funding arrangements and a subsequent increase in risk, especially with regard to Basle II Agreement developments.

3.4.5. To achieve this objective, the company must strike a financial balance by using a suitable combination of the tools available.

3.4.6. Self-financing plays a key role in this process. This is usually an option for income-generating businesses, especially cash flow businesses, but also facilitated through correct decisions regarding profit-distribution, financial policies and fiscal legislation.

3.4.7. However, small enterprises are not always able to achieve ideal implementation of their investment plans through self-financing alone, i.e. with resources generated internally. In this case, by no means the exception, either the company's business plan is reviewed or a plan for additional or replacement funding is drawn up.

3.4.8. There are essentially two steps in this phase to provide support to the enterprise: launching information and consultancy initiatives to facilitate the choice of type of capital needed for the investment plan; and selecting the financial tools and methods to use.

3.4.9. There are two possible approaches to the first step: financing through risk capital markets or, alternatively, debt instruments with different maturities. The second option would involve selecting the most appropriate instrument and approach to the process.

<sup>(1)</sup> Regarding the shadow economy, see European Commission (2001) 'Undeclared labour in Europe; towards an integrated approach'.

<sup>(2)</sup> Finance needs are related to certain events, such as an increase in activity (financing cash flow, covering fixed investments) or debt reduction.

3.4.10. The type of instrument chosen must be suited to the nature of the planned investment. For example, short-term investment should be financed with short-term debt instruments<sup>(1)</sup>. Investment in fixed assets should be financed with medium or long-term debt capital<sup>(2)</sup> or risk capital (e.g. venture capital) which, however, is often mistrusted by small enterprises.

3.4.11. The priorities identified to bridge the existing gap between finance and small enterprises can be summarised in the following five points:

- Higher quality services provided by credit agencies: it should be noted here that in a continually evolving business climate, the banking system must tailor its financial/consultancy services to the specific needs and characteristics of its clients, pursuing a policy of customer satisfaction.
- Credit agencies carrying out a greater role in providing consultancy services throughout the life of the enterprise. Banks are asked to be more actively involved with businesses, not only financially but also in a consultative capacity, in order to stimulate their growth and encourage transparency and the publication of company accounts. Small enterprises need this assistance in particular, both in order to become a corporate enterprise, and to prepare an initial approach to using venture capital and, for the more structured enterprises, being floated on the relevant trading index (in Italy, the SME index is called STAR).
- Facilitating access to credit for micro enterprises by reducing the ties to security required for granting a loan. In this case, the credit agency should review its security requirements, which may seem excessive compared to actual risk of bankruptcy, and give greater support for finance needs with appropriate financial instruments. An example of such best practice would be the credit consortia in Italy, which, through the provision of securities, has led to the investment in craft enterprises of over EUR 5 billion in 2001 and could form a model for intra-Community cooperation to improve the standard of less-advanced systems, notably in the new accession countries. The French system of granting loans

to set up new businesses (PCE), established in Autumn 2001 is another such example, but is still relatively unknown and seldom used. Although granted subject to obtaining a bank loan, this type of scheme should be encouraged and developed.

- Money rate to more closely reflect the standards applied to major European businesses.
- Encouraging financial engineering, combining (European) state aids and the banking system to stimulate employment growth.

### 3.5. *Reducing the costs of bureaucracy*

3.5.1. For many years, policy makers and entrepreneurs have taken an increasingly close interest in the effects of regulation and the costs associated with complying with administrative procedures.

3.5.2. Many EU countries propose to implement policies to reduce these costs, which can, in some cases, be considerable, especially for small enterprises. Simplifying bureaucratic procedures and cutting down on red tape underpin the strategy to encourage the creation of new enterprises and especially to foster the development of existing businesses.

3.5.3. The main aspects of efficient administrative house-keeping designed to simplify and streamline the red-tape involved in setting up and running micro and small enterprise activity include:

- eliminating superfluous, turgid documents;
- streamlining bureaucratic procedures with self-certification, coordinating services, electronic signatures;
- enhancing relations with the public administration (PA) through initiatives promoting administrative transparency, easier contact with the person responsible for the procedure, staff training, etc.

3.5.4. One of the challenges currently faced by public authorities is the constant monitoring of public administration costs for businesses. Some countries, such as the Netherlands, Denmark, the United Kingdom and Italy, have made significant progress in this domain. In particular, Italy has developed a bi-annual monitoring system. Unlike the first survey carried out in 1996, Istat and Unioncamere have organised surveys comparing data on approximately 14 000 Italian enterprises with that from other European countries.

(1) Examples of suitable banking products include: bank contracts (applications for loans, reducing securities, advance on securities, stand by financing, evergreen financing, etc.); and para-bank contracts, such as factoring, securities such as commercial paper and promissory notes.

(2) Such as bank contracts (e.g. mortgages), para-bank contracts (leasing) and stocks (bonds).

3.5.5. Moreover, it would be worthwhile examining the considerations and the positive experience gained by professional organisations (see the experiences of the one-stop shop initiative for businesses), those already highlighted in the first progress report on the European Charter for Small Enterprises. In addition to this, these organisations could assist the PAs in structured agreements, following the current practice in Italy with the Centri di Assistenza Fiscale (tax assistance) and employers' organisations.

### 3.6. *Improving the quality of and access to business support services*

3.6.1. The presence of high-quality business support services <sup>(1)</sup>, especially for micro and small enterprises, is essential to develop certain business functions that otherwise could not be carried out in-house, and therefore affect business activity and capacity for innovation. These include certain aspects of product design, promotion and marketing, financial and market research consultancy services, and so forth. In short, all those activities that are not strictly production-related, and that small enterprises and craft firms largely carry out in-house.

3.6.2. The main challenges for business support services, i.e. support for the non-productive aspects of small businesses and tools for outsourcing business activities, can be summarised as follows:

1. Creating services that meet the needs of micro and small enterprises
2. Ensuring a coherent system of service provision for micro and small enterprises
3. Ensuring quality services
4. Providing business management and employee training
5. Identifying tools to assess the services provided

### 3.7. *Women in business*

3.7.1. The role of women in modern European society is continually changing, both in terms of social and economic relations. The percentage of women in the labour market has continued to rise, following the cultural, technological and

legislative changes to the European socio-economic landscape in recent decades. A particular aspect of this ever-changing environment is the role of women in setting up and managing enterprises, especially small enterprises.

3.7.2. It is therefore important to consider initiatives to promote the rise of women in business, by exploring the following avenues:

- improving understanding of the role women play in the economy by compiling reliable statistics;
- creating social structures enabling work to be combined with family life;
- applying and strengthening legal, financial and social policies and programmes;
- training, to target not only the skills needed for business management but also those to help acquire and improve confidence in running a business;

women often play an important role in family businesses. There should be official recognition of this work in terms of remuneration, insurance and pension rights.

### 3.8. *Succession and reestablishment of an enterprise by workers*

3.8.1. The Committee endorses all initiatives designed to facilitate the handover of enterprises following succession or the reestablishment of the enterprise by its workers.

### 3.9. *Social enterprises*

3.9.1. Enterprises providing social insertion schemes through economic measures are autonomous economic entities whose main objective is the social and professional integration of handicapped or socially disadvantaged people. Very often they are small or micro enterprises whose role helps boost both economic growth and social cohesion. All initiatives to give recognition at European level of the specific role played by such enterprises should be supported.

## 4. **Implementing the European Charter for small enterprises**

4.1. In January 2003, the Commission sent its third annual report on the implementation of the Charter to the Parliament and the Council. The Committee is pleased to note that the Commission had taken account of some of its requests concerning the importance and presentation of the report.

<sup>(1)</sup> See: European Commission, DG Enterprise, support services for small, micro and individual enterprises, Vienna 2002.

4.1.1. The Committee highlights several positive elements, notably:

- the adoption of the European Charter in Maribor by the accession countries: the Committee was also informed that the Region of Sardinia had adopted the Charter and that other regions would follow suit, in particular those in accession countries;
- the presentation of example initiatives carried out in Member States to implement the ten recommendations laid down in the Charter. However, in their current form, these good practices have not proved very useful. The EESC recommends that the Commission draws up a guide of good practices incorporating and explaining these initiatives in detail in order to enable Member States and business organisations to benefit from them;
- the Commission's repeated recognition of the importance of the principle of 'start thinking small'.

4.1.2. The Committee however notes several shortcomings, including the fact that the Charter remains a political declaration without solid practical follow-up at Community level. The Committee opinion of November 2001 still remains strikingly relevant and the criticisms, remarks and proposals remain valid. The EESC would like to focus the attention of the Community institutions on four essential shortcomings:

- Community initiatives presented in the report still refer to SMEs in general, without examining their real impact on small enterprises;
- the report does not lay down recommendations to Member States, despite the fact that the Charter forms part of the Lisbon Strategy and that an efficient national and European policy for small enterprises is one of the essential conditions for the success of the Lisbon process;
- it still fails to tackle the impact on small enterprises of the main Community policies, notably the Convention and economic and social cohesion;
- consultation with organisations representing small enterprises is still too limited. The Committee deplores the continuing inadequate involvement of small enterprises through their representative organisations' participation in EC work. It considers that the currently preferred forms of consultation with the political group on enterprises and on line consultation have only had limited success: only European and national representative organisations know the real needs of enterprises and are able to effectively advise European Commission services.

4.1.3. Regarding the implementation of the Charter, the EESC asks the Commission not to underestimate its role. Its role includes, following the example of the 6th research and development programme, ensuring that the priorities listed in the Charter and the priorities of small enterprises are involved in all Community programmes and initiatives. It is equally responsible for gauging the impact of all decisions and legislative measures on small enterprises, not only SMEs in the broad sense. The Committee is committed to closely monitoring the application of those key measures.

4.1.4. The position of the Commission on the multi-annual plan for small enterprises is disappointing and displays a lack of understanding of the needs of small enterprises. Firstly, it is no secret that the current multi-annual programme only partially and inadequately meets the needs of small businesses: it is not enough to simply state in multi-annual programmes that such action is part of the guidelines of the Charter for it to actually help enterprises. Secondly, this multi-annual plan, of which the Parliament asked the Commission to submit a draft, aims to regroup and coordinate all Community initiatives for small enterprises to make it easier for them to become involved, rather than creating a new specific programme.

The EESC renews its call to the Commission, and expressly asks it to respond to the Parliament's request.

4.1.5. In this context, the Committee asks that the follow-up given to the Green Paper on entrepreneurship — notably the action plan requested by the Competitiveness Council and the Spring Summit — includes small enterprises and provides a clear response to the recommendations laid down in the Charter. In addition, it calls on the Commission to ensure that the future multi-annual programme for enterprises (on which negotiations are due to commence shortly) properly integrates the recommendations laid down in the Charter and the requests made by representatives of small enterprises.

#### 4.2. *Legal and political recognition of the Charter*

4.2.1. The Committee and the Parliament have asked the Commission to propose that the Council adopts measures designed to give legal value to the Charter. The arguments in favour of doing so have been put forward on several occasions. The EESC is extremely disappointed and disheartened with what it considers to be unjustified procrastinations by the Commission. It welcomes the decisions taken by the Competitiveness Council of 3 March 2003 and by the Spring Council of the same month aiming to strengthen action by Member States to implement the Charter. Since the very concept of the Charter comes under the Lisbon process, forming one of its pillars, and since implementation of the Charter at all levels is an essential condition for its success, the Committee asks:

- the Convention: to include a specific mention of the implementation of the recommendations of the European Charter on small enterprises in the chapter of the constitution on industry;
- the Council: to supplement the decisions taken by the Competitiveness Council of 3 March with a three-point decision asking the Commission:
  - to refer to the Charter, mention small and micro enterprises in all Community programmes and adopt specific measures in their favour in such programmes;
  - to carry out impact assessments specifically regarding small and micro enterprises before adopting all Community decisions;
  - to involve European organisations representing small enterprises in the Community decisions that concern them.

#### 4.3. *State of progress in implementing EESC and Parliament proposals*

4.3.1. In its opinions <sup>(1)</sup>, the EESC and the Parliament <sup>(2)</sup> have laid down lists of actions to be taken at Community level concerning the ten guidelines of the Charter. In addition, representatives of small enterprises organisations tabled very specific proposals during the seminars organised by the Commission and a list of 55 actions was compiled in July 2002 by the UEAPME on a proposal from the two French craft enterprises organisations. The Committee regrets that they were not mentioned in the report on the implementation of the Charter. It is pleased that, according to information provided by business organisations, many of the requested actions have been undertaken with remarkable success, especially concerning standardisation, business support services, access to funding with SME securities, the environment and so forth.

4.3.1.1. The Committee calls on the relevant Commission DGs to redouble their efforts and work closely with organisations representing small businesses to enhance implementation of the actions.

4.3.2. As part of the 2003 EU budget, the European Parliament adopted on 19 December 2002 five amendments tabled by MEPS from the budget committee asking for priority to be given in 2003 to several budgetary lines targeting the implementation of the Charter and initiatives specifically designed for small, micro and craft enterprises.

4.3.2.1. The EESC endorses this politically important decision taken by the European Parliament. French craft industry organisations and the UEAPME put forward practical initiatives for implementation to the Commission. These initiatives are listed in the appendix, with references to the ten recommendations of the Charter. The Committee supports those projects which directly address the action lines it adopted in its opinion of November 2001 on the implementation of the Charter and reiterates them. It asks the Commission to integrate them fully into the 2003 work programme and invites the Parliament to use all available means to ensure they are implemented.

4.3.3. Regarding the 2004 priority actions, the Committee invites the Parliament to strengthen the measures in the 2004 PDB on implementing the Charter's priorities. It reiterates its call to the Commission to boost cooperation with business organisations to this end.

#### 5. **Re-focusing European programmes and policies on the needs of micro and small enterprises, in accordance with the European Charter for small enterprises**

5.1. The issues raised previously could in part be solved by the Community programmes that deal with the concerns of small enterprises, which will have to address them, if they have not already done so, and if they have, by giving them higher priority by creating new-generation programmes designed for small and craft enterprises centred on the multiplier effect of business associations. To this end, action lines will be identified to focus the attention of Community initiatives and programmes. These action lines could help in a number of ways to improve the economic climate in which new and existing small enterprises have to operate. Above all, in accordance with the principle of subsidiarity, these action lines must be a tool for the European Union to manage and fund projects in line with common initiatives designed to bring about real improvements to whole sectors.

5.2. In this context, action lines will be drawn up reflecting those laid down in the afore-mentioned Charter.

<sup>(1)</sup> OJ C 158, 26.5.1997 and OJ C 48, 21.2.2002.

<sup>(2)</sup> Notably with the Vlasto report.

5.3. *See Point 1 and 4 of the Charter on Education and training for entrepreneurship and Availability of skills*

5.3.1. Education and training programmes can be provided and developed for small enterprises involving SME and craft industry organisations through Erasmus programmes for apprentices, Leonardo for business experience and Socrates for educational curricula to promote entrepreneurship within schools. Incentives should be provided for University professorships on education and economics, focusing on a 'can-do' philosophy and developing individual initiatives.

5.3.2. Furthermore, public administrations should be trained to recognise the value of enterprise, alongside those bodies that provide support to micro and small enterprises.

5.4. *See Point 2 and 5 of the Charter on Cheaper and faster start-ups and Improving online access*

5.4.1. Governance instruments should encourage the development of small enterprises from their creation, with online registration and the creation of a single gateway to link up with a European network. To this end, exchanges of experience and professionalism must be promoted between civil servants and small entrepreneurs (or their representatives). In this context, DG Enterprise could organise a study to be carried out by the relevant bodies in EU Member States with a view to finding common solutions and instruments.

5.5. *See Point 3 and Point 7 of the Charter on Better legislation and regulation and Taxation and financial matters*

5.5.1. European bankruptcy law must be overhauled and action must be taken against those States that have not yet transposed the directive on the irrevocability of payments<sup>(1)</sup>, which imposes high costs on micro and small enterprises. Furthermore, the legal procedure for calculating inheritance tax on businesses must be accelerated, as many enterprises these days do not continue to operate after the death or retirement of the owner.

5.5.2. Therefore, for firms with a turnover below a certain threshold (to be established), administrative and tax procedures should be simplified (for example, by providing a single form and procedure for starting micro and small enterprises).

5.5.3. For new micro enterprises involved in manufacturing, commerce and service provision, authorisations should be drastically simplified and an estimated flat-rate tax should be applied during the start-up phase.

5.5.4. In this context, collection of indirect taxes must be reviewed in the light of IT developments, e.g. by making electronic payments.

5.5.5. Conventional venture capital only applies to 5-6 % of micro and small enterprises (totalling 19 million and 1,1 million enterprises in Europe respectively), of which 90 % are individual companies or partnerships. Consequently, there is a need for new forms of venture capital that are also available to partnerships. Failing this, take-up will continue to be negligible, thus creating a barrier to the financial growth of micro and small enterprises.

5.6. *See Point 6 of the Charter on More out of the Single Market*

5.6.1. 10 years after the completion of the Single Market, results have not matched expectations, and structured and analytical information on the relative benefits for SMEs and craft industries is lacking. Results have been particularly weak in areas such as the services, mutual recognition of qualifications, cross-border payments, financial and insurance markets and on products from third countries which distort market movements and foster illegal forms of business. This has huge repercussions on the economic and productive activities of micro and small enterprises.

5.6.2. Another aspect to highlight is the development of cross-border agreements between enterprises operating in different countries. In particular, this would mean aiding the 'new outlying areas' of an enlarged Europe with specific programmes and stronger links with island and cross-border SMEs. In addition, initiatives must be developed to set up business networks between SMEs and specific districts to promote competition on global markets.

5.6.3. The statute for a European cooperative society is a particularly useful tool for the creation of such a network. This will enable SMEs to set up cross-border or European groups to develop joint activities. Therefore, it is very important to ensure Member States act swiftly to take the measures needed to apply the statute.

5.6.4. Moreover, in accordance with its own-initiative opinion<sup>(2)</sup>, the Committee aims to call upon the Commission to put forward a proposal on the European company for SMEs. Furthermore, procedures already underway, such as the adoption of simplified auditing and accountancy procedures and the review and simplification of procedures under De Minimis rules, should be promoted and accelerated.

<sup>(1)</sup> Directive 98/26/EC in OJ L 166, 11.6.1998; EESC opinion in OJ C 56, 21.2.1997.

<sup>(2)</sup> A European Company Statute for SMEs: OJ C 125, 27.5.2002.



5.6.5. Initiatives should be stepped up, with increased funding for small enterprises located in the new outlying and disadvantaged areas.

5.7. *See Point 8 and Point 9 of the Charter on Strengthening the technological capacity of small enterprises and Successful e-business models and top-class small business support*

5.7.1. Where possible, voluntary agreements should be preferred over European standardisation, in order to lower the entry barriers that small enterprises come up against and reduce costs, which are currently calculated for large enterprises, and consequently:

- a) strengthen certification through approved bodies (CEN, Cenelec and ETSI) and through voluntary professional organisations (such as Normapme);
- b) encourage the involvement of micro and small enterprises by including their professional organisations in the above bodies.

5.7.2. Small enterprises should receive aid for innovation, focusing particularly on sectors that are sensitive to competition from newly-industrialised countries, such as the textiles sector. This could be achieved through product traceability, the creation of a 'Designation of Industrial Origin' label, greater clarity and simplification regarding access for small enterprises to the 6th RTD Framework Programme, and promoting access for small enterprises to EMAS, ISO, LIFE and other similar environmental programmes.

5.7.3. Widespread access should be provided and developed for small enterprises in disadvantaged areas (outlying, rural, cross-border areas etc) concerning the services available through new information technologies by adopting specific support programmes, also promoting forms of public-private partnerships.

5.8. *See Point 10 of the Charter on Developing stronger, more effective representation of small enterprises' interests at Union and national level*

5.8.1. The growth and development of micro and small enterprises must be underpinned by closer involvement of their organisations at all levels of social dialogue. Extending the scope of action of social dialogue at European level (economic, social and employment) means fully involving the organisations representing micro and small enterprises, that are social partners, in all activities of tri-partite cooperation with Community authorities, and recognising such organisations as equal and present partners in all aspects of European and national bi-partite social dialogue, considering the positive effect that such approach has at macroeconomic level.

5.8.2. Another important factor is the involvement of small enterprises in national and European bodies set up to advise on and/or draft business development policies. The objective to 'start thinking small' can be achieved by drawing on the experience of those the initiatives are designed for, i.e. people who carry out a range of roles in micro and small enterprises.

Brussels, 18 June 2003.

*The President  
of the European Economic and Social Committee*  
Roger BRIESCH

## APPENDIX

**to the opinion of the European Economic and Social Committee**

The following amendments were defeated by the assembly, but received at least one quarter of the votes cast:

**Point 3.3.6, third indent**

Add the following at the end of the indent:

'... the shadow economy, in that some employers remain within the law while others do not.'

*Result of the vote*

For: 39, against: 52, abstentions: 11.

**Point 3.3.6, third indent**

Delete the last sentence.

*Reason*

This is not 'excessive regulation'. If we make this claim, then we must say which regulations are unnecessary. The proposal to work shorter hours or part time can come from either the employer or the employee (e.g. the 35 hour week in France). If, in certain cases, this leads to undeclared work, then the problem must be solved some other way, rather than by amending the rules on part work, for example.

*Result of the vote*

For: 45, against: 54, abstentions: 7.

**Point 3.3.6, fifth indent**

Add the following at the end of the indent:

'... the shadow economy, the consequence of which is to undermine their present (labour) rights and to mortgage their future benefits (pension), while boosting employers' profits and generating unfair competition.'

*Result of the vote*

For: 45, against: 55, abstentions: 13.

The following text of the section opinion was replaced by an amendment, but received at least one quarter of the votes cast:

**Point 3.3.6, fifth indent**

'inadequate labour market legislation. Limited recognition within current legislation for new kinds of work (for example non-standard contracts, part-time work, agency and temporary work) is a contributory factor in forcing people into undeclared work and therefore swells the shadow economy.'

*Result of the vote*

For: 45, against: 51, abstentions: 15.