

**Opinion of the Economic and Social Committee on the action programme for SME**

(87/C 232/20)

On 3 October 1986 the Commission decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Economic Community, on the abovementioned proposal.

The Section for Industry, Commerce, Crafts and Services, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 3 June 1987, in the light of the report by Mr Calvet.

At its 247th plenary session (meeting of 1 July 1987), the Economic and Social Committee adopted the following opinion unanimously:

**Foreword**

Before starting its examination of the Commission proposal, the Committee expresses its satisfaction at an action programme which represents the culmination of a process of gradual acceptance of the key role that SMEs play and will continue to play in the Community's socio-economic life.

The programme is at present the final link in a chain of actions which began twelve years ago and which, with the heavy involvement of all the Community institutions (Commission, European Parliament, ESC), has now produced this major scheme for an ambitious and potentially effective special policy for SMEs.

It is clear that the development and the future of the Community's small firms will largely hinge on the convergence of overall policies to ensure more flexible markets, the promotion of a spirit of enterprise and, last but not least, the completion of the internal market within the renewed spirit of cooperation and dialogue which underpins the current cooperative growth strategy.

However, it is equally clear that the present economic situation and the rapid changes which are revolutionizing production methods bring a need for specific policies for small firms, at both Community and national level.

The Commission action programme falls into this latter category, and it is as such that it is examined in the present opinion.

Expressing its general satisfaction with the Commission document, the Committee feels that the ideas presented in this framework programme require urgent and determined implementation. It will study the practical and sectoral aspects, and their connection with other particular Commission policies (regional, technological, social, etc.) when it examines the large number of implementing provisions which the programme will need.

Accordingly, the following pages analyze the action programme as an overall strategy for small firms. Chapter 1 contains general comments on parts I and II of the Commission proposal, while Chapter 2 provides specific comments on part III.

**1. General comments**

1.1. The Committee welcomes the Commission's action programme for SMEs as a further demonstration of the need to solve the problems besetting this sector and hence the European economy as a whole. The Committee has drawn attention to this need in a number of documents since 1974, the most recent being those on small firms in the services sector and the importance of technological research and development to small and medium-sized enterprises (SMEs).

The Committee is also pleased to note that many of the ideas contained in the Committee's 1982 opinion on the promotion of the small and medium-sized enterprises sector in the European Community<sup>(1)</sup> have been incorporated in the present programme.

1.2. When considering Community-level adoption of a coherent set of measures to encourage the setting-up and development of small firms, we must pinpoint (a) the stage at which problems arise, (b) the authorities whose responsibility it is to solve them and (c) which particular SMEs are affected. In this way we can define the role of both the Community and Member State authorities. At all levels, measures will have to be implemented, stepped up and coordinated. The fact that microeconomic production structures differ greatly from one Member State to another means that many measures will obviously have to be carried out at national level (whilst remembering the Community context).

(1) OJ No C 285, 9. 8. 1982, p. 16.

1.3. The Committee recognizes the enormous difficulties involved in arriving at a homogeneous definition of SMEs according to sector and country. Nevertheless, bearing in mind the distortions to competition policy which can arise from the heterogeneity of the term, two recommendations may be made:

- the Commission should undertake forthwith the difficult task of formulating one or more definitions of SME so that the term can be used with some degree of uniformity,
- pending this the Commission should ensure that the present welter of definitions cannot be used arbitrarily to create distortions of competition.

Under no circumstances, however, must these measures to be taken by the Commission delay the implementation of the proposed programme.

1.3.1. Moreover, it is well known that the problems of medium-sized firms are sometimes very different from those of small or craft firms: the measures to be implemented and the approach taken to SMEs will have to take account of this.

1.4. It is generally agreed that the expansion and strengthening of SMEs will have a favourable impact on employment in the medium and long term. This can already be seen in many sectors, although in some other sectors and countries SMEs are encountering employment problems characteristic of a period of transition and adjustment.

1.4.1. However, the evidence that small firms can be made powerful instruments against unemployment does not make this the only reason for supporting their expansion.

1.4.2. The expansion and changing role of SMEs (which have always occupied a prominent position in the industrial fabric) is also the result of an economic and technological revolution with far-reaching effects not only on employment but also involving the gradual emergence of a new socio-economic framework. Moreover, it is the Committee's view that the aid provided should be generalized, covering the three categories of enterprise (processing, commercial, service sector), and that the definition of development priorities should not be influenced by political considerations.

1.4.3. Support for small firms should never replace or squeeze out the attention given to larger firms: the two should go hand in hand. In the rapid process of industrial renewal, a new optimum equilibrium between the two types of firm is being forged, but they will remain interdependent.

1.4.4. It is important to remember that many small firms, while playing a crucial role in generating employment and

growth, only operate within their national borders. Accordingly, it will not be sufficient simply to examine Community provisions in respect of barriers to free trade; care will also have to be taken to ensure that provisions in other areas do not impede the achievement of these vital objectives, with due respect for all the economic and social objectives which form the Community patrimony.

1.5. Furthermore, an environment propitious to the creation and development of SMEs is necessary to persuade those persons presently operating in the black economy to return to legality. As the 1982 Committee opinion on the promotion of SMEs pointed out, the black economy is not only extremely harmful to the public interest because of the evasion of taxes and social security contributions, but is especially damaging to the small firms sector. This being the case, and as the situation in many of the Member States has worsened in the last few years, the Commission could usefully draw up a series of guidelines for the national authorities on how to bring those operating illegally into line. These guidelines could be taken directly from the study commissioned by the European Council in The Hague in June 1986.

1.6. The success of the programme will depend to a large extent (a) on the financial, technical and human resources available to the Commission for its implementation and on the coordination of these resources, and (b) on the political will of the Council and the Member States.

1.6.1. The Commission should take steps to centralize all the aspects of concern to SMEs in a single body within the Commission structure. SME owners would then have a single channel for their dealings with the Commission.

This operational role could be effectively filled by the Task Force; for this it will be necessary to strengthen and expand its mandate beyond purely coordination to take in management functions as well.

A further point: the Community budget must schedule the resources needed to carry out every single action contained in the programme, something which is not the case with the 1987 budget. Under no circumstances must the budget be allowed to provide financing for a specialized body which would rapidly become a European Assistance Centre, and which the representative SME organizations have come out clearly against. The role of the Task Force will be to undertake studies, consulting the representative social organizations, which will lead to Community measures geared to the needs of small firms, and to propose these to the Commission.

Furthermore, the evidence that only a limited proportion of Community funds is aimed at and actually reaches SMEs

(undoubtedly far smaller than that received by large firms) points to the need for a major budgetary and financial effort to support the programme. The Task Force should study and monitor that part of Community aid which is designated for and should end up in the hands of SMEs.

1.6.2. The political will of the Member States was apparent in the final declarations of the European Council meetings of 29 and 30 March 1985 in Brussels and 2 and 3 December 1985 in Luxembourg. These declarations called for the removal of obstacles to the proper development of SMEs.

The Committee hopes that the spirit evinced by the Heads of State and Government of the Member States will be reflected by the Council of Ministers when it adopts binding provisions for the implementation of the action programme.

1.7. The Committee urges the Commission to set deadlines for each section of the action programme. These should in no instances be later than 1992, the projected date for the completion of the framework for the internal market. They should be accompanied by a carefully drawn up, detailed schedule for implementing measures, according to priority. The order of priorities would have to be studied and set out clearly, starting preferably with urgent measures for creating the most favourable economic and financial environment for small firms, and developing the more specific measures gradually, albeit as quickly as the Task Force is able. This would give SME managers a sense of security and confidence in the future, and allow them to plan their future development with more certainty.

The Committee also recommends the establishment of a monitoring system, so that the Commission can assess the effectiveness and results of the measures adopted. Periodic reports on these aspects would be sent to the other Community institutions, including the Committee.

1.8. Lastly, the Committee notes that there is a whole range of economic and administrative activities in which small firms achieve major economies of scale when they work together (use of common services, credit management, coordination of research, and much more). It must also be remembered that the SME sector covers an enormous and extremely disparate range of businesses. Community action will therefore have to be highly adaptable and flexible. Close contact between the Community authorities and the various SME organizations would provide the best guarantee of this.

The Task Force will thus have to establish relations and extend its contacts with SME organizations, institutes, advisory and training centres, etc. at both national and Community level. Small firms also need to form a common front for certain key aspects of their participation in institutional dialogues and negotiations, at both Community and national level.

SME organizations, in all their forms (associations, chambers of commerce or trade, enterprise agencies etc.) are undoubtedly the best way to disseminate information and coordinate joint measures.

The Commission will thus have to devote special attention to this type of organization, to encourage them to provide the advisory and support services which these firms need. In no case must this involve financial support from the Community.

1.9. Similarly, trade union presence in small firms (naturally, subject to the relevant national legislation) should assist them in their socio-economic activity, encouraging consultation and agreement between workers and employers in a harmonious and mutually supportive fashion. Such unionization is part of the cooperation policy to be followed by trade unions, representative organizations, and the small firms themselves.

## 2. Specific comments — Action programme

### 2.1. *Providing a favourable environment for firms*

In the Committee's view, achievement of this objective is the cornerstone on which any action to support small firms will rest. In other words, the adoption of any concrete aid measure will rest on the creation of an environment favourable to the development of small firms.

It must be remembered that the environment in which SMEs operate does not involve solely the public authorities and the laws and regulations which govern company life; it also involves other socio-economic groupings (large firms, small firms, management and labour, etc.) with which small firms need to maintain smooth and flexible relations.

#### 2.1.1. Promoting the spirit of enterprise

2.1.1.1. It is necessary to encourage not only the setting-up of individual firms, but also the creation of

cooperative associations of firms and cooperation arrangements, including linkage with larger firms.

An extremely useful instrument to encourage this cooperation at Community level will be the European Economic Interest Grouping, the effective implementation of which needs to be speeded up.

2.1.1.2. As part of the promotion of initiatives for young entrepreneurs, it should be ensured that the setting up of cooperatives and similar bodies, such as the 'sociedades anónimas laborales' (workers' cooperatives) in Spain, 'consorzi' (cooperative associations) in Italy, etc., is just as practicable as the setting-up of any other form of small business, without this entailing any distortion of competition.

A key role could be played by business and innovation centres which, with Community support, could operate pilot schemes to check small-business potential in regions with high youth unemployment.

#### 2.1.2. Improving the administrative environment

2.1.2.1. The Committee realizes that at both national and Community level certain laws and administrative provisions will need to be adapted to the special features of SMEs, provided that adaptation means simplifying provisions without altering their original intention, although in some cases the necessary changes may be more substantial. This does not mean blanket deregulation; it is merely to note the need to adapt to the new economic and technical structures.

Existing provisions were certainly not designed to hinder the entrepreneur. However, in many cases they may have proved obsolete, unnecessary, or sometimes even inadequate. The proposed procedure will have to assess in each case:

- the original objective for which the provision was designed,
- the present degree of obsolescence or inadequacy of the provision with respect to its objective,
- the desirability and socio-economic cost of replacing, amending, abolishing, retaining or supplementing it.

It is obvious that dialogue between all the social groupings will play a major role in this assessment; the activity of SMEs urgently needs to be made more flexible, without lowering guaranteed basic social standards.

2.1.2.2. The review of the provisions affecting small firms should, as in other aspects of Task Force activity, be conducted in such a way that it is not seen as a form of discrimination against large firms, but as the correction of precepts which fail to take account of the special features of small firms, with the sole aim of placing them on an equal footing in their economic activity.

An instrument to encourage harmonious relations between the two categories of firm, promoting dialogue and cooperation, would be useful here. This could take the form of the 'partnerships' which have appeared in some Member States over the last few years.

2.1.2.3. The need to reduce the legal and administrative burdens on small firms to a suitable level, according to sector, makes it essential to establish which provisions have priority, depending on the importance of their objectives. The institutions will have to tailor their requirements to the actual capacity of the existing bureaucratic and administrative machinery. An otherwise useful provision, in the hands of an administrative structure which is unable to apply or monitor it, becomes a burdensome instrument leading to market distortion and providing an incentive to fraud.

Provisions, and Community provisions in particular, must be presented in a coherent manner and formulated in a clear and up-to-date fashion.

When the national and Community authorities consider the measures to be adopted to improve administrative services, they will have to take account of the fact that in those Member States which have more complex structures, SMEs will come into contact with administrative authorities at different levels; the central, regional and local administrations will therefore have to simplify their arrangements.

2.1.2.4. The 'impact statements' that are to be supplied with all legislative proposals submitted by the Commission are a great step forward for firms, and for small firms especially, and will be of great help to the Committee's work. The Committee would thus like to receive the statements on the provisions it is to consider. The representative organizations who are to be consulted will also need to have access to the impact statement on the subject of the referral. Perhaps this could be best achieved by its publication in the Official Journal.

In order not to distort their positive effects, these statements should be used as an additional source of information to the contents of the provisions themselves, forming a basis for any modifications which might prove necessary to avoid prejudice to firms and to small firms in particular. They should not be an additional source of red-tape to draw out the decision-making procedure unnecessarily, or paralyse the

provision before it is approved. The data included in these statements should thus refer to the Community as a whole, and should not be open to differing interpretations at national level.

### 2.1.3. Monitoring the completion of the internal market with a view to helping SMEs

2.1.3.1. The completion of the internal market should automatically mean the creation of a climate favourable to business, SMEs in particular, and the elimination of all barriers which currently prevent such firms from penetrating the various Member States. Accordingly, the Committee would urge the Community institutions to meet the deadlines laid down in the White Paper and to avoid delays.

Regarding the elimination of physical, technical and administrative barriers, the Committee would refer to its opinion on the White Paper in which it urges the Commission to reinforce the dialogue with governments, employers and trade-union organizations<sup>(1)</sup>. On the employers' side, the organizations representing SMEs have a major role to play as this type of firm accounts for a substantial proportion of Community businesses; hence the need to encourage close collaboration between these representative associations (at both national and Community level) and the EEC.

The Committee would once again urge the Commission to use the means placed at its disposal by the Treaty to avoid distortions of intra-Community trade caused by neo-protectionist practices on the part of the Member States, as these are particularly prejudicial to SMEs.

2.1.3.2. The Commission and the national authorities should help to publicize the progress made on the elimination of physical barriers as well as the technical standards adopted, in such a way that they are brought to the attention of all small and medium-sized businesses in the Community. This task could be carried out effectively by the sector's representative organizations, in permanent contact with the Community and national institutions. The 'Community information centres' proposed in the programme could be regarded as a first step towards the circulation of the information mentioned. The creation of these offices must in no case mean that new administrative bodies are set up at national level. Existing bodies, some of which need reorganization, should instead be used and coordinated more effectively.

2.1.3.3. Besides the legislation which the Community institutions must adopt to open up public contracts in the 12 Member States to all EC enterprises, the Commission must use the means at its disposal to ensure that the provisions of Community Directives, especially those concerning information, are applied by national administrations at all levels. A survey urgently needs to be carried out on recent experiences at national level, along with proposals on how the situation might be improved.

The Committee proposes that the Commission, preferably in consultation with the sector's representative organizations, study and implement specific measures to encourage greater SME participation in public contracts. The Commission, together with the Member States, should also ensure that small firms have the same opportunities to bid for public contracts as large firms. This would require uniform definitions of SMEs at Community and/or sectoral level, further refined to take account of national characteristics, and an effective system for checking on the invitations to tender of Member States' authorities.

Finally, it would be very useful if the Community issued a Directive requiring the Member States to publish periodically an assessment of the scale of SME participation in public contracts.

### 2.1.4. Adapting company law

2.1.4.1. The Committee once again calls for the approval of the 'Statute for European Companies' which acts as a basis for the setting-up of European companies; this would strengthen firms' competitiveness by eliminating barriers to the freedom of establishment, facilitating access for SMEs to new markets in other Community countries. By the same token the Community should approve the creation of a European trade mark and take action against international trade mark piracy. The costs and charges which the registration of a European trade mark or system may involve must be within the financial means of even the smallest firms. Appropriate measures should also be taken to speed up the procedure for obtaining the European patent.

At the same time, the protection of patents and design rights will also have to be improved.

### 2.1.5. A sound competitive structure

2.1.5.1. Much has been done to adapt competition rules to the actual situation of SMEs, but it should not be forgotten that the existing provisions must be applied strictly, insofar as too lax an approach could lead to a distortion of

<sup>(1)</sup> OJ No C 344, 31. 12. 1985, p. 16.

competition and of intra-Community trade. Small firms would be the first to be hurt by this.

2.1.5.2. Nor should it be forgotten that there is another side to competition policy, namely regulating State financial involvement in the business world. Hence the Commission should apply Treaty Articles 92 to 94 equally strictly to ensure that the measures taken in the various Member States to promote SMEs do not clash with each other.

The Commission should also resubmit its proposal for a Regulation on concentration.

#### 2.1.6. The tax environment

The Member States are still free to adopt whatever direct taxation arrangements they consider most appropriate. Accordingly, the national authorities should employ a tax system which favours firms. Consideration of the following measures, among others, may be recommended:

- a reduction of tax on profits which are reinvested,
- depreciation arrangements which enable plants to be modernized,
- a reduction in succession duties in the event of the owner's death, provided that continuity of business is ensured,
- a reduction in tax on the transfer of ownership of firms, provided that continuity of business is ensured,
- tax concessions for investment to be uncoupled from concessions for job-creation,
- tax concessions for the setting-up and transfer of small firms,
- tax concessions for R & D activities,
- adoption of a harmonized carry-back/carry-forward system to maximize the benefits of SME investments <sup>(1)</sup>,
- avoidance of double taxation.

#### 2.1.7. Improving the social environment of SMEs

2.1.7.1. The Committee approves any measures to encourage the social dialogue. For this reason, and to

overcome any difficulties, the Commission, assisted by the SME and workers' organizations, should ensure that the social dialogue which must accompany all Community policies is set in motion and that small firms are included. Accordingly the Commission will have to bolster — by means of information, training and coordination with other policies (social, regional, financial, fiscal and sectoral) — the flexibility and influence of SME employers' and workers' organizations in the industrial negotiation machinery.

2.1.7.2. Clearly the Commission's excellent initiative is intended to cover all types of cooperative, in all sectors, whatever their legal form in the legislative systems of the different Member States.

#### 2.2. Flexibility and capitalization as a basis for the creation and development of SMEs

The Committee proposes that this chapter of the Commission document (III.2) be entitled 'promotion of the creation and development of SMEs'.

The setting-up of more advice and management centres to provide small firms with certain services which are crucial to the running of the firm (accounting, taxation, financing, technology and innovation, etc.) would help make such firms more flexible, efficient and competitive, with a better chance of surviving, since all too frequently there is no way for them to incorporate these services in their internal structure.

With this in mind, the Committee proposes that the Commission consider a series of supplementary measures (e.g. along the lines set out in the proposal for a Council Decision COM(86)785 final) for the creation of these centres which should be in contact with bodies associated with the firms (e.g. organizations representing SMEs) and be sufficiently decentralized to be accessible to the firms furthest from the main administrative centres. In this connection consideration should be given to fiscal and financial aid towards the cost of expert advice, which is a considerable burden for small firms.

#### 2.2.1. Training

A distinction must be made between the training required by the entrepreneurs themselves and that required by their staff. In both cases the training must be appropriate to the business pursued by the firm and must be basically practical.

The training of entrepreneurs, be they owners or managers, is a key element in the life of SMEs and is in particular need of improvement, in accordance with the ILO recommendations approved at the conference in June 1986. It must be the

<sup>(1)</sup> This proposal was approved by the Committee in its Opinion (OJ No C 160, 1. 7. 1985, p. 3) (Rapporteur: Mr Goris).

cornerstone for the renewal and consolidation of the spirit of enterprise of SME owners and managers who are frequently inadequately trained or too inexperienced to face the heavy responsibility involved nowadays in running an up-to-date and efficient small business.

The training of entrepreneurs should cover all aspects of running a business efficiently, calling on appropriate outside advice where necessary. The entrepreneur should also be encouraged to keep abreast of the advances being made in all relevant fields, the new technologies in particular.

Staff training is a greater burden for SMEs than for large firms as the latter have the means to provide in-house vocational training, while small firms lack the material resources for this and frequently the time needed to attend training courses held away from the firm's premises. The following measures could be adopted to overcome this handicap:

- increased contact with the competent authorities with a view to drawing up vocational training plans in liaison with SMEs, and workers, via their representative organizations, and geared to their particular needs,
- increased financial aid for the vocational training of SME staff, including the heads of firms and managers, extending this training to the spouses of heads where they work in the firm,
- creation of a wide network of training centres so that training facilities are within reach of all firms, using audiovisual and distance-learning techniques,
- inclusion of management training for SME owners and managers among the priorities of the ESF,
- consideration of training in new technologies.

The market in new technologies is dominated by large companies which all too frequently offer solutions geared to major customers with more capital than SMEs. With a view to improving this situation and strengthening the position of small firms, it is proposed that additional advisory services on technology and innovation be set up to assist SMEs, their managers and workforce.

These advisory services, whose purpose would be to reinforce the position of SMEs as customers for and users of new technologies, would have the following functions:

- to facilitate and increase the exchange of information between SMEs (users) and the suppliers of new technologies, so as to adapt the requirements of the one to the technical possibilities of the other,
- to provide assistance in selection, evaluation, secondment of qualified personnel during installation, etc.,
- to boost the training and skills best suited to the introduction of new technologies in SMEs, taking into account the particular technical, economic and labour features of such firms.

It is a fact that the introduction of new technologies in both large and small firms raises many problems of a human, labour, social and ecological nature. These must be taken into account in the social dialogue, helping to create a climate of thorough-going familiarization. This in turn will facilitate the social dialogue and the introduction — in the socially and economically most favourable manner — of the new technologies in small businesses.

To this end the measures scheduled for 1987 and successive years by CEDEFOP in collaboration with the Commission (DG V and SME Task Force) urgently need to be reinforced and made more efficient, to ensure that they effectively cover all aspects of SME training and reach all those involved in it.

Mention should be made here of an initiative taken by the Health and Safety Directorate of DG V to set up a training and advisory programme on safety and management for small firms.

Measures taken or planned by the Commission, the SME Task Force and CEDEFOP for the training of SME managers must therefore be effectively coordinated.

Lastly, in some countries where vocational training is highly developed, small firms form a source of skilled staff whose experience could be drawn on, passed on and used to the full.

## 2.2.2. Information

All measures which help to increase the flow of information to firms, together with the training facilities mentioned in the preceding section, are the foundation stones for the development of small firms.

2.2.2.1. The Commission's plan to set up 'Community information centres' in all the Member States will help to

provide entrepreneurs with the information which they need. The Committee would, however, urge the Commission to be more specific on certain points connected with the operation of the information centres, for instance:

- possible linking of the information centres with existing information networks in the Member States, e.g. 'Minitel' in France,
- connection with SME organizations,
- level of decentralization within the Member States,
- body to which they are responsible,
- composition and training of the advisory staff.

The Committee proposes that the Community information centres channel their activities through existing bodies, such as SME organizations, chambers of commerce, trade and industry, etc. rather than setting up new organizations. Financial considerations, amongst others, make this necessary.

2.2.2.2. The compilation of data on SMEs by the Commission should serve to cover the lack of such information normally found at national level. It should be borne in mind, however, that such a measure will only be worthwhile if the benefits which firms receive from it outweigh the costs, of whatever kind, incurred in providing the information requested. These costs could be reduced if the data were demanded not from individual firms but from SME organizations.

The inconsistencies between the NACE nomenclature and the statistics on many branches of SME activity should also be remedied forthwith.

### 2.2.3. Exports

The measures to promote exports by SMEs should not be limited to the markets referred to in the action programme, but should give special attention to those regions which offer the best untapped opportunities for small firms.

The Committee agrees that there should be a heavy emphasis upon education, training and information in the field of exports and that the Commission should encourage the sharing of experience between established exporters and new or potential exporters.

Consideration should be given to the scope for establishing a Community export-credit insurance company tailored to meet the special needs of small businesses.

Furthermore, the export promotion measures should be accompanied by measures to boost the presence of the EC Member States in third countries, basically by encouraging investment in commercial and industrial activities in these non-member countries.

### 2.2.4. Establishment of firms and innovation

The Commission and the Member States should pay more attention to those aspects which help to guarantee the continuity of firms. Accordingly, the start-up aid should continue throughout the launch period which will be determined on a case-by-case basis, depending on the specific features of the assisted firm (sector, type of product, location, etc.).

The Commission should encourage university-industry cooperation, broadening its base so that it is not confined solely to the new technologies. The Commission should also examine the possibility of extending the contacts to all employer and worker organizations (cf. Comett programme).

Moreover, where desirable, local employment initiatives can and must link in with start-up and innovation programmes for small firms (cf. Elise programme).

The Committee urges the Commission to continue developing Community R & D policy and facilitating access to research contracts for SMEs.

The Committee considers that SME participation in the Community Esprit, Brite and Race programmes is still small and that the Commission should therefore find ways to increase it.

Nor should the new know-how and technological training which comes from involvement in this type of programme remain the exclusive preserve of the participating firms. Hence the Commission will have to set up, together with the SME organizations, and through the Community Information Centres, a proper programme for publicizing the technical findings derived from these programmes.

The Committee recommends that the Member States ratify the European Patent Convention and urges the Commission to ensure that it enters into force according to the schedule laid down in the White Paper on completing the internal market.

### 2.2.5. SMEs and regional development

Community measures will have to be prepared and implemented with the help and cooperation, where appropriate, of the local and regional authorities, who have the best knowledge of the problems of their particular area.

The Commission is also urged to encourage ERDF participation in productive investment in all sectors of SME activity (industry, commerce, crafts, tourism and services) rather than in infrastructure projects.

#### 2.2.6. Capitalization

This title in the Commission's action programme would be better phrased as 'Investment funding facilities'.

The national administrations and competent Community bodies should ensure that SMEs obtain loans on better terms than those available on the capital market. EIB and NCI measures contribute towards this and should therefore be reinforced. A thorough study should be made of the operation of the NCI as difficulties are being encountered in some Member States, due to the rise in final interest rates which the channelling of credits to SMEs via the financial institutions involves.

Most small firms do not have sufficient capital of their own, which places them at a disadvantage when they have to contract loans, arrange lines of credit, provide guarantees, etc. Greater access to venture capital is therefore of vital importance for small firms since they cannot raise capital by issuing shares because they do not generally have the legal form of a joint-stock company. Furthermore, they frequently hesitate to increase their guarantee capital from outside sources as the ensuing influence of the third party on the management of the firm often leads to conflict. An appropriate means of providing venture capital is therefore through equity investment companies set up specifically for this purpose, such as were created in the sixties in Belgium, Denmark, Italy and Germany, in some cases at regional level, with the participation of savings banks and banks. As a rule these financial institutions provide funds for a specific period — generally 10 years — and take a 35 to 49 % holding in the firm as 'sleeping partners'. Small firms prefer this type of sleeping partnership as they preserve their complete independence.

Besides providing venture capital, these equity investment companies often provide special advisory services, including advice on tax matters, and other services in such fields as factoring and leasing. They can also act as intermediaries in finding partners for SMEs, even in other Member States.

The Committee welcomes the Commission's intention of developing venture capital operations at European level and stresses the urgency and importance of this.

One way of resolving the problem of SME funding is to provide them with access to the capital market. In this connection, the creation of 'secondary markets' such as exist in some European countries could provide a solution. The Commission should study ways of extending this arrangement to all the capital markets of the Member States.

Community and national institutions should also be encouraged to act as secondary guarantors for those firms which lack guarantees.

The Committee proposes that the Commission consider two new facilities for providing financial aid for small businesses. Firstly, the creation of a line of finance to cover interest rate differentials, backed by tax reductions, where firms cannot obtain preferential terms. Secondly, the setting-up of reciprocal guarantee companies at Community level which would participate in the capitalization of firms.

The Committee urges the Commission and the EIB to ensure that, when NCI IV is implemented, the innovation incentives on which the 'Community investment loans' were based operate effectively.

Last but not least, it is clear that in many instances the ERDF and ESF are not geared to helping small firms, and should be revised as a matter of urgency so that SMEs have effective access to these funds without incurring the heavy costs and risks encountered at present. The key problem is the total incongruity between the short time available for preparing an (expensive) application for project assistance and the time taken to grant it, almost always after the project has actually got underway.

Finally, in the context of measures under the European Development Fund and the strengthening of the Lomé Convention, cooperation and contact between Community and ACP small firms needs to be stepped up.

The Community's small firms must be given every incentive to invest in the ACP States, whether through direct investment or joint ventures.

Done at Brussels, 1 July 1987.

*The Chairman*  
*of the Economic and Social Committee*  
Alfons MARGOT