

IV. EU Enterprise Policy

1. SME Definition
2. SMEs Economic Significance
3. SMEs Social and Political Significance
4. Instruments of the EU Enterprise Policy

To p. 1 - European Commission Recommendation 2003/361/EC regarding the SME definition.

Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfill the **criteria laid down** in the Recommendation which are summarized in the table below. In addition to the **staff headcount** ceiling, an enterprise qualifies as an SME if it meets either the **turnover** ceiling or the **balance sheet** ceiling, but not necessarily both.

Enterprise category	Headcount	Turnover	or	Balance sheet* total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

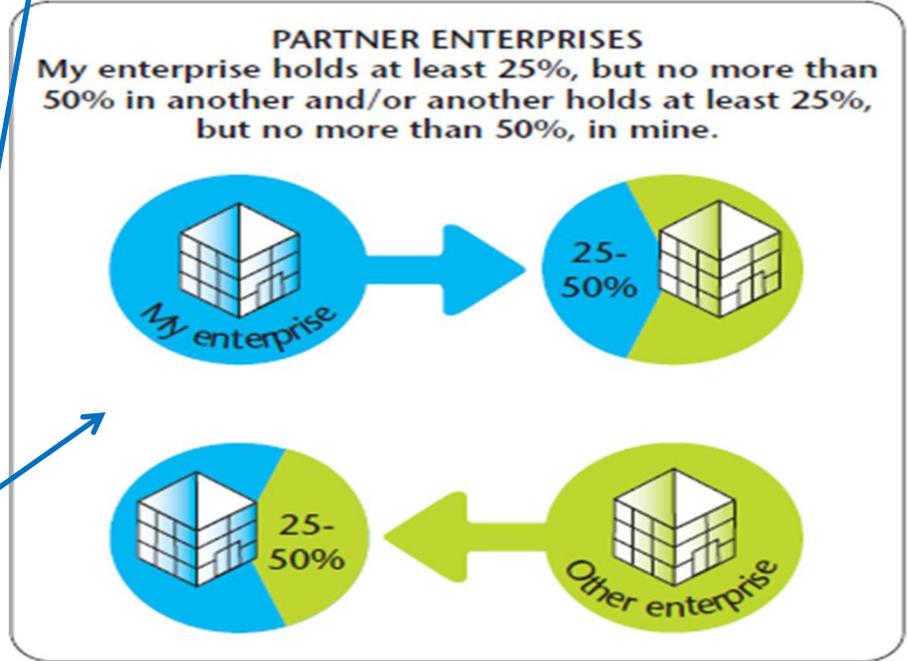
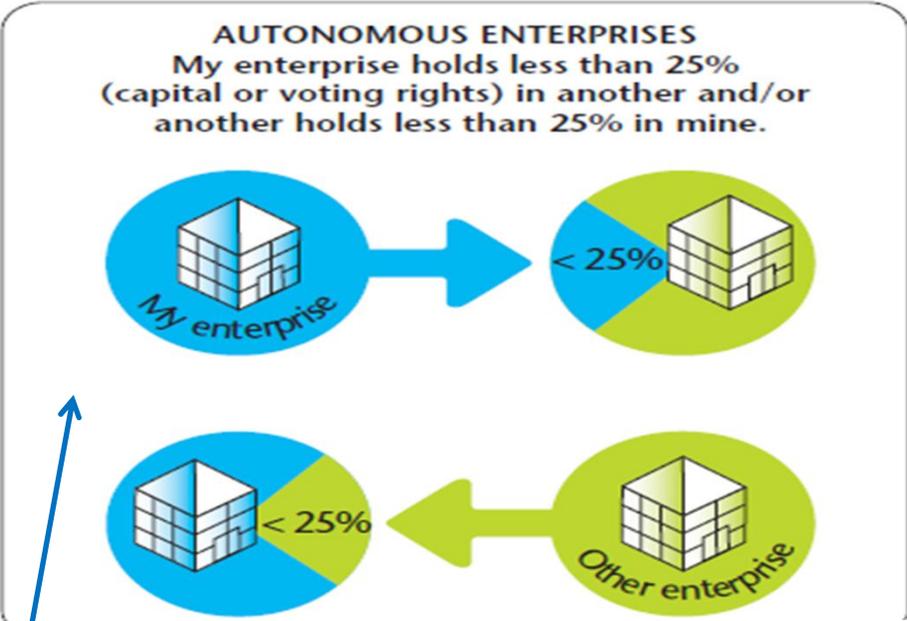
Total amount of assets and ownership equities at the end of a financial year.

The Recommendation of the Commission concerns all EU policies applied within the European Economic Area in favour of SMEs (Structural Funds, Framework Program for Research and Development) as well as State Aid, where SMEs can benefit from exemption provisions and higher aid ceilings (General Block Exemption Regulation-GBER).

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million <small>(in 1996 € 40 million)</small>	or	≤ €43 million <small>(in 1996 € 27 million)</small>
Small	< 50	≤ €10 million <small>(in 1996 € 7 million)</small>	or	≤ €10 million <small>(in 1996 €5 million)</small>
Micro	< 10	≤ €2 million <small>(previously not defined)</small>	or	≤ €2 million <small>(previously not defined)</small>

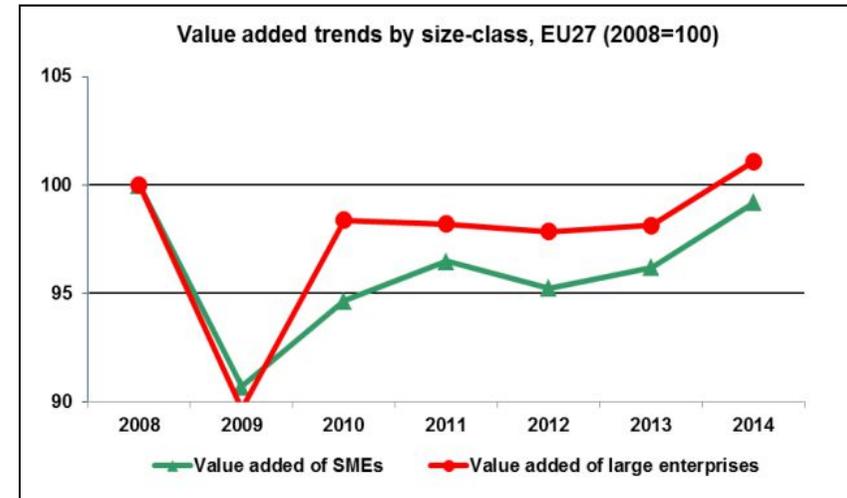
Autonomous SME

**Semiautonomous SME
(Partner enterprise)**



II. SMEs Economic Significance

SME size - Number of employees	0	1-9	10-49	50-249	>250
Share in total SMEs number (%)	49.0	43.1	6.6	1.1	0.2
Share in total employment (%)	9.4	19.3	20.5	17.3	33.5
Share in total turnover (%)	4.8	16.2	18.3	18.3	42.4



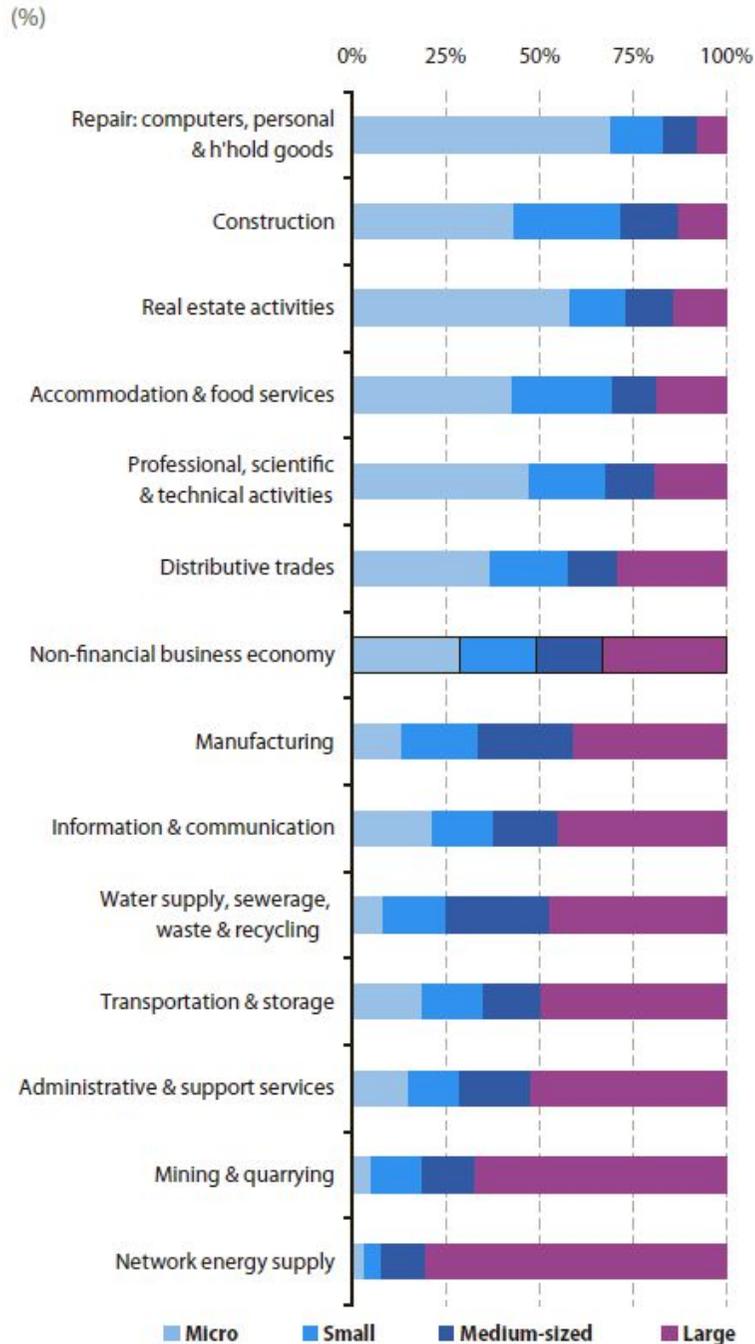
Medium and large enterprises generally contribute a higher share or value added than employment, while the reverse is true for micro and small enterprises.

This indicates a relatively high labour productivity (value added per person employed) among large and medium enterprises.

Labor productivity by enterprise size-class in the EU

Employees	>250	50 - 249	10 - 49	0 - 9
Value added divided by persons employed (€1000 per person employed)	53	44	38	28

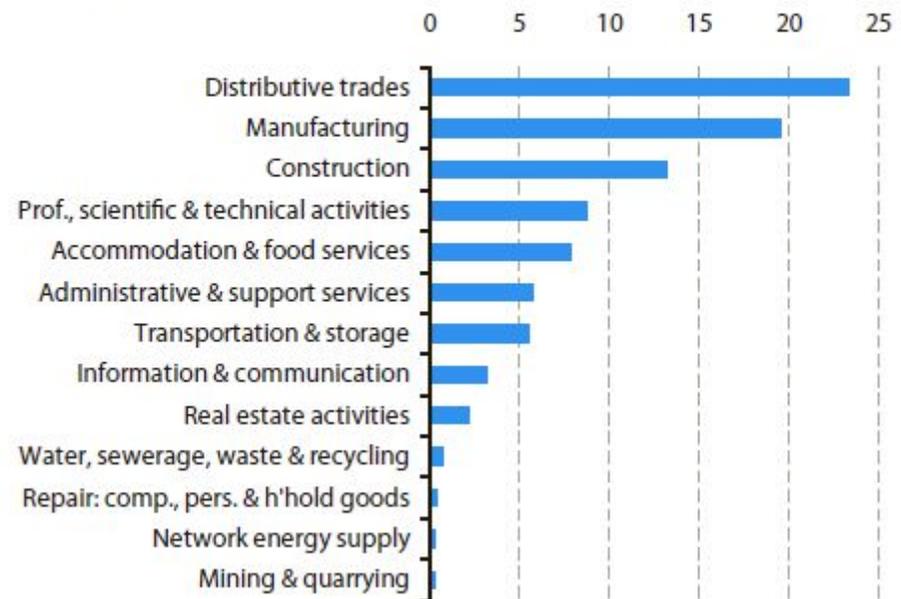
Figure 1.3: Analysis of the number of persons employed by enterprise size class, EU-27, 2008



Clearly employment in the industrial activities is mainly concentrated in large enterprises, although SMEs also contribute a significant proportion of manufacturing employment.

In the services there is a much greater diversity, with **repair, construction real estate activities, accommodation & food services, professional activities and trades**, strongly depending on employment from SMEs

Figure 1.2: Number of persons employed in SMEs, EU-27, 2008 (million)



Nevertheless, the risk of insolvency is much higher among SMEs than among large enterprises.

➤ **SMEs have less financial reserves;**

➤ **Their access to bank loans is limited;**

➤ **If cash flow conditions deteriorate in time of economic depression it can have crucial consequences for them.**

Table 2.6.2: Average weekly hours worked, EU 27, 2008

		Full-time jobs		
		Total	Employees	Self-employed
All activities	Total	41.0	39.8	46.7
	Women	39.1	38.4	43.7
	Men	42.1	40.7	47.9
Agriculture	Total	44.1	40.9	45.7
	Women	40.1	38.7	40.6
	Men	46.0	41.6	48.6
Industry	Total	40.8	40.1	45.9
	Women	39.2	38.9	43.3
	Men	41.2	40.4	46.2
Services	Total	40.8	39.6	47.4
	Women	38.9	38.2	45.0
	Men	42.2	40.8	48.5

Source: EU LFS

Low labor productivity can be compensated by longer working time in the SMEs. Another way of increasing the surviving capacity of the small enterprise is to employ in the business family members without paying them a proper wage.

But there are some economic sectors with highly profitable SMEs:

1. **High-tech SMEs** This is the so-called **New economy**. A lot of high-tech SMEs are in the Technology Parks near the large European cities. They are often highly integrated into the local Universities. They gain different kinds of support from the local authorities, big companies and public venture capital funds. If they succeed with their innovations they have the chance to become big companies like Yahoo or Google, if not...to start a new business.
2. **Consulting SMEs** About 1/3 of the value added in EU services are from business services, mostly from consulting services. Consulting SMEs are often self-employed former managers of big companies or university professors with their assistants. Such SMEs are specialized in legal advice, accounting and audit consulting, management consulting. Their turnover can exceed millions of euro. Recently, however, and in this industry there is a concentration. Big consulting companies, most of them based in the USA or in the UK (PricewaterhouseCoopers, etc.) push the small consulting firms from the market. A new threat is also the consulting activity of big European banks like Deutsche Bank or **HSBC** 

3. **Brokers** Most are investment brokers. There are about 320 thousand investment brokers in the EU. They employ about 4.2 percent of the employees in EU SMEs but they create about 1/4 of the EU SMEs turnover. Some of them are so profitable that with less than 10 employees create the turnover of an ordinary big company.

3. SMEs Social and Political Significance

- ✓ **SMEs employ a large number of workforce.**
- ✓ **They play the role of social buffer in time of recession.**
- ✓ **They can operate even in small towns and villages.**
- ✓ **They create employment with relatively small initial investments and are recommendable for regions in transformation (as Ruhr Area)**
- ✓ **SMEs create more jobs for women (fashion and textile industry)**
- ✓ **Enlarge the so-called Middle class mostly by increasing the number of self-employed persons (political buffer in time of crisis).**



4. Instruments of the EU Enterprise Policy

- ✓ **Subsidized business and information services** – As “**The Enterprise Europe Network**”, which provides a wide range of services to SMEs, helping them to access market information, overcome legal obstacles and identify business partners.

- ✓ **Improving the business environment.**

Common Commencement Dates at EU level. The European Commission has prepared a trial project for the launch of **Common Commencement Dates** in a selected sector related internal market legislation under the competences of **Directorate General Enterprise and Industry**.

At this stage, the scope of the project is mainly limited to **Commission autonomous acts** also known as implementing measures. The participating sectors are **automotive industry and explosives**.

A **Common commencement date** is defined as the date of application i.e. the date when the legislation starts producing effects on SMEs.

Considering the specificities of the participating sectors, **2 common commencement dates have been fixed: 29 April and 29 October.**

This would mean in practice that the acts included in the Common Commencement dates trial project will be applicable to businesses starting either on the 29 April or on the 29 October of a given year.

Subsidizing SMEs technical development and innovations (by the 7th Research Framework Program, or by **Technology and IT Audit**)

✓ **Promoting training of entrepreneurs**

Competitiveness and Innovation Framework Program – CIP (2007-2013) coordinated by Commission's Directorate-General for Enterprise and Industry.

✓ **Promoting and subsidizing investment activities – access to financing** by guarantee instruments and venture capital funds

✓ **Promoting association of enterprises** (including on EU level – **UEAPME** – The European Association of Craft, Small and Medium-Sized Enterprises <http://www.ueapme.com>)

- ✓ **Supporting SMEs internationalization.** “Your Europe Business Portal”, an EU program providing companies who are planning for cross-border activities with information and interactive services that help them expand their businesses abroad.

There are different EU structures involved in the EU Enterprise policy

- ✓ Main coordinator is the **Directorate General (DG)** in the European Commission “Enterprise and Industry”. Department “E” – “SMEs and Entrepreneurship” with the following units:

E/1 Entrepreneurship; E/2 Business cooperation and support network;

E/3 Financing Innovation and SMEs; E/4 SME Policy Development and Crafts.

- ✓ **Strongly involved are also Commission’s Directorate General for Regional Policy; and DG “Research”**
- ✓ European Investment Bank
- ✓ European Investment Fund

European Investment bank (EIB) support for SMEs

EIB is an EU institution.

Subscribed (own) capital about **€232 billion**.

Subscribers are all EU Member States but with different shares.

Every of the 4 big Member States have about 16% share,

Bulgaria's share is only 0,177%.



EIB Building in Luxembourg

- **In 2009 EIB has raised on the international capital markets about €80 billion. Annually the bank approved different loans and guarantee products in size of about €80 billion. The total net amount of granted loans already exceeds €500 billion.**
- **EIB is an independent entity and is not subordinated to any EU institution.**
- **Main task is to support actions and projects of the EU cohesion and environmental policy (Trans-European Networks) by using ordinary banking practices.**
- **The Bank has an excellent (AAA) credit rating on the capital markets, enabling it to borrow at the best possible rates.**
- **As a non-profitdriven organisation, the benefits of the EIB's borrowing are transferred to project promoters who pay only a small mark-up to cover the EIB's costs and, if applicable, a risk margin.**

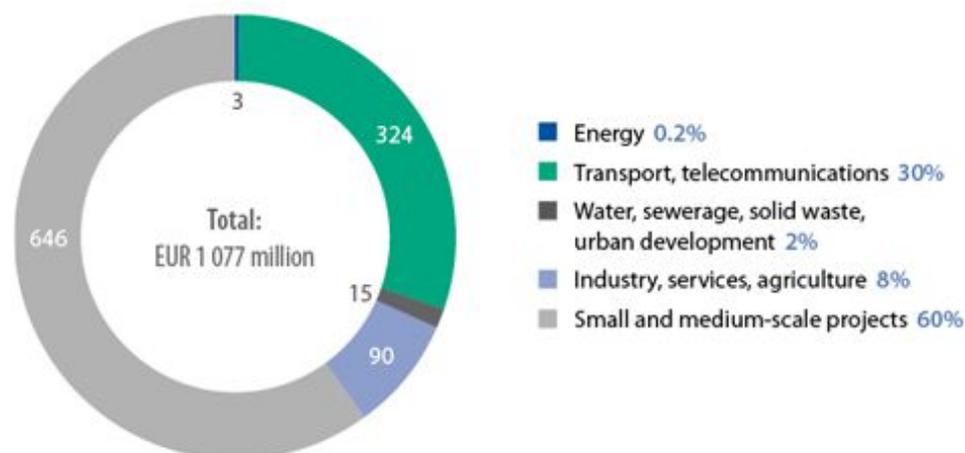


European Investment bank (EIB) support for SMEs

- Small and medium-scale ventures and smaller scale projects are financed through credit lines established in cooperation with national and regional banks (so-called global credit lines).
- The local banks allocate the EIB resources to SMEs under conditions **more favorable than the market conditions**. This is achieved especially through the good standing of the EIB on the financial markets (AAA Credit worthiness rating) and therefore the costs of funds, borrowed by EIB are very low.
- The annual amount of EIB global credit lines in support of the SMEs is about **€7 billion**.

Name	Signed Amount
CIBANK LOAN FOR SMES AND MIDCAPS	50,000,000
SG BG-RO LOAN FOR SMES AND MIDCAPS	100,000,000
UCL BG LOAN FOR SMES AND MIDCAPS	50,000,000
UNICREDIT BG-RO SME AND MIDCAP LOAN	60,000,000
ALLIANZ BG LOAN FOR SMES AND MIDCAPS	30,000,000
JHF BG - UDF SOFIA	12,581,869
JHF BG - RUDF	18,872,803
SOGLEASE RO-BG LOAN FOR SMES & MIDCAP	10,000,000
RAIFFEISENBANK BULGARIA GL IV	50,000,000
CIBANK GLOBAL LOAN	30,000,000
Total Amount	846,454,672

EIB lending by sector in Bulgaria from 2008 to 2012 (in EUR m)



EIB Group and EIF

- ❖ **EIB Group includes European Investment Bank and European Investment Fund (EIF)**
- ❖ The European Investment Fund (EIF) was established in 1994 as the EU's specialized financial body for small businesses.
- ❖ EIF's shareholding structure was modified in 2000. Now EIF's majority shareholder is the EIB (62%), alongside the European Commission (29%) and some 30 public and private financial institutions from the EU and Turkey (9%).
- ❖ **EIF's authorized capital is €3 billion.**
- ❖ To support SMEs European Investment Fund offers **Equity Products**, mainly venture capital instruments and **Debt Products**, mainly loan guarantee facilities
- ❖ Until 2010 EIF has been involved, together with the European Commission and the Member States, in the operation of 307 joint venture capital instruments with €5 billion own capital and 168 guarantee facilities with €14 billion subscribed capital.

EIB Group and EIF

- ❖ The **JEREMIE** initiative (Joint European Resources for Micro to Medium Enterprises) is a framework program providing a series of coherent actions to promote increased access to finance for small and medium-sized enterprises.
- ❖ JEREMIE aims to utilize in cooperation with the Member States financial resources made available from the European Regional Development Fund.
- ❖ **JASMINE** (Joint Action to Support Microfinance Institutions) is an initiative by the European Commission, the European Investment Bank and the European Investment Fund doing the same as JEREMIE but **focusing on the micro enterprises** (less than 10 employees).
- ❖ In 2009, EIF committed **€1.8m** in Belgium-based **CoopEst**. It is a fund operating in Poland, Romania, Bulgaria, Lithuania and Kosovo which plays an important role in providing access to finance to micro and small businesses and entrepreneurs in line with the recent European Union programs and initiatives aimed at developing microfinance.

How does a risk (venture) capital fund operate?

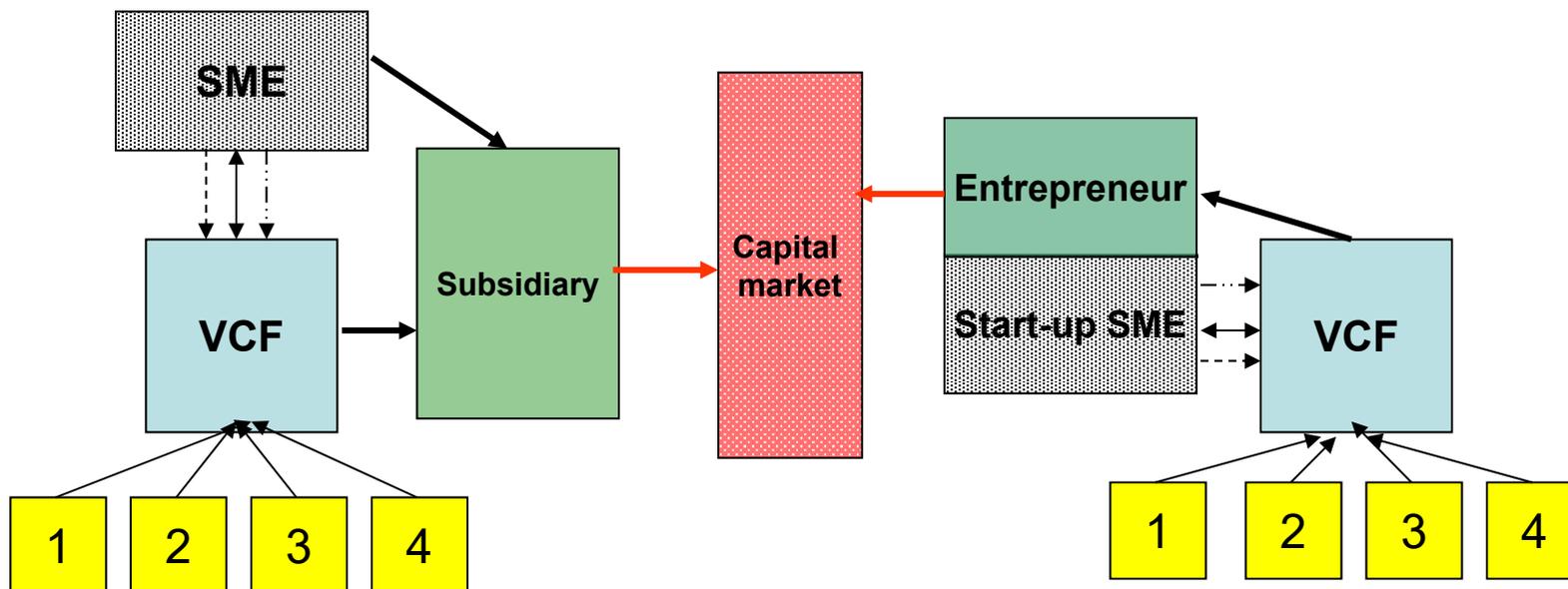
- ✓ **Venture capital fund (VCF) buys a stake in an SME or in a subsidiary (start-up SME).**
- ✓ **Together with the purchase a contract is signed for a deferred redemption.**
- ✓ **The price for the repurchase has to cover the costs incurred by the VCF and the usual interest payments for the amount of the transaction.**
- ✓ **The SME (or the entrepreneur) use the money from the VCF for some risky (innovative) investment.**
- ✓ **If the investment is successful the SME (the entrepreneur) buys back the share gained by the VCF.**
- ✓ **If the investment is not profitable and the SME can't make the regular payments for the redemption, the VCF sells the share on the capital market in order to cover (fully or partially) its costs.**
- ✓ **During the period of the venture investment the VCF helps the SME to survive and become profitable.**



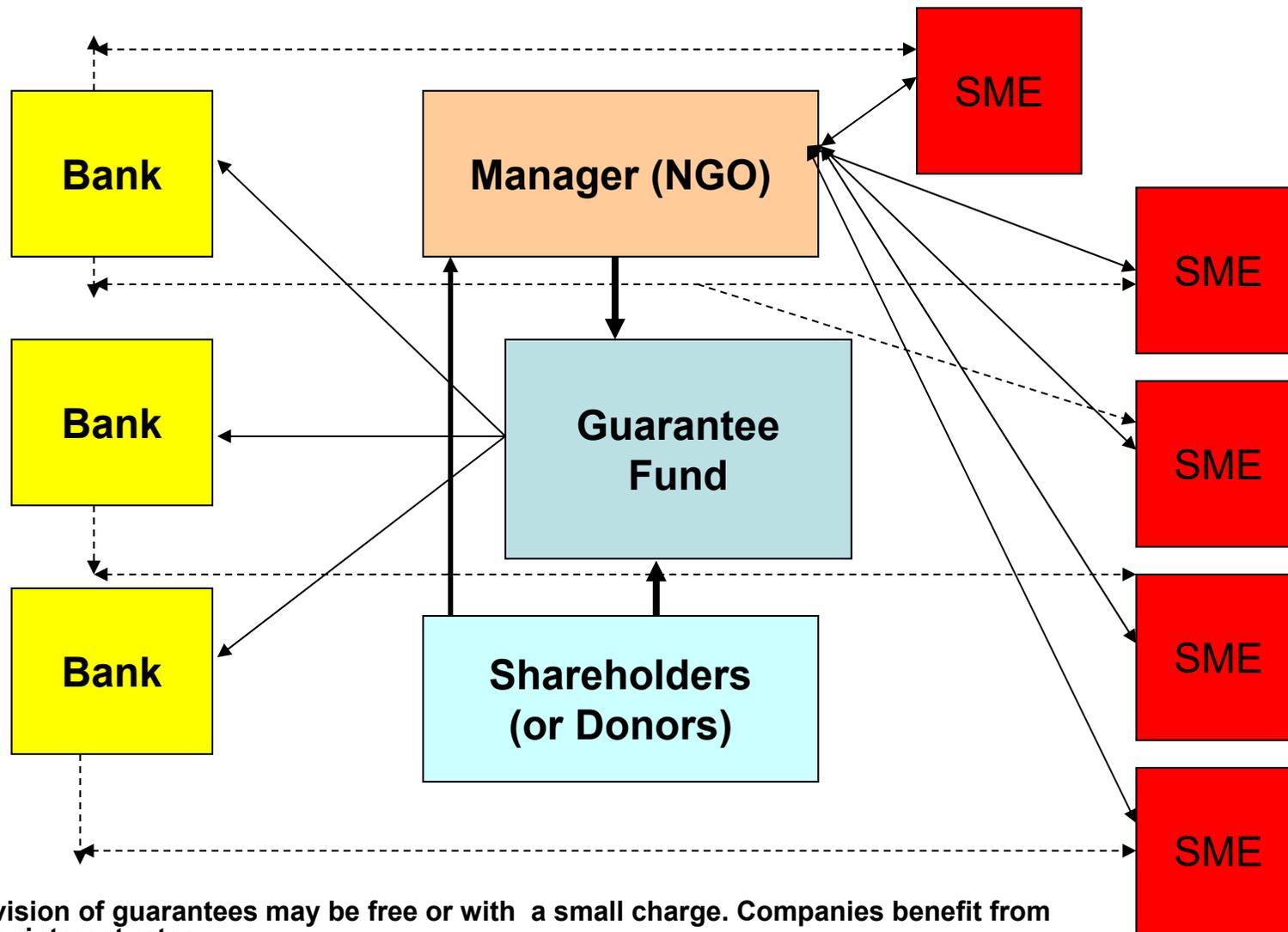
1 – Banks; 2 – Private investors; 3 – Member States and local authorities; 4 – EIF

Venture investment with existing SME

Venture investment with start-up SME



How does a guarantee facility operate?



Provision of guarantees may be free or with a small charge. Companies benefit from lower interest rates.