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COMMISSION STAFF WORKING DOCUMENT

**on the implementation of Commission Recommendation of 6 May 2003 concerning the
definition of micro, small and medium-sized enterprises**

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1. INTRODUCTION

In 1996, the European Commission adopted a recommendation establishing the first common definition for small and medium-sized enterprises in the EU¹. It was replaced by the Commission Recommendation concerning the definition of micro, small and medium-sized enterprises of 6 May 2003² (hereinafter "SME definition") which entered into force on 1 January 2005 and is mandatory for national State aid schemes and Community programmes.

In 2006, the Commission issued a first report on the implementation³ of the SME definition. The report summarised implementing measures taken by Member States, the European Investment Bank (EIB) and the European Investment Fund (EIF) as well as by Commission services and highlighted the areas of the Recommendation likely to need further attention in future. It concluded that stakeholders applied the definition without difficulty. At Community level the SME definition was also implemented smoothly in the relevant EU policy fields. The report concluded that the issues that potentially require further attention are not important enough to justify amendments to the SME definition and that a new assessment would be drawn up after four years of implementation, i.e. in 2009.

In view of preparing the present implementation report, the Commission services consulted at the end of 2008 Member States, the EIB, the EIF, a number of European business organisations and other stakeholders.

2. THE CURRENT SME DEFINITION AND ITS APPLICATION

2.1. Recalling the definition

Enterprises qualify as micro, small or medium-sized enterprises if they fulfil maximum ceilings for staff headcount and either a turnover ceiling or a balance sheet ceiling (see table below). The Commission Recommendation also specifies the method on how to establish and calculate these reference data. Currently, up to 23 million enterprises in the EU fall within the scope of the definition.

¹ OJ L 107, 30.04.1996.

² OJ L 124, 20.05.2003, p.36-41.

³ C (2006) 7074 of 21.12.2006.

SME Definition				
Enterprise category	Ceilings			
	Staff Headcount (number of persons expressed in annual work units)	Turnover	Or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

The Commission has published a user guide in all Community and EEA languages⁴ to facilitate the application of the definition. It illustrates in a step-by-step approach the methodology to determine the SME status of an enterprise. The Commission also regularly answers queries from the public in relation to the SME definition.⁵ The number of such requests has gradually declined, suggesting an increased familiarity with and understanding of how to apply the definition.

2.2. Examples of application

In the following, non-exhaustive examples of the application of the SME definition are presented.

2.2.1. State aid

In the area of State aid, the General Block Exemption Regulation (GBER) refers to the SME definition in order to target aid measures to certain categories of enterprises such as newly-created small enterprises. Moreover, SMEs can get specific support open only to them in the form of risk capital.

When State aid is available for all enterprises, SMEs generally benefit from larger aid intensities. The aid intensity ceilings under the GBER for medium-sized enterprises usually exceed the ceilings for large enterprises by 10% and the ceilings for small and micro enterprises are 20% higher than those for large.

In 2007, total State aid for industry and services in EU27 accounted for €49bn of which a large share goes to SMEs, including specific aid granted exclusively to SMEs of €4.7bn.

⁴ http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide.pdf

⁵ A dedicated web-site (http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm) and a functional mailbox (entr-sme-definition@ec.europa.eu) exist for this purpose.

2.2.2. *Community programmes*

Between 2007 and 2013, cohesion policy programmes support explicitly the creation and growth of SMEs, including activities related to access to finance, research and innovation, technology transfer, access to information and communication technologies or environmentally friendly production. About €27bn (7.9% of the total Cohesion policy allocation) are allocated specifically to SMEs. Specific attention to improving SMEs' access to finance is paid through JEREMIE ("Joint European Resources for Micro to Medium Enterprises initiative") and JASMINE ("Joint Action to Support Micro-finance Institutions in Europe").

Moreover, SMEs are the main beneficiaries of the "Competitiveness and Innovation Framework Programme" (CIP). In addition, SMEs can benefit from more advantageous participation rules in the 7th Framework Programme - a 75% funding rate compared to 50% for large industry partners and 100% cost-coverage for project management. Funding is open to all SMEs whether they are performing research themselves or are going to outsource a research need. Due to the higher funding rate for SMEs and a simplification in the administrative process, SME participation in FP7 is higher than in previous programmes. According to the most recent figures, over 6000 SMEs have received funding from 7th Framework Programme in the first two years.

Finally, it is noteworthy that in certain specific cases, Community legislation refers to small enterprise categories differing from the SME definition. One example is Directive 1978/660/EEC on the annual accounts of certain types of companies, where small and medium-sized enterprises, as defined in this directive, may be released from certain reporting obligations. The directive applies to a lower number of small and medium-sized enterprises than would be the case under the SME definition.

3. ISSUES RAISED DURING THE CONSULTATION

The issues raised during the 2008 consultation round are almost identical to the points that were identified to potentially require further attention in the 2006 implementation report.

3.1. Issues for clarification

Member States and stakeholders proposed a number of minor issues and requested clarification regarding specific questions of application, interpretation and enforcement of the SME definition. The Commission services continue to assist Member States and stakeholders in resolving such issues on an individual basis and will, where appropriate, make the additional information public.

3.2. Ceilings

3.2.1. Headcount ceiling

One Member State and one business organisation proposed to increase the headcount for medium-sized enterprise from 250 to 500 employees in order to take into account average enterprise growth since the early nineties. In contrast, another Member State and two business organisations explicitly opposed a possible rise of the headcount ceiling. Two Member States suggested introducing a new, fourth SME category, for enterprises between 250 employees and 500, 1000 or even 2000 employees. One Member State also invited the Commission to

reflect upon introducing ceilings for particular sectors to better take account of their specificities.

All these options were considered and discarded in the context of the adoption of the Small Business Act for Europe by the Council in December 2008.

Finally, one Member State proposed to increase the ceilings for micro and small enterprises to take account of the higher relative administrative burden that these companies face compared to large ones. The Commission agrees that micro- and small enterprises suffer proportionally more from regulatory burden than medium sized ones. However, it considers that more appropriate instruments than changing the SME definition exist to target regulatory requirements in a way that leads to the lowest possible administrative burden for enterprises and in particular for SMEs.

3.2.2. Financial ceilings and inflation

One Member State asked to raise the financial ceilings to offset inflation. Indeed, if prices rise significantly over time, so does companies' turnover and consequently, enterprises with the same real output may no longer be considered as SMEs. Therefore, Article 9 of the definition provides for a possibility to update the financial ceilings.

During the previous revision the financial ceilings for small and medium-sized enterprises were considerably increased with respect to the 1996 ceilings. Since then (data covering the period 2001-2007) inflation grew rather moderately in EU27, with an annual average of less than 2%.

The Commission analysed the effect of this moderate inflation on the SME population in a representative sample of seven economic sectors (manufacture of chemical products, manufacture of fabricated metal products, retail trade, hotels and restaurants, land transport, financial intermediation and auxiliary activities to financial intermediation) covering about 20% of all SMEs. Available financial data indicate that only a negligible number of enterprises might have lost their SME status as result of inflation.

4. CONCLUSION

In conclusion, the current SME definition that entered into force in 2005 is applied by Member States and stakeholders without any notable difficulty.

The Commission services will continue monitoring the economic conditions having an impact on SMEs and on the SME definition. A new implementation report will be prepared at the latest ahead of the revision of the current financial perspectives.