

# ***Final Report***

## ***Executive Summary***

***Framework Service Contract for the Procurement of  
Studies and other Supporting Services on Commission  
Impact Assessments and Evaluations***

***Interim, final and ex-post evaluations of policies,  
programmes and other activities***

## ***Evaluation of the SME Definition***

*September 2012*



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## Executive Summary

### Introduction

The **current definition of Small and Medium-sized Enterprises (SMEs)** is set out in a Recommendation of the Commission adopted on 6<sup>th</sup> May 2003, which came into effect as from 1<sup>st</sup> January 2005<sup>1</sup>. This definition up-dated and replaced the one adopted in 1996<sup>2</sup>.

The Recommendation is addressed to the Member States, the European Investment Bank (EIB) and the European Investment Fund (EIF) and, as well as providing a **framework for statistical definitions**, has **specific applications in EU policies** that support SMEs (Structural Funds, Framework Programme for Research and Development, Competitiveness and Innovation Programme etc.) and in the **rules governing State Aid**.

The Commission has undertaken **two public consultations** on the Definition and has published **two implementation reports**:

- Report from the Commission in 2006 on the Implementation of the Commission Recommendation (2003/361/EC)<sup>3</sup>
- A Commission Staff Working Document in 2009 on the implementation of the 2003 Commission Recommendation<sup>4</sup>

DG Enterprise and Industry is responsible for managing the SME Definition and, if necessary, proposing amendments in the form of a new Commission Recommendation. The 2003 revision updated the financial ceilings to reflect productivity growth and inflation and introduced a calculation method to treat particular relationships between an SME and other enterprises or investors. In the last report of 2009, a new implementation report was announced to be prepared at the latest ahead of the revision of the current financial perspectives. The Commission has decided to base this new implementation report on the current evaluation of the SME definition.

An **SME Definition User-guide** has also been published<sup>5</sup> that can help enterprises establish if they count as an SME or not.

The **central purpose of the study** has been to evaluate the effectiveness of the SME Definition in the fields of State Aid, EU programmes and administrative exemptions, including the issues raised by Member States and stakeholders on these and related matters in earlier consultations. These aims have been pursued within the normal framework established by the European Commission for conducting evaluations and this has required an assessment of the operation of the Recommendation against the standard evaluation criteria (relevance, effectiveness, efficiency, utility, sustainability and European value added). To provide focus for conducting this assessment a series of evaluation questions were formulated and these have, to a large extent shaped the course

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<sup>1</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC)

<sup>2</sup> Commission Recommendation of 3 April 1996 concerning the definition of small and medium-sized enterprises (96/280/EC)

<sup>3</sup> Report from the Commission on the Implementation of the Commission Recommendation (2003/361/EC) of 6 May 2003 concerning the Definition of Micro, Small And Medium-Sized Enterprises - C(2006)7074 of 21.12.2006

<sup>4</sup> Commission Staff Working Document on the implementation of Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises - SEC(2009) 1350 final of 7.10.2009

<sup>5</sup> SME definition. User guide and model declaration. European Commission.

of the investigations and also the format in which the results of these investigations have been presented.

## Background and Methodology

The focus of the evaluation is the **SME Definition** set out in a Recommendation of the Commission adopted on 6<sup>th</sup> May 2003, which defines small and medium-sized enterprises initially in relation to three size criteria

### *The Ceilings of the Definition*

Enterprise category <sup>6</sup>	Staff Headcount	Financial ceilings		
		Turnover	or	Balance sheet total
SMEs	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

To qualify as an SME, an enterprise must respect the staff headcount ceiling and either the turnover ceiling or the balance sheet ceiling. **In addition, a series of other conditions must be fulfilled**, notably that an enterprise must not have relationships with other enterprises (specified in the Definition) that mean that together these enterprises exceed the ceilings. An enterprise must be autonomous or part of a group of affiliated enterprises that together fall below the ceilings. The relatively complex provisions governing whether or not an enterprise counts as ‘autonomous’ are set out in Article 3 of the annex to the Recommendation. Essentially, status as an ‘**autonomous**’, ‘**partner**’ or ‘**linked**’ enterprise determines whether in calculating the headcount and turnover or balance sheet total of an enterprise just the numbers directly associated with the enterprise in question have to be taken into account or a proportion or all of the relevant numbers of associated enterprises have to be included too.

**The purpose of the SME Definition is to provide an instrument for the targeting of policy.** The central aim of the evaluation therefore is to assess how effectively the Definition is working as a targeting instrument. In general, this instrument is used in the following areas :

- *Statistical data*
- *Directing state aid of various kinds , including:*
  - aid specifically directed to the SME sector, for example, start-ups
  - additional support available to SMEs for research, training etc
- *Defining thresholds for determining liability to taxation*
- *Regulatory and administrative thresholds*, determining exemptions from a wide range of obligations
- *As a way of targeting a broader range of policy measures:* to take advantage of the innovative or other qualities of SMEs.

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<sup>6</sup> Note that these are not exclusive categories. The way that the Definition is expressed means that micro enterprises are included in the term ‘small’ enterprises and both micro and small enterprises are included under the term ‘SME’. In practice, this usage is not always observed, although the context usually means that there is no ambiguity.

At the time of the original Recommendation (1996), there was a need for a clear definition to assist with ‘the establishment of a coherent, visible and effective framework within which the enterprise policy in favour of SMEs can take its place’. However, the general rationale for the Definition is not to be found in the text of the Recommendation. Although clearly derived from provisions in the Treaty (TFEU) and based on the need to prevent distortions in a single market with a single competition policy, the articulation of **the Intervention Logic of the Definition** is primarily to be found in the legal acts setting up a series of EU programmes – the Competitiveness and Innovation Programme, the Structural Funds and the Framework Programme for research, technological development and demonstration activities.

**The Definition is used to direct support to SMEs so that they can overcome the consequences of market failures** in access to finance, the difficulties caused by imperfect information or information asymmetries and the particular problems that arise with smaller firms wishing to participate in research and development. In addition, there are other applications such as the granting of exemptions in regulatory provisions, particularly if the use of the SME test in impact assessments concludes that SMEs are disproportionately affected or disadvantaged compared to large enterprises,, although, as is noted in proposals for reform of public procurement legislation, there is a growing tendency to remove the need for special treatment of SMEs by the use of the ‘Think Small First’ principle.

All **support has to conform to the EU rules on state aid** and in particular, to the General Block Exemption Regulation (the GBER) and the respective guidelines. Within this framework, because of the relatively small size of SMEs, the rules on *de minimis* support are often relevant.

The **methodology of the assignment** was essentially to examine the articulation of the Intervention Logic of the SME Definition, consider how this logic was being applied in practice and to address particular issues in its application through a programme of desk research, examination of the statistical evidence and a series of interviews with a wide group of stakeholders. The details are provided in the main report.

### Key Statistical Data

The main report presents **data on the evolution of the SME sector**, particularly since the Definition was last revised in 2003. There are significant **difficulties with data availability** and in fact **it is not possible to say how many enterprises conform to the SME Definition**. Most of the available data at a European level relate to the distribution of numbers of enterprises, employment, turnover and value-added, according to the headcount size categories. These are supplemented to a limited extent by more extensive data available at a national level. The main findings of the report relating to data and the subsequent analysis of them are as follows:

- **Focusing on employment size categories only**, in 2010, enterprises with less than 250 employees are estimated to have accounted for **99.8% of the total number of enterprises** across Europe, **66.9% of employment, 57% of turnover and 58% of value-added**.
- For the same year, micro enterprises with less than 10 employees are estimated to account for 92% of the total number of enterprises, 30% of employment, 18% of turnover and 22% of value-added, while ‘small’ enterprises with less than 50 employees are estimated to have accounted for 97% of the total number of enterprises, 50% of employment across Europe, 37% of turnover and 39% value-added.
- These statistics are relatively well-known and quoted, illustrating the attention paid to the SME sector.
- **It is not possible to obtain data on enterprises defined as SMEs, according to a strict application of the SME Definition, using all the relevant criteria**. The main statistical sources only provide data on enterprises, classified according to the employment size criterion. The

effect of applying the other criteria is not known, though there are some indications referred to below.

- **Between 2003 and 2010 the number of enterprises in the European economy with less than 250 persons employed grew by nearly 11%** to reach nearly 21 million and the number of people employed by SMEs increased by 7.5 million (around 6%). At the same time, the value of the real turnover of SMEs – turnover at constant (2000) prices – increased by 19.5 %, while value-added, again at constant prices, increased by 13.0%.
- The number of enterprises falling within the ceilings set by the Definition is influenced both by changes in the level of nominal prices – inflation - and by changes in productivity, since the ceilings are set in fixed terms.
- The change in the general level of prices between 2003 and 2010 – inflation, as measured by the broadest indicator, the GDP deflator – was 11.1%. By 2012 the index stood at 120.9, meaning that prices had increased by 15.6% since 2003.
- Productivity also increased over the period. If measured as value-added per person, the productivity of enterprises in the SME category increased by 13%.
- There is some weak evidence that the ratio between turnover and balance sheet total has continued to fall, reflecting a growing capital intensity in the European economy.
- However, over the period in which it is possible to make a comparison (2003 – 2010), **there has been a remarkably consistent size distribution**. In spite of the substantial increases in the overall numbers of enterprises and persons employed, the relative shares of the various categories of SME<sup>7</sup> in the total number of enterprises, in employment, turnover and value-added have all remained generally static. The number of SMEs has increased, but their share in the economy hasn't. In terms of the relative weight of the different size categories within the European economy, **the Definition established in 2003 continues to perform well as it stands**.
- Absence of data makes it very difficult to compare changes in the employment size categories with changes in the turnover and balance sheet total categories.
- Data from a few Member States suggest that the distribution of the number of enterprises across the different turnover size categories may be fairly similar to the distribution of enterprises across the employment size categories and that this has not changed over the period 2003 – 2009.
- The best indication of the effects of applying all the criteria and rules in the Definition rather than relying on data only using employment size categories is probably from studies conducted in Germany, where the effects of **combining the headcount and turnover criteria** were seen to affect the distribution between the SME size categories rather than the total number of SMEs, which was reduced only slightly. **The effects of applying the rules on the autonomy of enterprises** in contrast reduced the total number of 'SMEs' in the headcount data by around 9%.
- Average levels of both employment and turnover within the respective categories fall well below the corresponding ceilings in each case. In fact, in all cases, the average level is less than 50% of the ceiling. Indeed, **a large majority of enterprises within the various size categories have employment levels and turnover that are substantially below the ceilings**.
- A relatively large adjustment in the nominal values of the turnover and balance sheet totals was made in 2003, to the extent that the real values of these variables are only now back to the levels established in 1996. **The evidence taken as a whole suggests that the need for a revision of the turnover ceiling, and probably the other criteria expressed in value terms, is not particularly urgent**.

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<sup>7</sup> More strictly, the relative shares of the enterprises classified according to employment size categories

## The Performance of the SME Definition as an Instrument of Policy

The main report examines how far the SME Definition has been successful in directing support to SMEs under the main EU programmes that are relevant and the main issues that arise with the application of the Definition, including comparisons with other definitions used internationally. The main conclusions relating to the principal evaluation criteria are stated in turn. They are summarised as follows:

### *The Relevance and Coherence of the Definition*

- **Case law on the Definition has clearly established its position as an instrument guiding the application of competition law**, although one that must be interpreted by reference to basic principles stemming from the Treaty. The status of the Definition as indicated by its being based on a Recommendation rather than a Regulation or Directive is considered to be appropriate for this role.
- The underlying rationale for the Definition that establishes it as an instrument for addressing market failures has been seen to be **applied consistently through the main measures established at a European level**, but there is scope for **refining the targeting** more, initially at least by making greater use of the distinctions between micro, small and medium-sized enterprises within the existing Definition.
- There is **broad support for continuing to use the three main criteria** in the existing Definition. However, given the absence of statistical data on the balance sheet total criterion, and the consequent difficulties in monitoring this aspect of the Definition, in principle, there is a case for considering the use of **value-added** to replace both the turnover and balance sheet total criteria, which would have the additional advantage of reducing the number of criteria used in the Definition to two.
- Because of the headline figure of 500 employees, used as a ceiling in many manufacturing industries, it is widely perceived that the US approach to defining small businesses is more 'generous' than the one used in the EU, but this is not necessarily the case. While in **the sectoral approach used in the United States**, the employment ceilings for some manufacturing industries are clearly much higher than in Europe, the ceilings for services, retail and construction are considerably lower than the ceilings in Europe – mostly \$7 million and in some cases up to \$35.5 million against a maximum of € 50 million in the EU.

### *The Effectiveness of the Definition*

#### *The Effectiveness of the Definition as a Targeting Instrument*

- The **principal market failures** faced by SMEs mainly relate to difficulties in raising finance, imperfect information and information asymmetries and a series of specific difficulties associated with the conduct of research and development, including the effective appropriation of the results of research efforts. Addressing these market failures is part of the rationale for a number of measures adopted at European and national levels.
- Considerable evidence is presented on the effectiveness of targeting SMEs in major EU policy programmes – the Competitiveness and Innovation Programme, the Structural Funds and the Framework Programme for Research and Technological Development – and also in the activities of the European Investment Bank and the European Investment Fund. **The intended targeting of policy is clearly taking place** in the main programmes at a European level.
- It is also apparent that there is a **gradual shift** within these programmes **from providing direct aid to SMEs to providing a more supportive environment and tackling the market failures** that give rise to the need for aid. For example the CIP Financial Instruments aim to demonstrate the viability of providing loans and equity to SMEs, in circumstances where the markets have failed to provide sufficient funds.

- Similarly, there is some evidence, as in the case of recent proposals for a reform of public procurement legislation, that **application of the ‘Think Small First’ approach** can obviate the need for special treatment for SMEs

#### *The Appropriateness of the Ceilings used in the Definition*

- During the investigations, the question of the **upper size ceiling for SMEs** – more than 250 persons employed etc. – has been raised in a number of the discussions with stakeholders. **The overwhelming view is that the limit should not be raised.**
- Representatives of small business organisations in particular have expressed a strong opposition to extending the SME Definition, not least because it would dilute the available support.
- One argument for raising the ceiling is that some enterprises in the 250- 500 range may be at a disadvantage against US companies in global markets. The advantages of retaining a single overall Definition were seen to outweigh any that might arise from one with more sectoral differentiation.
- A more fundamental issue is that there is a mid-range of enterprises, variously called, **‘enterprises of an intermediate size’**, ‘mid-caps’ and ‘mid-sized businesses’ that are significant for the European economy and especially for their capacity for innovation and for employment creation, but which suffer from **a lack of attention** by policy makers, academics etc in comparison to both SMEs and the really large enterprises, which are often international corporations.
- The conclusion of the evaluation team is that this is **not primarily a matter of the mechanisms for channelling funds or changing the Definition**. It is more a question of structuring data collection and analysis and the debate conducted by researchers and ultimately policy makers. More attention might need to be paid to enterprises of an intermediate size, but this should not be achieved by changing the SME Definition.
- A further implication of this approach is that **the SME Definition needs to continue to be the main instrument in the field of state aid and competition policy**, for targeting specific market failures faced by SMEs. Paying more attention to the intermediate category is more a matter of promoting growth and employment and any measures taken to meet particular problems would need justification under competition law.
- Enterprises of an intermediate size are often parts of **groups or looser networks of enterprises**. Eurostat is conducting some research on the evidence relating to the relationships between enterprises more generally and there are policy developments encouraging the development of networks and clusters that need examining for the implications for policy that supports SMEs and the application of the SME Definition.
- Issues have also been raised, especially by stakeholders in the newer Member States, in relation to **enterprises with high employment, but low turnover and balance sheets**. The case presented, however, appears to relate more to the objectives of Cohesion policy, such as employment creation or retention than to the question of addressing market failures arising from the size of enterprises that is more central to the Definition.
- At the other end of the scale, the analysis presented shows that there are issues that relate to **the self-employed and enterprises with no employees**. There are certainly developments here that deserve attention, but it is concluded that this is less a matter of changing the Definition than of more analysis of existing data and the enhanced use of the existing provisions within the SME Definition for collecting data on enterprises with 0 or 1 person employed. Examining these data is a prerequisite for examining the relevance of any possible future actions.

#### *The Targeting of State Aid and Other Longer-term Effects*

Aid to SMEs has to be seen in the context of **changes in the overall aid environment**. The aim of the State Aid Action Plan from 2005 was to achieve ‘less and better targeted aid’, accelerating the

downward trend observable since the 1980s (with a moderate reversal in recent years in response to the financial crisis).

- **Direct aid to SMEs in 2010** amounted to € 2.6 billion and accounted for 4.2% of the total aid to Industry and Services. SMEs have increasingly benefitted from other forms of aid and the relatively small and falling share in direct aid is part of the shift from the older palliative approach, which compensated firms for disadvantages suffered, to one that does more to address directly the market failures that give rise to the need for aid.
- The strong call by stakeholders for a more effective use of **the distinctions between different size categories within the existing SME Definition** can also be seen in the light of the objective to better target state aid on demonstrated market failures and of continuing to make policy more effective more generally. Defining targets with greater precision leads to a greater engagement with the issues faced by enterprises and eventually to a more finely tuned set of policy instruments and a better policy framework.

### *The Efficiency of the Definition*

Consideration of the efficiency of the SME Definition largely consisted of an assessment of **how easy it is to use** its provisions in an operational way. In particular, consideration was given to the various supplementary rules that have to be taken into account alongside the size criteria.

#### *Having a Single Definition*

- A single definition that applies across the economy, as is the case with the EU SME Definition, requires the use of three criteria (currently) in order to accommodate all sectors. The disadvantages arising from the relative complexity in applying this definition have to be set against the advantage of **a single Definition with universal application**.
- Although some stakeholders (especially specific sectors where the average size of firms differs significantly from the overall average) can see some benefits in a definition with different ceilings being used to distinguish between broad sectors (manufacturing, services etc.), **the weight of opinion is that the current form should be retained**.

#### *The Rules on 'Partner' and 'Linked' Enterprises*

- The **rules on 'Partner' and 'Linked' Enterprises are widely seen as being complex** and difficult to understand, but it is not easy to see how they could be changed, given that most stakeholders agree with the intended effect of the rules, namely to exclude enterprises whose relationships with larger enterprises means that they no longer suffer the disadvantages faced by other SMEs.
- The effect of the 'linked' rule on **enterprises in which a Venture Capital fund takes a controlling interest** causes a particular problem. The enterprises in which a VC fund invests are not linked in economic terms in any real sense<sup>8</sup>. The immediate **loss of SME status by such enterprises would seem to go against the sustained attempts of EU policy to promote VC funding for SMEs**.
- This effect would seem to be even more perverse, when it is considered that **a large proportion (around 70%) of the enterprises** potentially affected would otherwise **fall into the micro enterprise category**.
- The current rules have led the Commission to use a different Definition, without reference to linked relationships in its current proposal for a Regulation on European Venture Capital Funds. Otherwise, the intention of focusing on investment in SMEs in the proposed Regulation would

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<sup>8</sup> This is also mainly true of other investors listed in Article 3.2 of the annex to the Recommendation, though examination of their situation in the main report leads to the conclusion that for other reasons they are much less likely to have the same problems as VC funds.



be frustrated. **A better and more consistent solution** would be to change the SME Definition with a clearly defined exception regarding VC funds.

#### *The Operation of Other Provisions in the Definition*

- In view of the number of enquiries received by the Commission, further clarification and guidance are needed in relation to the rule on 'Natural Persons' and 'Adjacent Markets'.
- The Twinings case<sup>9</sup> has raised doubts among some stakeholders about **the flexibility introduced into the Definition** with the rule by which the SME status of an enterprise alters only after the relevant changes are confirmed in two consecutive accounting periods. The Commission confirms that the flexibility intended by the Recommendation remains, but there is scope for clarification and reassurance on this point in guidance documents.
- Guiding such a provision, there should be **reference to the basic principles** derived from the Treaties and consideration of whether or not an enterprise continues to suffer disadvantages, because of its size and situation.

#### *The Administrative Burden in Applying the Definition*

- Around 12% of enterprises claiming to be SMEs in their applications for research funding do not qualify. In addition there are a number of applicants who are not able to provide appropriate documentation. Exact figures are not available, but it is probably around 30% in total that are not able to substantiate their claim to be SMEs. This would suggest that there does need to be a check. However, complexity, especially in the form of the 'linked' rule, causes administrative burdens both for enterprises and for public administrations. These can be quite substantial in themselves and also have significant knock-on effects, for example **causing delays** in contracting approved **research projects**. In at least one programme, the difficulties have led to abandoning special provisions for SMEs. It is necessary to continue to seek to reduce these burdens.
- There are difficulties and burdens associated with any change in the Definition and some stakeholders, especially those regularly involved in practical applications of the Definition, have appealed for no change on this basis.

#### *Other Issues*

- There is consistent evidence of small but statistically significant **lock-in effects**, suggesting that some enterprises deliberately refrain from growing beyond size ceilings, because of the associated loss of regulatory exemptions or benefits. However, this evidence mostly relates to taxation and labour market regulations applying at a national level and to the application of other ceilings that do not relate to the SME Definition. No evidence was found on effects caused by the SME Definition, although it was suggested that loss of SME status may be a factor, when enterprises are deciding whether or not to accept venture capital funds.
- The future monitoring of the SME Definition could be assisted by the development of an appropriate set of **indicators**.

#### *The Value-added, Sustainability & Utility of the SME Definition*

- The **utility of having a definition at a European level** was widely recognised and the fact that the terms of the Definition have been taken up so widely is at least initial evidence of its usefulness.
- Some concern was expressed in the abstract about a perceived **tendency for the application of the Definition to be extended to ever new areas**, but this view was considerably outweighed by those who thought that it could be used more intensively.

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<sup>9</sup> In 2011. Twinings and Compagny Sp z.o.o. applied for a grant under a Polish ERDF Operational Programme – the Innovative Economy Operational Programme. One of the issues was whether the two year rule applied, since the company had only recently been taken over by the parent company in the UK. The Commission informed the Polish government that the subsidiary could not use the rule to benefit as an SME.

- In terms of the **sustainability** of the Definition, there was a strong body of opinion that the Definition as it is has served well and that the disadvantages from the disruption that would be caused by any major changes substantially outweighed any possible benefits.
- The general conclusion is that the current Definition provides **a stable framework that does not require any major changes**, other than an eventual adjustment for inflation and a change to the rule on the status of enterprises receiving investments from a Venture Capital fund.

#### *Assessment of Potential Scenarios*

While within the scope of the evaluation study, it was only possible to make **an initial assessment of potential impacts**, consideration of the scenarios of 'no change', a 'major revision' and a 'limited, partial revision' led to the following conclusions:

- A 'no change' scenario would result in the most focused concentration of support of all three being considered, though not necessarily in a smaller number of SMEs;
- A 'major revision' of the Definition would incur considerable costs and disruption, and is likely to dilute the support available to SMEs;
- A revision limited to adjustments for inflation and productivity and certain provisions relating to the rules on linked enterprises for VC funds would incur less costs and disruption and could conceivably have far reaching consequences, but are also likely to dilute the support available to SMEs.

#### **Recommendations**

The Recommendations from the evaluation are as follows :

##### *Recommendations relating to a Possible Need for a Revision of the Definition*

1. In view of the development of SME demographics since 2003, the disruption that would be caused by any significant change the need to target state aid effectively and the views of a majority of stakeholders, there is **no need for a major revision of the SME Definition, at the present time**.
2. **An eventual update** of the Definition will be necessary to adjust for inflation, labour productivity and changes in the ratio of turnover to balance sheet total, but current economic indicators show that these changes are not urgent.
3. More important for a relatively rather small number of enterprises, which are nonetheless potentially very significant, is **a change in the rules governing autonomous enterprises**, when investment is received from a Venture Capital Fund. The rules relating to 'linked' enterprises should not be applied in this case to enterprises that continue to suffer the disadvantages of SMEs. Further reflection is needed on how a change in the application of the current rules can be effected.
4. If in the future there is to be a substantial revision of the SME Definition, consideration should be given to replacing the turnover and balance sheet total criteria by **a single value-added criterion**.
5. A clearer explanation of the rationale for the Definition should be introduced into the recitals of **any revised text** of the Recommendation

##### *Recommendations relating to the Application of the Definition*

6. Those Member States and European institutions that do not currently do so should be encouraged to develop the comparability of data further, by **using the SME Definition** (though not necessarily exclusively), in their published enterprise statistics and in the monitoring of their relevant policy measures.

7. To achieve **more effective targeting**, more intensive use could be made of provisions already in the Recommendation, especially the distinction between micro, small and medium-sized enterprises.
8. Rather than introducing exemptions for SMEs or specifically for micro enterprises, in any new legislation, regulations should build on recent good practice and apply **the Think Small First principle**, advocated by the Small Business Act, and thus obviate the need for any exemptions or specific provisions for SMEs.
9. The problem of **the administrative burden** created by the need to check the status of an enterprise claiming to be an SME needs to be addressed. This should include appropriate provisions in programmes, the simplifying of requirements and providing guidance to those implementing SME support measures.
10. The **SME Definition should not be extended beyond 250 employees** and should continue to be the main instrument in competition policy and in targeting state aid on market failures faced by SMEs.
11. However, **more attention does need to be paid to enterprises of an intermediate size** outside of the SME Definition. They should be the focus of specific analysis exploring appropriate policy developments and possibly the use of a separate definition.
12. More research is also needed into the relationships within **groups and networks of enterprises** and the implications of these relationships for the SME Definition.
13. Existing provisions in Article 7 of the Annex to the Recommendation, which include a size class of 0-1 persons in the statistics that the Commission undertakes to present, should be used to develop better data on the self-employed and enterprises without employees.
14. To assist the monitoring of the application of the SME Definition, there should be **a central register** of legislation and policy instruments making reference to the SME Definition.
15. There should also be clarification of the **provisions governing the transition from SME status** to no longer being an SME. This clarification could relate to such matters as the continuation of support arrangements already entered into.

*Recommendations relating to Guidance on Implementing the Definition*

16. The user **guide on the Definition** is thought to be very useful, but it could still be improved further. Additional clarification should be offered, for instance, in relation to 'natural persons' and 'adjacent markets'.
17. Case law has established that the 'rules' of the SME Definition are an instrument for the application of principles derived from the Treaties and should not be applied rigidly. In guidance documents, it is important to make reference to the **underlying principles**, including in situations where the 'rules' indicate that enterprises may no longer have SME status.
18. It would help those applying the Definition if there were **more operational guidance** on issues such as the nature of checks required on the status of enterprises.