



SMEs AND ENLARGEMENT - A JOINT CHALLENGE

DECLARATION OF THE CENTRAL & EASTERN EUROPEAN SME ASSOCIATIONS

Introduction:

Since the beginning of the transformation process in the Central and Eastern European countries more than 10 years ago, the economies have undergone dramatic changes. Large state companies were privatised and thousands of employees laid off. This could only be compensated by an impressive boom in the creation of small and medium-sized companies. The changes were particularly dramatic in countries such as Bulgaria, Romania, Slovakia and the Czech Republic as there had not been any private entrepreneurship before the economic reforms.

This impressive development should not deceive about the tremendous problems these newly created companies are facing in practically all Central and Eastern European countries. While foreign investors often enjoy tax holidays and state companies subsidies, domestic start-ups have to cope with a whole set of difficulties such as the non-availability of financial sources, problems in finding qualified staff, lacking support from governments, time-consuming red tape, and a constantly changing legal environment.

With the progressive implementation of the Community Acquis, the pace of legal changes is set to increase even further. Moreover, compliance with EU rules will require substantial investments particularly in areas such as pollution control, social protection and safety at work. This contrasts with the chronic lack of capital in most SMEs.

There were hopes that the European Union would provide support for this transition process as part of the pre-accession strategy. In practice, however, EU money is too often invested in large prestigious projects, governmental structures, or the creation of additional information networks without using existing SME intermediary organisations.

The Central and Eastern European SME associations are well aware of the fact that not all problems can be solved at the same time. Furthermore, tight public budgets do not allow for large financial support. On the other hand, decision-makers must be aware of the danger that many newly created SMEs will disappear within the next few years. Any coherent SME policy supported by the governments of the Central and Eastern European countries and / or the European Union must take into account the European Charter for Small Enterprises adopted in Feria in June 2000 by all Member States.

To remedy the lack of information on the effects of enlargement on SMEs / individual branches, it is necessary to implement a research-based information policy towards SMEs using the funding provided by the European Union to the candidate countries.

Out of the many problems encountered, Central and Eastern European SME associations wish to address three areas which are given highest priority for the future development of SMEs without imposing substantial financial burdens on public budgets:

Access to finance

Although the situation varies considerably from country to country, one can also find certain points in common:

- SMEs are not aware of the various financial tools (factoring, leasing, supplier credits and venture capital, business angels etc.) due to a lack of advisory and information services.
- On the other hand, most financial tools on the market are not adjusted to the specific needs of SMEs.
- SMEs, and in particular small companies, are often obliged to find private sources of finance (family etc.), as they find it difficult to access bank loans for the following reasons:
 1. Requirement to present relatively long track record;
 2. Extremely high collateral requirements (Poland: 200 %);
 3. High interest rates (Poland: large companies WIBOR+1%, SMEs with no track record – predominantly at WIBOR + up to 5%.; Hungary: SMEs pay an extra interest 7-7,5% above prime rate);
 4. Difficulties to obtain long term loans.
- In many countries, governments do not offer subsidies on interest rates for SMEs to reduce the price of loans.
- There are usually no well functioning private or public sources of finance to support business start-ups.
- Some countries have set up mutual loan guarantee schemes at regional or national levels. However they are often undercapitalised, with no re-guarantee mechanism available. Guarantee schemes are usually unable to meet the demand.

In the light of the utmost importance of access to finance for the creation and growth of small and medium sized companies, the Central and Eastern European SME associations therefore invite their governments and the European Union to implement the following measures:

Loan Guarantee Schemes – efficient and cost-effective

The first and most important recommendation is the creation of loan guarantee schemes in each CEEC. In most Western European countries, they have proved an excellent tool to reduce the risk for banks, which translates in lower interest rates and collateral requirements. In addition, loan guarantee funds do not pose heavy financial burdens on the state budgets.

These schemes must be sufficiently capitalised to respond to market needs. It will therefore be necessary that national governments, banks and EU contribute to its financing. At a later stage, companies should also contribute.

Public Support for certain Credits and Loans

SMEs need a level playing field to compete against larger companies. The fact that they pay considerably higher interest rates creates a serious competitive disadvantage and will hamper their capacity to invest in the compliance with the Community Acquis.

In co-operation with the EU, CEECs should offer initiatives like “Growth and Environment” and “Growth and Employment” with a focus on the implementation of the Community Acquis.

In order to avoid distortions in competition, the governments should limit their support to very few, politically important and generally accessible schemes.

Equally, these measures could be accompanied by tax cuts in a way that reimbursements of credits (including interests) for investments in the Community Acquis can be deducted from the tax burden.

Public Support for Start-ups

The creation of new enterprises is essential for coping with industrial restructuring and increasing innovation requirements. CEEC governments should have a profound interest in this process. Two support measures are proposed.

Micro-Credits:

Small kick-off credits for the creation of micro-enterprises in particular in the service sector. The experience has shown that such schemes encourage in particular women to set up their own business.

Seed capital funds / incubators:

The so-called new economy and other rapidly growing companies may have excellent prospects for future profits, but they also have considerable financial requirements. Seed capital funds and incubators can efficiently and effectively respond to these needs. Wherever possible, private funding should be included.

Raising awareness of the various financial tools

The PHARE programme and national governments should finance a training programme for the business advisers of the Central and Eastern European SME associations to enable them to better accompany SMEs in the efforts to access the most appropriate source of finance.

Participation in the social dialogue

The development of an autonomous and active social dialogue is a prerequisite for establishing a social market economy in the applicant countries. Social partners have a major role to play in the European enlargement and integration process, according to their responsibilities and competence. With the social dialogue, they can actively contribute to define economic and social reforms, including the implementation of the Community Acquis, in a way that is economically efficient and socially acceptable.

But social dialogue is also becoming a full component of the Community Acquis in the field of employment and social policy. With the Amsterdam Treaty, which enshrines the right of the European social partners to negotiate agreements that could lead to European legislation, social partners are the actors of a real "social subsidiarity".

In practically all candidate countries exists a social dialogue, which may be organised as a tripartite consultation with the government or as a bilateral social dialogue between employers' organisations and trade unions. In most countries, SME associations are directly or indirectly involved.

Taking into account that all reforms envisaged will also strongly affect SMEs, the Central and Eastern European SME associations invite their governments to:

- recognise the importance of strong and independent SME associations in pushing forward economic and social reforms.
- ensure that SMEs can directly and independently participate in the social dialogue through their national SME association. If several SME associations exist in one country, the participation should be limited to the most representative one(s).
- support the proper articulation and distribution of responsibilities between the different levels for action (national, sectoral, territorial or company).
- strengthen the autonomy of the social partners and a space within which they can fully exercise their responsibilities.

Vocational training, professional qualification and innovation

If Europe is to become “the worlds most dynamic and competitive-based economy within 10 years”, with sustained economic growth and more and better jobs a number of goals have to be met. The knowledge-based society must build on education, training and new knowledge derived from research. With education and training being national issues there is need for a common strategy where national systems are transparent and where a number of quality criteria is set out towards which the national systems can be measured.

When changes in educational systems takes place, representatives of SMEs should also be involved in the process. Entrepreneurship should to be part of the curriculum already in primary school. Vocational training should take place both in training centres and in enterprises to be successful. Further training and retraining can, in most cases, take place within the small enterprise. It has to be recognised that skills develop in enterprises, both as a result of vocational training, further training and retraining. Different systems of vocational training on secondary level, including apprenticeship, must be promoted equally to other forms of further education and training and have equal financing.

Education and qualifications are of vital importance for the functioning of the labour markets both in the EU and the CEECs. A qualification and education offensive is needed to provide new skills and to improve existing skills for the challenges of a rapidly changing economy creating ever more complex jobs. The EU and the Central and Eastern European Countries have to meet increased competition from other parts of the world. Enterprises and governments should seek ways to further qualify not only people in work but also the unemployed.

Special attention should be drawn to education and training of young people. The exchange of apprentices, and trainees, between the CEECs and EU Member States should be promoted, beginning now. All existing national and European exchange programmes should include the candidate countries. Exchanges between enterprises have proven to be very successful, and should be developed further.

To recognise the importance of SME participation in vocational training, on the job training and further training and the need for new and improved skills we urge the governments of the Eastern and Central European Countries to:

- ensure the involvement of SME organisations in structuring and improving national training systems
- recognise the need for including SMEs in making decisions, allocating resources, and implementing vocational training, apprenticeships and on the job training
- promote and support exchange programmes for trainees, as well as trainers and entrepreneurs
- support systems of evaluating non-formal training in SMEs
- ensure that EU R&D Programmes has a strong emphasis on flexible small-scale research projects focusing on creating regional networks of research institutes, universities and SMEs.

Warsaw, 18th October 2001

Signatories

<u>Bulgaria</u>	Bulgarian Chamber of Skilled Craft
<u>Czech Republic</u>	Asociace Malých a Středních Podnikatelů a Živnostníků (ASMEC)
<u>Estonia</u>	Mittetulundusühing Eesti Väike- ja keskmisti Ettevõtjate Assotsiatsioon (EVEA)
<u>Hungary</u>	Ipartestuletek Országos Szövetsege (IPOSZ)
<u>Latvia</u>	Latvijas Amatniecības kamera (LAK)
<u>Lithuania</u>	Lietuvos verslo darbdavių konfederacija (LVDK)
<u>Poland</u>	Związek Rzemioska Polskiego (ZRP)
<u>Romania</u>	Consiliul National al Intreprinderilor Private Mici si Mijlocii din Romania (CNIPMMR)
<u>Slovakia</u>	Slovenský Živnostenský Zväz (SZZ)
<u>Slovenia</u>	Obrtna Zbornica Slovenije (OZS)

This Declaration is strongly supported by:

UEAPME	Union Européenne de l'artisanat et des petites et moyennes entreprises
Austria	Wirtschaftskammer Österreich
Belgium	UNIZO
Finland	Suomen Yrittäjät
Germany	Handwerkskammer Koblenz
Germany	Handwerkskammer Trier
Germany	Handwerkskammer München und Oberbayern
Germany	Zentralverband des Deutschen Handwerks
Italy	API Varese
Italy	Confederazione Nazionale dell' Artigianato e delle Piccole e Medie Imprese
Italy	Confartigianato
The Netherlands	MKB Nederland