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REPORT

on small and medium-sized enterprises in the developing countries
(2005/2207(INI))

Committee on Development

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on small and medium-sized enterprises (SMEs) in the developing countries (2005/2207(INI))

The European Parliament,

- having regard to Annex II to the Cotonou Partnership Agreement,
 - having regard to the Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee entitled "Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility" (COM(2006)0136),
 - having regard to its resolution of 17 November 2005 on the proposal for a Joint Declaration by the Council, the European Parliament and the Commission on the European Union Development Policy "The European Consensus"¹,
 - having regard to the Joint Statement by the Council and the representatives of the Governments of the Member States meeting within the Council, the European Parliament and the Commission "The European Consensus on Development" of 22 November 2005,
 - having regard to its resolution of 17 November 2005 on a development strategy for Africa²,
 - having regard to the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee entitled "EU Strategy for Africa: Towards a Euro-African pact to accelerate Africa's development" (COM(2005)0489),
 - having regard to its resolution of 12 April 2005 on the role of the European Union in the achievement of the Millennium Development Goals (MDGs)³,
 - having regard to the Commission Staff Working Document of 29 October 2004 entitled "EC Report on the Millennium Development Goals 2000-2004" (SEC(2004)1379),
 - having regard to Rule 45 of its Rules of Procedure,
 - having regard to the report of the Committee on Development (A6-0151/2006),
- A. whereas European SME policies should not be transposed automatically to developing countries,
- B. whereas there is no generally accepted definition for SMEs in developing countries,

¹ Texts Adopted, 17.11.2005, P6_TA(2005)0446.

² Texts Adopted, 17.11.2005, P6_TA(2005)0445.

³ OJ C 33 E, 9.2.2006, p. 311.

- C. whereas the SME sector comprises a heterogeneous group of firms operating under a range of market conditions in developing countries,
- D. whereas SMEs are job creators and civil society builders,
- E. whereas SMEs are a means of achieving both social and economic development through poverty reduction,
- F. whereas cross-border activities are widespread in most developing regions, therefore needing special attention when policies and programmes are set up,
- G. whereas a regional approach to SME development, involving governments, regional and local authorities and civil society organisations from two or more States, may be the solution for SME development in many regions of the developing world,
- H. whereas special attention should be given to the role of SMEs in the economy of small island States,
- I. whereas special attention should be given to the role of SMEs in post-conflict countries as a means of effectively reintegrating former combatants into society,
- J. whereas State authorities should strive to keep 'red tape' to a minimum, so as to avoid creating barriers to the development of SMEs,
- K. whereas registration should not be a barrier to small firm start-ups or to the upgrading of micro to small enterprises,
- L. whereas creating local and regional networks can bring substantial gains to small businesses,
- M. whereas disseminating best practices on the design, implementation and evaluation of initiatives to promote SME growth and local economic and employment development is needed,
- N. whereas players on the ground, their associations and other forms of organisation, must play a fundamental role in the setting up and implementation of any SME policy,
- O. whereas regional and cultural differences should be taken into account when designing policies and programmes for SMEs,
- P. whereas most micro-economy undertakings are family based, therefore needing special attention when designing any SME policy,
- Q. whereas women are important economic players in micro and small enterprise creation and development, and women enterprises need to be brought out of isolation,
- R. whereas special attention should be given to women enterprise projects, so as to avoid letting historic behaviour and traditions impede the creation and full implementation of micro and SME initiatives,

- S. whereas cooperatives play an important role in sustaining local economies and in structuring and providing cohesion to local communities,
- T. whereas local institutions have an important role to play in the support for SMEs,
- U. whereas an SME creation policy can play a role in reducing the weight of the informal economy,
- V. whereas security for the establishment and operation of SMEs should be assured,
- W. whereas cooperatives are close to traditional associative practices in many rural and urban communities,
- X. whereas the formation of new cooperatives may be a feasible way of changing informal activities into formal ones,
- Y. whereas initiatives to improve the investment climate and business opportunities that help to create employment and wealth for the poor should be supported,
- Z. whereas SMEs need sufficient time and capacity-building to adapt to the gradual opening up of their sectors to world market competition; whereas a critical dimension, through associative processes, should lead to the critical mass necessary to progressively eliminate the protection of the initial phase,
- AA. whereas the promotion in SMEs of the corporate social responsibility concept, through which social and environmental concerns are introduced in business operations, should be progressively envisaged,
- AB. whereas special attention should be given to the socio-economic environment of SMEs, for instance in human resources education and training, communication and information infrastructures, access to raw materials and markets,
- AC. whereas building partnerships and information systems that provide access to knowledge for development is of the utmost importance,
- AD. whereas SMEs have an important role to play in the development of sustainable tourism initiatives in developing countries,
- AE. whereas unstructured financial systems are particularly detrimental to the growth of micro and small enterprises,
- AF. whereas the main sources of finance available to SMEs are informal loans from informal associations, family and friends, small savings and retained earnings and remittances,
- AG. whereas provision of seed capital may be instrumental in the creation and development of SMEs,
- AH. whereas access to credit, especially medium and long term credit, and the strengthening of financial intermediaries is important for SME development,

- AI. whereas experience has shown that women are the best micro-credit users in developing countries, thus allowing them to have a role to play in local economy sustainability,
- AJ. whereas ACP and other developing countries, including national and regional institutions, have a role to play in managing funds that promote the development of SMEs,
- AK. whereas a proactive finance and fiscal policy should exist for SMEs; whereas special credit lines or tax incentives should be part of such policies,
1. Considers it necessary to harmonise all existing definitions of SMEs, including micro-enterprises, at least on a regional basis; considers further that the number of employees is the best criterion for defining an SME;
 2. Recommends that in a region where developing countries constitute a majority, an enterprise should be considered micro when it employs up to 5 persons; a small enterprise between 6 and 25 persons; and a medium-sized enterprise between 26 and 100 persons;
 3. Supports policies aimed at reducing barriers to enterprise creation, registration and start-up; calls on national governments in developing countries to evaluate the impact on SMEs of current and future economic legislation;
 4. Recommends special support for the creation of networks of enterprises at local and regional level;
 5. Emphasises the fact that network creation is facilitated by associations providing pools of services such as legal advice, accountancy, training and education, use of information technologies;
 6. Considers that in small towns and villages these pools could, if necessary, be initiated by public funding, with ultimate private ownership being a recommended option;
 7. Requests specially designed policies, programmes and projects aimed at SMEs, including micro enterprises that are traditionally active in cross-border trade;
 8. Stresses the importance of government involvement in those cross-border oriented policies, thus fostering inter-State confidence, harmonisation of laws and practices, and regional development;
 9. Recalls that SMEs, including micro enterprises, are mostly family based undertakings, originating in an environment where cultures and traditions still play a fundamental role, thus needing a careful and sensible policy approach, when new laws or organisational forms are being prepared for implementation;
 10. Calls upon the participation of all players on the ground, either directly or through their apex organisations, to participate at all levels in the setting up and implementation of all policies regarding SMEs;
 11. Recognizes the paramount role played by women in all development-related areas, a

role too often forgotten by decision makers, and demands that special attention be given to women enterprise projects;

12. Recognizes the role which local institutions have to play in the support of SMEs, including micro enterprises; considers that local institutions can initiate the implementation of pools of common services for micro enterprises and SMEs, with the State financing the start-up phase;
13. Recognizes the role of SMEs as job creators and stresses the importance of transforming most of these jobs from unskilled to skilled, from seasonal to fulltime, from temporary to permanent, by means of proactive national policies and programmes;
14. Stresses the role which cooperatives can play in sustaining local economies and in structuring and providing cohesion to local communities;
15. Asks for national policies helping to reduce the weight of the informal economy in developing countries; further asks for the promotion of initiatives helping to improve the investment climate and thus to create business opportunities;
16. Considers cooperatives a vehicle to formalise informal activities, as they are closer than other forms of legal organisation to traditional associative practices in many rural and urban communities;
17. Consider cooperatives to be the best environment to ensure that SMEs within the formal sector do not slip back into the informal sector;
18. Recognises that SMEs need sufficient time and capacity-building to adapt to the gradual opening up of their sectors to world market competition; further recognises that a critical dimension, through associative processes, should lead to the critical mass necessary to progressively eliminate the protection of the initial phase;
19. Calls for the progressive introduction of the concept of corporate social responsibility in SMEs from developing countries and therefore asks the Commission to use all relevant conferences and bilateral discussions with countries which are signatories to the Cotonou Agreement¹ to foster that introduction and awareness;
20. Recognizes that creating a sound socio-economic environment for SMEs is only possible if policies for them include actions in the fields of human resources education and training, of communication and information infrastructure provision, and of easy access to raw materials and to local and regional markets;
21. Calls upon building SMEs partnerships for the exchange of up to date information and knowledge;
22. Recognizes the role SMEs can play in the development of most sectoral policies;

¹ Partnership Agreement between the African Caribbean and Pacific Group of States, of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000, OJ L 65 , 8.3.2003, p 27.

23. Calls for the implementation of sound, pro-SME financial systems;
24. Stresses the need to avoid traditional practices of informal credit and loans in many areas, by promoting specially designed financial products and microfinance;
25. Recommends that seed capital should be provided for the creation and development of SMEs;
26. Recommends policies facilitating access to credit, especially medium and long term credit, and the strengthening of the intermediaries active in SME financing;
27. Calls for special attention to be given to women oriented micro-credit ventures, especially in areas where women are not fully empowered;
28. Proposes international support and financing for regional institutions active in the financial sector of developing countries, thus introducing a multi-national common approach to activities carried out by SMEs;
29. Calls for tax incentives to be given to SMEs, especially in their start-up phase;
30. Calls for regulatory reforms which aim at speeding up and simplifying registration procedures as well as lowering the minimum capital requirements;
31. Calls for reforms of court procedures to settle business disputes faster as well as to enforce contracts and defend property rights more effectively;
32. Instructs its President to forward this resolution to the Council, the Commission, the governments of the EU Member States and of the African Caribbean and Pacific Group of States (ACP), the ACP-EU Council and the ACP-EU Joint Parliamentary Assembly.

EXPLANATORY STATEMENT

Introduction

For developing a country a strong, intertwined tissue of small and medium enterprises (SMEs) is fundamental.

A common pattern of SMEs in developing countries cannot be identified, each country being different due to history and tradition. Nevertheless, like in developed countries, they can constitute the backbone of the economy. If correctly submitted to targeted incentives, they can be the motor for sustainable development.

A good, transparent, coherent business climate allowing SMEs to have a role to play is therefore the first step one should count on. In many developing countries this climate is presently unfavourable. There are bottlenecks to SME creation or difficulties faced when they begin to work. In other cases national administrations are often relying on outdated laws, some of them dating from the colonial era, therefore urgently needing to be updated to meet the requirements of the globalised economy.

Strengthening the role of SMEs in an economy means to ultimately help the people running them to enter the cycle of sustainable growth. This also allows the emergence of a middle class, so much needed to allow the creation of the critical mass indispensable to give governments an orientation on how to run successfully a country.

The European Parliament has so far never dealt in an own initiative report with the issue of SMEs in developing countries and the Commission keeps including them in a broader context of private sector. For instance the Cotonou Agreement and the new "European Consensus" on development policy are factual evidence of such treatment. A clearly defined SME policy within the Commission's development strategy, emphasising favourable business climate, should therefore be formulated.

Problems and challenges

Dealing with SMEs implies an agreement on how to define what small and medium enterprises are.

The reality on the ground shows us a mixed basket of traditional associative forms and conventional forms of enterprise, many of which lack a legal status. SMEs comprise: 'micro' enterprises, either with private or cooperative forms of organisation; 'small' and 'medium' enterprises as known in the EU, ranging from the primary to the services sectors;

The European concept of SMEs (with 50 or 250 workers) is inapplicable to the reality existing in most developing countries. A definition of SMEs in these countries could be a positive outcome of the report, allowing a better design of development driven policies and programmes.

A second problem we must deal with is the scope of national policies for SMEs. Should these policies also address family based micro-enterprises? Should these be addressed through specially designed instruments?

Many of these micro-enterprises, for instance a garage for tyre repairing, or a boat for coastal fishing, or a stand to sell horticultural or fruit of domestic produce, work within the informal sector and should be transformed in order to be included in the formal one. This inclusion would mainly benefit the people running them.

Furthermore there is a need to generate a business climate for SMEs to flourish in. The report will try to give some guidelines on how this could be achieved.

To create a good business climate a coherent package of measures is needed in areas such as education and training, provision of information and communication tools, legal advice and limited bureaucracy, organisation and management techniques, marketing, direct assistance or general advice as well as access to financial services.

Tailored actions adequate to the actors on the ground should be designed and implemented. The actors should be seen as "multipliers". Once they have received training, they should be able to reproduce the training, be it knowledge, instruments, techniques to others.

Self help should be fostered. We must not forget that traditionally many developing countries' citizens are used to associative and cooperative forms of organisation.

The framework set in the national or regional policies for the business climate must never be forgotten, if one exists. Otherwise the EU could help national and local administrations in the setup of such policies. Knowledge transfer, information on how to avoid mistakes made, or novel, more efficient processes can always be of use.

In this context, local actors and their forms of organisations should be consulted and respected. They should be looked upon as partners. The role of women shall always be emphasised. Only if all actors feel to be part of the game, can they generate the impulse needed to achieve the intended results. A step by step, clearly designed programme, with timed goals easily understandable, is better than imposing any outside policy sold as a ready to use package.

National and regional policies have to include measures on finance and tax incentives.

Moreover, national and regional policies have to include reforms to cut 'red tape' and speed up registration procedures along with simplifying licenses.

What is more, national policies should include reforms of court procedures in order to speed up court decision and to protect property and enforce contracts more effectively.

Developing countries have in general under-developed financial systems, considered as impeding the development of sound micro other small enterprises. Therefore many entrepreneurs have to recur to informal loans or dig deep into their own pockets, sometimes

putting in jeopardy the level of life of their own families.

The role of microfinance must be also looked at, as most projects will be carried out with micro-enterprises. The EU could foster these microfinance activities through special support programmes and projects. They can generate jobs; they should contribute to "decent work", meaning non precarious jobs.

Initial equity capital (seed capital) used to start a new business should also be also fundamental for SME creation.

Provision of tax incentives is another indispensable measure, mainly if informal activities are invited to join the formal economy. These provisions need to be combined with policies that make SMEs, once moved into the formal sector, stay there and prevent them from slipping back into the informal sector.

When dealing with developing countries that are not island states, we must certainly look at cross boarder activities, by both the formal and informal sectors. Frontiers designed have often disrespected history and traditions, cultures and economic activities carried out for centuries in some areas. In our era it is time to look at these activities from a different angle, through regional oriented policies and programmes, bringing together two or more countries' national administrations and local authorities. This is the only form for SMEs to make further benefit of regionalisation and globalisation and to engage in North/South and South/South activities.

Prospective

It is quite obvious that the topic is very complex, so that various specific questions will need to be dealt with in more detail. Some topics might even have to be excluded from the report in order to stick to a concise and sound text.

Implementation of these measures will be key to success. It is also true that although global ideas are proposed, they have to be adapted to what exists on the ground ('think global – act local').

The development committee could from the general framework of this report, aiming at the setup of a coherent policy to help to strengthen the role of SMEs in developing countries, and then decide on follow-up reports and more precise and in-depth initiatives on SMEs.

PROCEDURE

Title	Small and medium-sized enterprises in the developing countries
Procedure number	2005/2207(INI)
Committee responsible Date authorisation announced in plenary	DEVE 17.11.2005
Committee(s) asked for opinion(s) Date announced in plenary	
Not delivering opinion(s) Date of decision	
Enhanced cooperation Date announced in plenary	
Rapporteur Date appointed	Jürgen Schröder 24.5.2005
Previous rapporteur(s)	
Discussed in committee	25.1.2006 20.2.2006 21.3.2006 25.4.2006
Date adopted	25.4.2006
Result of final vote	+ 20 - 0 0 0
Members present for the final vote	Margrietus van den Berg, Danutė Budreikaitė, Marie-Arlette Carlotti, Thierry Cornillet, Nirj Deva, Fernando Fernández Martín, Michael Gahler, Filip Andrzej Kaczmarek, Ģirts Valdis Kristovskis, Maria Martens, Luisa Morgantini, Toomas Savi, Frithjof Schmidt, Jürgen Schröder, Jan Zahradil
Substitute(s) present for the final vote	Milan Gaľa, Jan Jerzy Kułakowski, Linda McAvan, Manolis Mavrommatis, Zbigniew Zaleski
Substitute(s) under Rule 178(2) present for the final vote	
Date tabled	27.4.2006
Comments (available in one language only)	