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Some thoughts about Small and Medium Enterprises (SMEs)

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Agenda



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1. **SMEs classification in the EU**
2. **A new definition of SMEs?**
3. **Mapping initiatives in five European countries**
4. **A new research project**

SMEs classification in the EU



Enterprise category	Annual workers units	Annual Turnover	Annual Balance sheet total
Medium	<250	< 50 million Euros	< 43 million Euros
Small	<50	< 10 million Euros	< 10 million Euros
Micro	<10	< 2 million Euros	< 2 million Euros

Source: European Commission

General statistics



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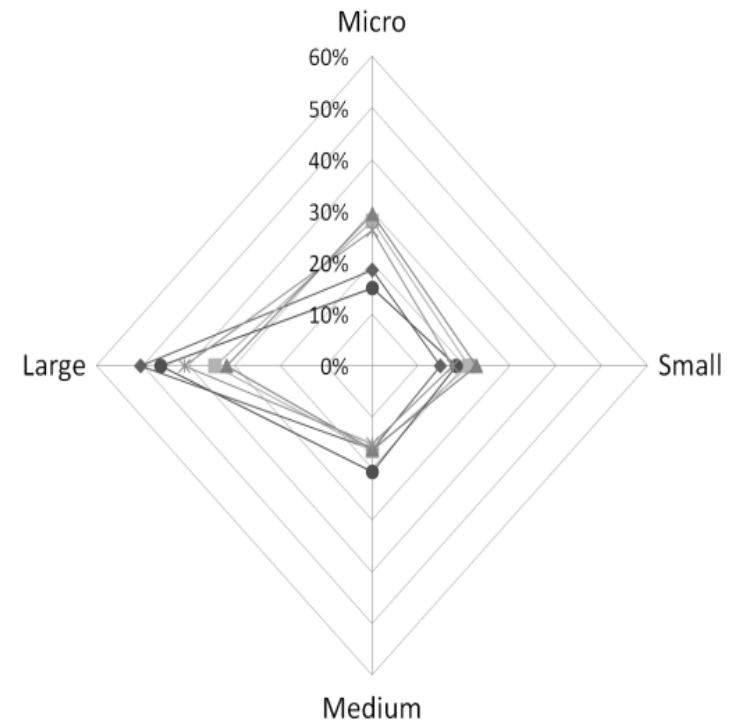
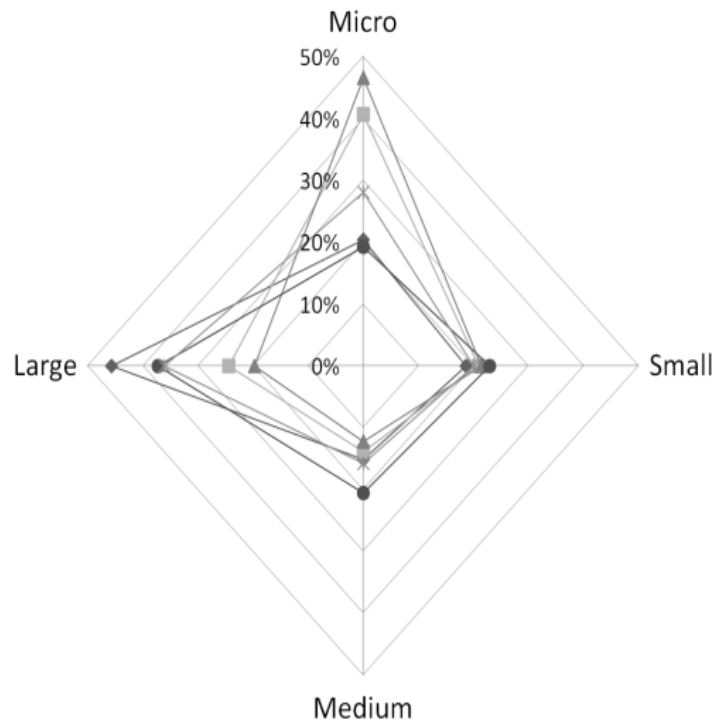
□ EU-27 Enterprises Features by Size Class, 2011

	Micro	Small	Medium	SMEs	Large	Total
Number of Enterprises	19,143,521	1,357,533	226,573	20,727,627	43,654	20,771,281
<i>% total</i>	92.2%	6,5%	1,1%	99.8%	0,2%	100%
Number of Employees	38,395,819	26,771,287	22,310,205	87,477,311	42,318,854	129,796,165
<i>% total</i>	29,6%	20,6%	17,2%	67,4%	32,6%	100%
Gross Value Added (ml Euros)	1,307,360	1,143,935	1,136,243	3,587,540	2,591,731	6,179,271
<i>% total</i>	21,2%	18,5%	18,4%	58,1%	41,9%	100%

Source: : European Commission, 2012

Geographical split

- Employment (lhs) and value added (rhs) by category of firm in major EU economies (% of total, 2011)



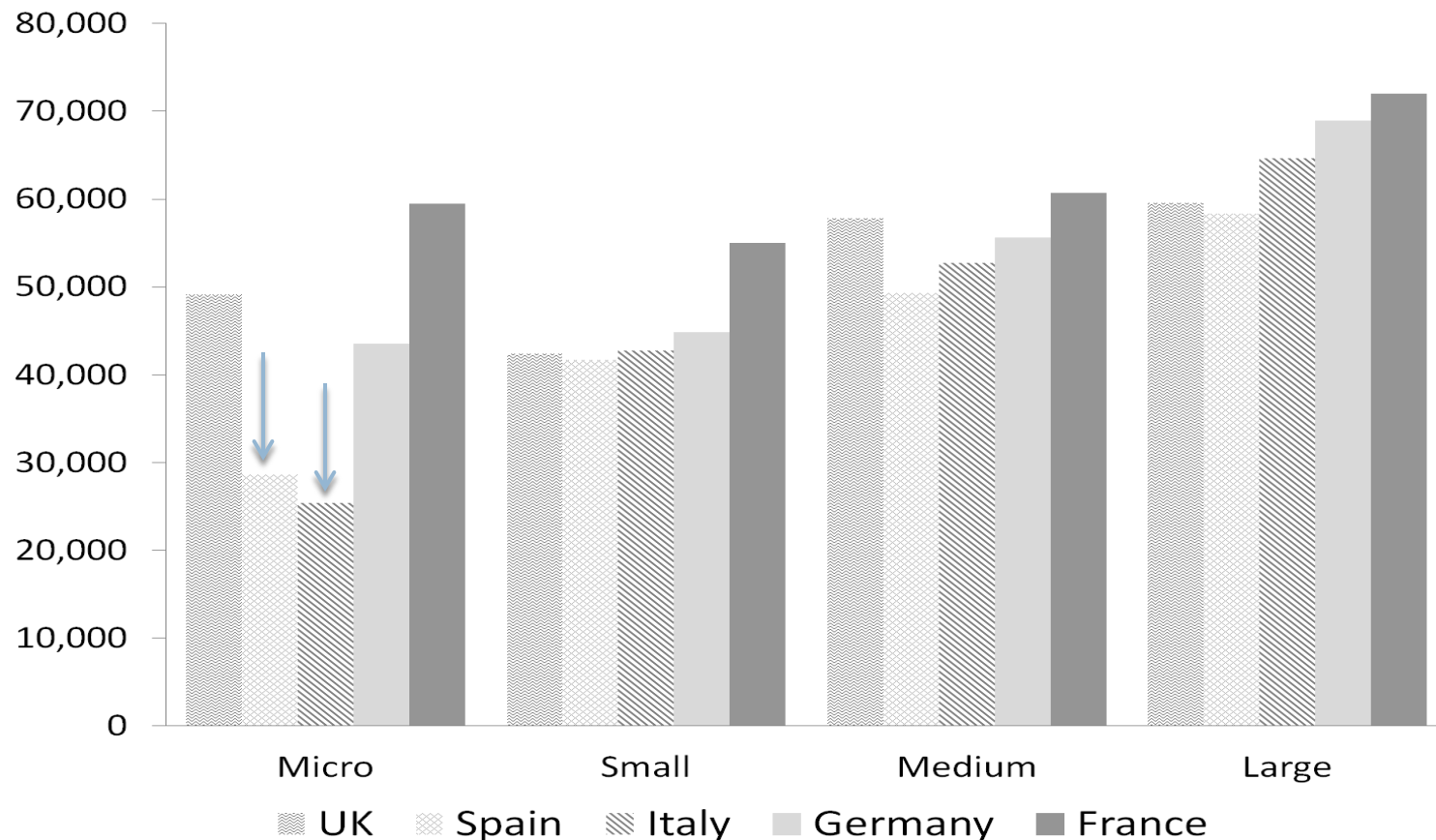
◆ UK ■ Spain ▲ Italy ● Germany ✱ France ◆ UK ■ Spain ▲ Italy ● Germany ✱ France

Source: Eurostat

Common features (1)

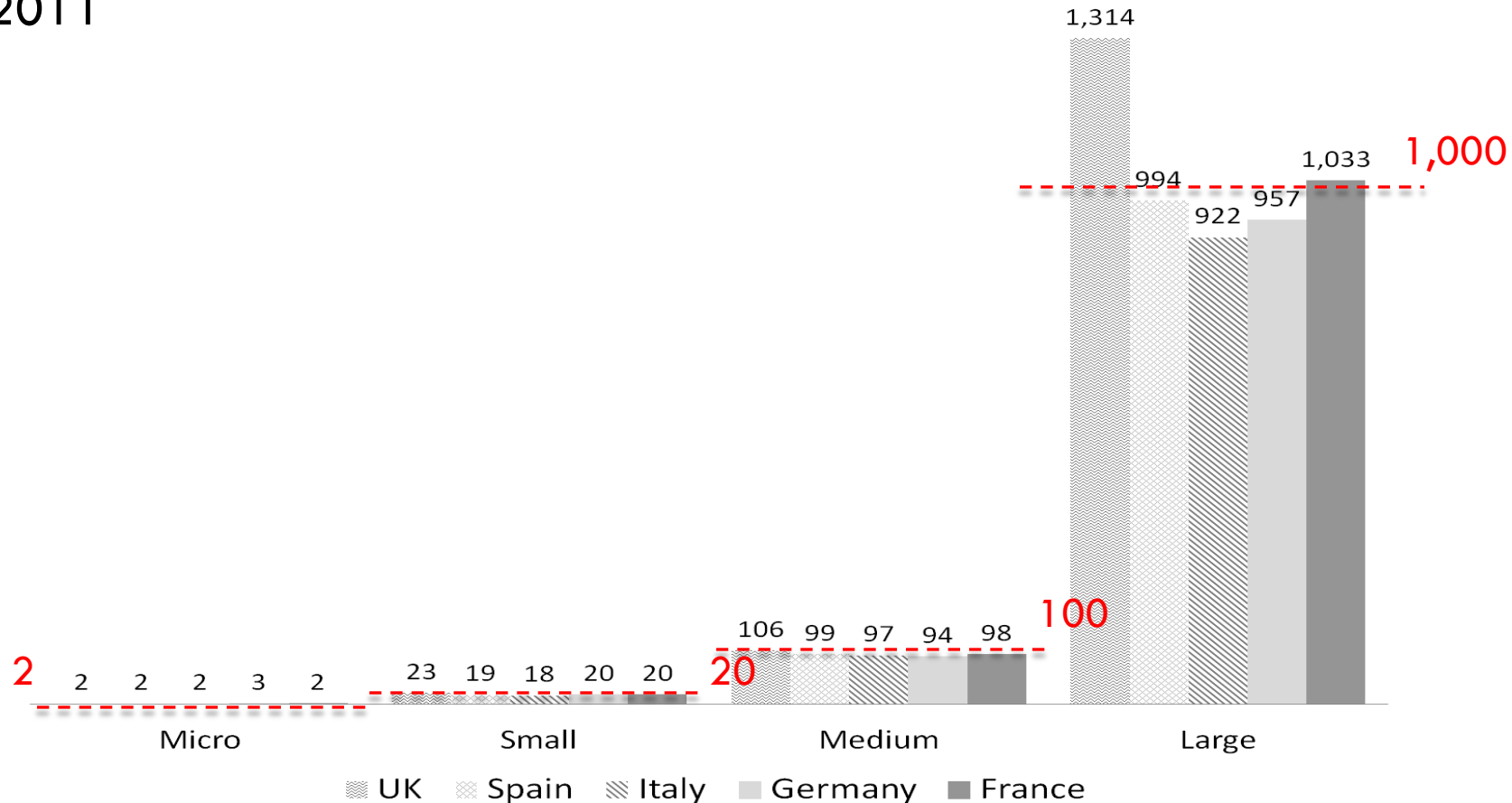


- Value added per employee by category of firm in major EU economies, 2011



Common features (2)

- Average number of employees by category in major EU economies, 2011



Source: Authors from Eurostat

Micro enterprises



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- Small number of employees (around 2) and high number of self-employed
- Mainly financed by the private equity of the owner
- Mostly closed to external financing, with high use of expensive forms of loans, such as current account overdrafts or credit cards
- Limited impact on value creation



Skewing the sample with more than 92% of total number of firms

A new definition of SMEs? (1)



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1. Better focus of EU policies on firms with high value creation margin
2. Better design of policy actions for large and micro firms
3. More harmonisation around a single market dimension
4. Greater ability to target different drivers of growth for each set of firm

A new definition of SMEs? (2)



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- A more effective definition of SMEs could be amended as follows:
 - Removing the *micro* category of firms (at least removing self-employed);
 - Adapting the *employees* requirement;
 - Adding a new category of *M+* firms.
- The employees requirement could change as follows:
 - Between 10 and 30 employees for *small* firms;
 - Between 30 and 150 employees for *medium* firms;
 - Between 150 and 500 employees for *M+* firms.
- Turnover requirement to be reviewed as well (e.g. medium firms).

Upcoming research



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- “Supporting SMEs access to finance: mapping initiatives at national level in five European countries”
- **Preliminary findings:**
 - Public interventions concentrate so far on subsidisation of bank loans off-market at off-market rates and on public guarantees.
 - Cost-effective policy that provides immediate support to SMEs and it is easily deliverable through current infrastructure
 - National government resources for SMEs so far account only for 1% to 3.4% of value added of respective sectors.
 - On the long-run, overreliance on traditional bank loans may impede the development of alternative financing channels and so exposure to credit markets
 - Market-based solutions (alternatives investment markets for bonds and shares, venture capital funds, securitisation) are struggling to emerge
 - Alternatives to traditional bank loans are a potential zero-cost solution for tax payers, so public resources supporting these initiatives may appear desirable

A comparative view



□ Public initiatives targeting debt, 2012

	Financing size		Program accessibility		Type of intervention			Total
	unlimited	limited	unconditional	conditional	Subsidies on bank loans	Guarantees	Other	
UK	1	4	4	1	3	1	1	5
Germany	0	6	0	6	6	0	0	6
France	0	8	0	8	4	3	1	8
Spain	0	7	1	6	6	1	0	7
Italy	0	3	3	0	1	1	1	3

Source: Author

A comparative view (2)



- Public and market-based initiatives per selected member state and total public funding commitments

	Public initiatives		Market-based initiatives		Total Public Resources Committed (€ bn)	Total Value-Added SME sector(€ bn)	Ratio public resources/value-added
	Debt targeting	Equity targeting	Debt targeting	Equity targeting			
UK	5	4	0	1	4.8	472	1.02%
Germany	6	3	1	1	9.2 ^a	745	1.23%
France	8	3	0	1	12.7 ^b	498	2.55%
Italy	3	1	1	1	14.4	418	3.44%
Spain	7	2	1	1	8.5	325	2.62%
EIB+EIF for EU-27					14.4 ^c	3,587	0.40%

^a Data on financial commitments refer to 2011. ^b Ibid.

^c Data do not include EU structural funds. Data include also funding delivered to non-EU Member States. **Source:** author from national programs, SBA factsheet 2012, EIB, European Commission.

A new ECMI research project



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- **Timeframe:** January- Summer 2014
- **Procedure:** Open procedure with progress reports
- **Objective:** Fact-based report on the capital structure of a well-defined set of SMEs to better understand the evolution of the liabilities side of these companies
- **Sample countries:** Germany, France, UK, Italy and Spain
- **Methodology:** Two parts. First, a theoretical background and macro analysis (with assessment of general statistics for three sets of SMEs and testing samples). Second, a qualitative survey (assessing the composition of the capital structure for the identified SMEs samples)
- **An international research team!**