

EBC position on Recommendation 2003/361/EC concerning the definition of micro, small and medium-sized enterprises

About EBC

Established in 1990, the **European Builders Confederation (EBC)** is a European professional organisation representing national associations of micro, small and medium-sized enterprises working in the construction sector. EBC is a member of UEAPME (the European association of micro-enterprises and SMEs), on behalf of which it chairs the UEAPME Construction Forum, and partner of Small Business Standards (the European association representing SMEs in standardisation), on behalf of which coordinates the interests of construction SMEs in European standardisation.

The construction sector is of vital importance to the European economy. With 3 million enterprises and a total direct workforce of 18 million, the construction sector contributes at around 9% to the GDP of the European Union.

99.9% of the European construction sector is composed of micro, small and medium-sized enterprises, which produce 80% of the construction industry's output. Small enterprises (less than 50 employees) are responsible for 60% of the production and employ 70% of the sector's working population.

A. General remarks

Micro, small and medium-sized enterprises are the backbone of the European economy and thus key to ensuring economic growth, innovation, job creation, and social integration. This is especially true for the construction sector, where micro enterprises are the norm rather than the exception displaying 91.9% of the enterprises in the sector. By enlarging that figure to small enterprises, a total of 98.9% of construction enterprises are covered. Thus the SME definition plays an essential role for the construction sector.

The current EU definition of Small and Medium-sized Enterprises (SMEs) is set out in Recommendation 2003/361 of the European Commission that came into effect as from 1 January 2005. It determines via staff headcount and net turnover or balance sheet total which enterprises qualify as SME's. Currently enterprises fall within the definition if they employ less than 250 people* and have a net turnover of less than 50 million Euros or a balance sheet total of less than 43 million Euros. An enterprise must be autonomous or part of a group of affiliated enterprises that together fall below the ceilings.

EBC considers that the SME definition is still fit for purpose. It covers those enterprises that experience the same challenges as other market actors (e.g. administrative burdens, access to finance, innovation or public markets) but have less capacities to deal with them, which especially applies to micro and small enterprises. Thus the current thresholds should remain. An extension of the SME definition including even bigger companies would especially weaken micro and small enterprises that generally have less capacities and need the advantages the SME status offers them, such as e.g. fewer requirements for EU administrative compliance. Instead of extending the definition, **EBC asks the European Commission to:**

-  **put bigger emphasis on micro enterprises in policy development and EU programmes;**
-  **better distinguish between micro enterprises and self-employment;**
-  **publish verified data on the SME participation in EU programmes.**

*Headcount is expressed in AWUs. A full-time employee during the entire reference year counts as one unit. Part-time staff, seasonal workers and those who did not work the full year are treated as fractions of a unit.

B. Specific recommendations

Recommendation 2003/361 of the European Commission (EU SME definition) defines which enterprises can be considered SME's and sets out a distinction between:

- Medium-sized enterprises (employ less than 250 people* and have a turnover of less than EUR 50 million or a balance sheet total of less than EUR 43 million);
- Small enterprises (employ less than 50 people* and have a turnover or a balance sheet total of less than EUR 10 million);
- Micro enterprises (employ less than 10 people* and have a turnover or a balance sheet total of less than EUR 2 million).

The implementation of the EU SME definition is regularly monitored by the European Commission. The last evaluation took place in 2012 concluding that there is no need for a major revision. Instead the final study report recommended a clarification regarding the application of certain rules by providing guidance and updating the SME Definition User Guide.

EBC agrees with this assessment and thus strongly opposes any kind of increase regarding the headcount or financial thresholds in the EU SME definition. In fact EBC considers the existing headcount threshold already rather high, given that it includes 99.8% of all enterprises in the European Union. An increase would further dilute the distinction between those companies confronted with market failures and particular challenges due to their size and capacity. Furthermore it would make it impossible to directly support those micro and small enterprises that are in real need. In line with this, EBC does not support an adaptation of the financial thresholds in line with the cumulative inflation rate, due to the significant inflation differences between European countries and possible additional administrative burdens. Instead EBC asks the European Commission to investigate how to enhance the support for those enterprises that face the greatest obstacles on the market, namely micro enterprises, which is supported by the 'Think Small First' Principle of the Small Business Act for Europe.

a. Bigger policy emphasise on micro enterprises and introduction of a micro enterprises window in EU funding programmes

EBC regrets that although a clear definition of micro enterprises is given by the definition, this has not been followed with specific policies for micro enterprises and targeted programme approaches. Micro enterprises tend to be the most vulnerable part of the European economy facing the biggest obstacles e.g. in regard to financing and public market access. Thus the European Commission should stronger focus on micro enterprises in their policy-making and consider the establishment of a programme window for micro enterprises in EU funding programmes, like the SME window within the European Fund for Strategic Investment (EFSI).

b. Introduce a proper distinction of micro enterprises and self-employed

Self-employment (one-person-enterprise) constitutes more than 55% of all enterprises according to the SME Observatory. Currently it is difficult to differentiate between labour market changes that concern micro-enterprises and those that affect self-employment. Thus EBC suggest to sub-divide the sector of micro enterprises and develop the category of self-employment. This will help to better target programmes and policies towards these enterprises and to get a better impression of the challenges each group faces.

c. Publish verified data on the SME participation in EU programmes

Over the past years, the European Commission took measures to adapt EU programmes to the SME definition. Thus while programmes remain open for companies of any size and sector, the Commission puts a specific focus on SMEs. Nevertheless, this SME-focus is difficult to prove at the moment due to missing data. Hence EBC suggest to publish verified and accessible data on the participation of SMEs in the different EU programmes.