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COMMITTEE PRINT

SMALL BUSINESS ASSISTANCE EFFORTS OVERSEAS

BY THE STAFF

OF THE

SUBCOMMITTEE ON
SPECIAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
NINETY-SIXTH CONGRESS
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LETTER OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C., October 10, 1979.

Hon. NEAL SMITH,
Chairman, Small Business Committee, 2361 Rayburn House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report by the Special Small Business Problems Subcommittee staff on incentives which are provided by certain foreign countries to their domestic small businesses. This is the first such report by a committee of the Congress. Assessments of the successes and failures of small business programs overseas should provide this Committee, and the Congress, with valuable evidence when our own small business policies are being considered.

A report of this nature is necessarily a survey rather than an exhaustively detailed analysis. Only a selection of countries could be studied, and only limited amounts of Subcommittee time, staffing and financial resources were available to develop the survey. Program evaluations, which were for the most part supplied through the efforts of U.S. economic and commercial attachés abroad, are primarily broad overviews from foreign financial and commercial sources. Thus the report is *not* a compilation of official U.S. or foreign government policy analyses and does *not* review every program thoroughly. With those caveats in mind, the Subcommittee would highly recommend this report to persons interested in the creation and development of small businesses as well as to those who are interested in comparing U.S. domestic economic policy with that of other market-economy nations.

Some of the most innovative actions by foreign governments to stimulate small business should be noted.

Belgium and Canada have established Cabinet-level Ministers for small business.

The German definition of a small business emphasizes the level of personal involvement by its owner or owners.

France has designated financial institutions which may pay up to 90 percent of an invoice owed a small business by the Government.

Canada provides assistance in forming small business consortia for exporting and has set up toll-free phone numbers for small business assistance.

West Germany provides extensive capital assistance to small businesses, and often permits its small businesses to attempt to underbid major corporations on Government contracts *after* such corporation bids have been opened.

Readers of the report will find within it many other thought-provoking approaches to small business policy. A project of this kind required the efforts of many individuals. The Subcommittee wishes to express its special appreciation to the International Division of the U.S. General Accounting Office and to the U.S. Department of State. Mr. Russell LaMantia, Commercial Coordinator, Bureau of European Affairs of the State Department, Mr. Mel Berngartt, Mr. Robert F. Burns, and Mr. Keith W. Sutton of the International Division of the General Accounting Office, were instrumental in developing the country-by-country reports. The advice and assistance of Dr. Grant Moon of the U.S. Small Business Administration was also most helpful. Countless U.S. diplomatic and counsular personnel, particularly our overseas commercial and economic attachés, contributed information for the report.

In particular, however, the Subcommittee wishes to thank its special consultant, Mr. James Morrison. Mr. Morrison originally envisioned this report, argued persuasively for it, oversaw the entire project, and edited both the country-by-country evaluations and the final report itself. To a large extent, this report is a result of his efforts.

It is with a great sense of pride that I commend this report to the Committee.

Sincerely,

MARTY RUSSO,
Chairman, Subcommittee on Special Small Business Problems.

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Chapter I.—Introduction and Summary

A. EUROPEAN COUNTRIES

A number of European nations, both within and without the European Economic Community (EEC), have taken steps to aid their domestic small businesses.

Of the European Economic Community countries, West Germany, Belgium, and Ireland appear to have the most extensive programs to assist small and medium-sized businesses. West Germany's program dates back to the early post-World War II years, Belgium enacted legislation in 1958 to assist small firms, and Ireland started its small business program in 1967. According to the *Financial Times* (London), Germany's policy for encouragement of small and medium-sized businesses is considered to be the most efficient and imaginative in Europe. Ireland's overall program is also regarded as very successful, especially in attracting foreign investment. And Belgium was the first country in the world to appoint a minister with specific responsibilities for small business. Greece, which will become a full member of the EEC by 1981, also has a substantial small business program. Austria and Spain have developed programs as well.

The International Labour Office indicated that until the mid-1970's matters of concern to small business in France had not received full attention at the national level. In 1976, the French Government initiated an action program to assist small and medium-sized industrial firms. The United Kingdom and the Netherlands historically have had few programs aimed specifically at assisting small firms. During the last 2 to 3 years, however, the United Kingdom has placed more emphasis on developing incentives for these firms.

Because of the large number of persons involved in small business in Italy, the Italian Government has devoted considerable attention over the years to insuring their survival, primarily to avoid serious unemployment problems. Small low-interest loans authorized by legislation in 1956 are the principal tool for accomplishing this goal.

Denmark, though less involved in business matters than other governments in Europe, has recently enlarged programs to offset the recessionary aspects of the oil crisis.

Each country has its own definition of a small or medium-sized business. Generally, the definitions are based on number of employees, annual sales turnover and value of fixed assets or a combination thereof. The type of business (e.g., manufacturing) is considered in defining a small business by some countries. Denmark has one of the simplest definitions; it considers a small business to be one with less than 100 workers. The United Kingdom's definition is more complex; there are standards for each of eight different types of business based on the number of employees or annual sales volume. In Germany, the personal involvement of the businessman is important in determining whether the enterprise is eligible for small business assistance. In some

cases, the businessman must personally manage the firm and carry the risk with his own capital.

The various types of financial assistance available in the EEC countries include low-interest loans, interest subsidies, loan guarantees, and outright grants. All countries, however, do not provided all types of assistance.

Ireland provides nonrepayable cash grants toward the cost of sites and site development, buildings, machinery, and equipment. Belgium and the United Kingdom make grants to small firms in order to encourage them to hire new employees. The grants are based on the number of new jobs created and filled. The United Kingdom program is being phased out.

In addition to financial assistance, most countries provide some form of management and technical assistance, fiscal assistance, and export assistance. The U.K. program is an example of management and technical assistance available in the EEC countries. In the United Kingdom experienced businessmen provide advice on the whole range of management problems facing small business. This service costs a businessman little or nothing unless lengthy investigation by a counselor is needed.

Fiscal assistance usually takes the form of tax reductions or exemptions. For example, in West Germany small business profits are exempt from taxation up to 24,000 Deutsche marks, 36,000 Deutsche marks beginning January 1, 1980. (DM1=US$0.557.)

Export assistance can take the form of promotion services and financing. The Netherlands started a program in 1978 to study ways for encouraging small and medium Dutch firms to cooperate in forming larger international trading entities, thus maximizing chances for winning foreign contracts.

In the area of procurement assistance, West Germany has a program to help small businesses obtain government contracts and France is developing one.

In 1976 France started a program whereby the Government takes equity positions in certain small enterprises. In Germany, proposals have been made for the Government to contribute risk capital to small and medium-sized businesses.

Austria's investment incentive programs emphasize small business enterprises and other factors. Within the manufacturing and service sector, a small business is defined as one having assets of less than $148,000, annual sales of less than $593,000, and less than 40 employees. Austria has four financial incentive programs for small and medium-sized businesses. The American Embassy in Vienna said the programs seem to be effective and are increasingly popular with Austrian businessmen.

In May 1978, Spain established an agency to modernize and improve the efficiency of small and medium-sized firms. Financial encouragement and managerial education of collective undertakings by small firms will be used to achieve the goal. There is skepticism in the local financial community, however, regarding the current adequateness of this agency's programs.

In the European Community (EC) as a whole, increased efforts are underway to strengthen the small business sector. The 1975 business

downturn heightened the awareness of European Community leaders of small business' importance. Using 500 employees as a rough upper limit for small and medium-sized businesses, such enterprises amount to two-thirds of the EC private work force and the majority of EC firms. It is now known that such smaller firms have been responsible for much of the technical innovation in EC industry and have been less prone than larger enterprises to lay off workers during mild business downturns. Research by the European Community's Commission in Brussels has also confirmed that such smaller firms create more jobs, per dollar investment, than do larger firms.

Consequently, major initiatives are now underway to improve the fiscal and administrative environment for such firms within the EC. The newly elected EC Parliament in Strasbourg, France is expected by many observers to show a strong interest in this area, encouraging the Commission to remain active and follow through on its recent initiatives.

To focus its efforts, the Commission has chosen the following priority areas for small business: Simplification of administrative formalities; financial assistance; government procurement policy; export assistance; vocational and management training; easing the barriers to cooperation between smaller enterprises; and the promotion of subcontracting.

Administrative formalities, in such areas as taxation and company law, are being reduced for smaller enterprises.

Financing for smaller enterprises is being stepped up. Loan funds available to small businesses through the European Investment Bank (EIB) have been increased. The Social Fund of the European Community has now established small business funding as its top priority, and the Regional Fund is being urged to offer smaller enterprises interest rebates on loans from the EIB.

The EC Commission is formulating new proposals dealing with capital formation and government procurement problems of small businesses. Export incentives are being studied, as well.

A plan for a new legal form of small business cooperation—The European Cooperation Grouping—is soon to be acted upon. Already the Commission's Business Cooperation Center brokers between small companies seeking joint venture partners. The Center also publishes lists of larger firms which often subcontract to smaller firms, and it has prepared a multilingual terminology inventory of subcontracting work operations and products to serve as a basis for company catalogs.

B. NON-EUROPEAN COUNTRIES

Japan, Canada, Mexico, and Brazil have active programs in support of small business. Australia and Korea have made recent efforts to improve assistance to small firms.

In Japan, small businesses occupy an important position in the national economy, as 99 percent of all business firms are considered small. The direction of Japan's policy for small business is set forth in a 1963 law. According to Government and industry sources, small and medium enterprises have benefited most from low-interest and interest-free loans offered by various governmental financing institutions. Conversely, the Government's program for purchasing stock in small

corporations is generally regarded as unsuccessful, because most corporations prefer to obtain working capital through borrowings.

Canada provides various types of assistance to small business firms. They include loans and loan guarantees, management counseling, training and information services, technical assistance, Government procurement set-asides, reduced corporate tax rates, and assistance in forming consortia to compete in export markets. Observers consider these programs well run and serving their purpose reasonably well.

The promotion of small and medium-sized industry is a major objective of the Government of Mexico as such industries tend to be labor intensive. The Government's programs have been widely dispersed among various agencies that have only recently been brought together by a coordinating body. Assistance includes low-interest loans, purchase of stock, management and technical training, and tax credits for investment in priority development areas and industries. No assessment of these programs was obtained.

Most assistance provided to small business by Brazil is in the financial area. Loans with significantly reduced interest rates are made to small firms for investment, working capital, and other purposes. No assessment is available.

Australia has a limited small business program and looks to some extent to the U.S. SBA for ideas and materials to assist small business. Only since 1973 have the National and State Governments given attention to policies and programs to assist small enterprises. Most Government contact with small business is by the States.

An International Labour Office publication in 1977 stated that Australia has made progress in small enterprise development since 1973, but still lags behind most developed nations in implementing a coordinated small enterprise development policy. Increasing activity was expected in the coming decade to bridge the gap.

Until 1978, the Government of Korea, because of limited capital, emphasized the establishment and growth of large scale enterprises to maximize investment results. Because of the rapid expansion of Korean conglomerates in recent years, increased attention is now being given to the development of small and medium industries in order to prevent the economy from becoming dominated by large firms. In December 1978, the Korean Government passed the Small and Medium Industry Promotion Law and other laws to accelerate the development of small and medium industries.

Chapter II.—A Survey of Major Small Business Promotion Programs

AUSTRIA

Government policy

Austria's investment incentive programs emphasize regional development, areas of high unemployment, restructured industries, and small business enterprises.

Definition

Within the manufacturing and service sector, a small business is defined as one having assets of less than $148,000, annual sales of less than $593,000, and less than 40 employees. No other definitions have been established.

Financial assistance

Austria has four incentive programs for small and medium-sized business. The Buergschaftsfonds GMBH operates three programs with funds provided by the Government of Austria, and the European Recovery Program administers the fourth program.

Loan guarantees, interest contributions, and grants.—Loan guarantees cover up to 90 percent of a maximum credit of $37,000 for no more than 10 years. Interest contributions or promotional grants may be made in addition to the loan guarantees. Contributions may be made to reduce interest rates by 3 points on rates not exceeding 7 percent for a maximum credit of $37,000 for no more than 7.5 years. The promotional grant may amount to 12 percent of the supported credit up to a maximum of $4,400. If the maximum promotional grant is used, another grant cannot be made for 3 years.

The incentives are provided for purchase of machinery, tools, installations, and other equipment; financing of construction for business purposes; purchase or construction and outfitting of offices. In 1978, 4,372 applications were submitted; in the first half of 1979 applications totaled 2,275.

Interest contributions and grants.—A second program is limited to reduction of interest rates by 3 points (in rare cases 5 points) on rates not exceeding 8 percent on approved investments not greater than $270,000 for no more than 7.5 years. A grant may be made for up to 1 percent of the credit sum to cover the cost of liability. Applications in 1978 amounted to 1,918; for the first half of 1979 they totaled 1,232.

Grants and credit guarantees.—A third program provides for a grant (maximum $22,230) and a loan guarantee (up to 80 percent for a maximum credit of $148,200 for 10 years) to Austrian citizens (maximum age of 45) who either establish new businesses or take over existing enterprises. Applications in 1978 were 418; applications in the first half of 1979 were 254.

Loans.—The European Recovery Program provides credits from $7,500 to $37,000 at 5 percent interest rates for a term of 5 to 10 years. The number of applications was not available.

Assessment of programs

The U.S. Embassy in Vienna said that the programs seem to be effective in stimulating small business activity and are increasingly popular with Austrian businessmen. The Embassy noted the increase in the rate of applications in the first half of 1979.

BELGIUM

Government policy

Belgium has an extensive program of aids to small business. It was the first country to appoint a minister with specific responsibilities for small business.

Since World War II Belgium has been particularly attentive to the problems of small and medium-sized enterprises. The measures taken to assist small business, however, have been less the consequence of a deliberate policy than a response to specific social and economic circumstances. Thus, governmental action initially stressed the social protection of the trading classes and the heads of small firms. Later on, in 1959, specific legislation was enacted in favor of small and medium-sized enterprises. In 1978 additional legislation was passed to assist small business.

Definition

By law, small or medium-sized firms are defined as commercial enterprises employing not more than 40 people or craft enterprises, firms engaging in tourist activities and industrial enterprises employing not more than 50 people. The latter figure is increased to 70 if the enterprise is managed by one or more natural persons owning the majority of the capital and for whom it is the principal source of income. However, for the Flemish region, there is an alternative threshold. Firms must have a turnover of less than 200 million Belgian francs or have made investments not exceeding 40 million francs in order to be deemed small or medium sized, regardless of the number of persons they employ.

Financial assistance

The most important programs are interest subsidies and loan guarantees. There are also special grants for the creation of new jobs.

In the case of subsidies and guarantees the application must be approved by the Ministry for Middle Classes, which makes a determination on the managerial ability of the business.

Interest subsidies.—These subsidies are made on loans contracted with recognized financial credit institutions such as banks and financial enterprises. The loans must be for the direct financing of real estate, tangible or intangible investments, or the reconstruction, and in certain circumstances the supply, of working capital. The loans must extend a minimum of 5 years. In 1978, interest subsidies amounted to $61.2 million.

The interest subsidy granted on maximum 75 percent of the investment can amount to 5 percent over a period of 5 years. Additional subsidies are available in certain circumstances. Assuming a loan for a term of 10 years, the highest possible interest subsidy would amount to 37 percent of the credit and 33 percent of the investment.

Loan guarantees.—If a small enterprise does not have a sufficient guarantee to cover the loan applied for, it can ask the Guarantee Fund for a supplementary guarantee for the repayment in whole or in part, of the loan, interest and accessory charges. This guarantee may not exceed 95 percent of the loan.

Capital grants.—Provided at least half of the investment is financed with stockholder's equity, outright capital grants may be made. The capital grant is in fact a replacement for interest subsidies. The advantage of the grant is that it is usually paid out over a shorter period than the interest subsidy. These grants totaled $2 million in 1978.

Employment grants.—A firm with 14 employees or less can obtain an outright job creation grant of 15,000 Belgian francs per annum for 5 consecutive years for each new job created, up to a maximum of 15 new jobs. This applies solely to the new jobs actually created and occupied at an agreed place. Employment grants amounting to $6.6 million were awarded in 1978. (US $0.03=BF1.)

Fiscal assistance

Small businesses are eligible to receive a reduction in employer's social security contributions and accelerated depreciation for tax purposes.

Tax relief is provided in the form of a 5-year exemption from the advance levy on investments in real estate benefiting from the interest subsidy and/or the capital grant.

There are also three tax measures that apply to all companies including small and medium-sized firms. These are: The exemption from company tax on dividends, the possibility of deducting investments from company profits, and the exemption from tax on appreciation.

Two-tiered reporting requirements

Although the 1975 law concerning bookkeeping and annual accounts is applicable to all enterprises, the data required for small and medium enterprises has been reduced to the minimum.

Assessment of programs

No official assessment of the programs is presently available. The Kredietbank, however, has questioned whether it would not have been more efficient to further ease the tax burden than to provide a complicated system of subsidies.

CANADA

Government policy

Canada has an active program in support of small business. In 1976, Canada became the second government in the world, after Belgium, to appoint a minister with specific responsibility for small business. This minister serves as a focal point for small business policy on a national level.

Definition

There is no single definition of a small business in Canada. However, one definition used defines a small business (manufacturing firm) as one employing fewer than 100 people, and for firms in all other sectors, fewer than 50 workers.

The Canadian Minister of State for Small Business said that even this broad definition does not solve all problems. For example, Canada feels that a country of its size and with its regional disparities cannot ignore the role of branch operations of larger firms. For various reasons, it is felt that such firms may not have the access to the financial and managerial resources of their parent operations and may face problems similar to independent small firms. Therefore, branch operations are not excluded from assistance programs.

By these definitions, it was estimated that there were more than 800,000 small firms in Canada, and that they employ over 1,850,000 Canadians, accounting for some 33 percent of the private sector work force and more than 20 percent of the gross national product.

The Small Business Loans Act uses $1.5 million sales to define small business for loan guarantee purposes. (Can$1=US$0.83.)

Financial assistance

Loans.—The Federal Business Development Bank, a Government agency, has been the principal arm of Government assistance to small and medium-sized business since 1944. With its 90 branches across the nation the bank is in an excellent position to aid small and medium-sized businesses on a local and regional level. It has placed more than $3.5 billion in direct loans since its inception.

Loan guarantees.—Canada's Small Business Loans Act provides for the guarantee of loans up to $75,000 made by banking institutions to businesses with gross annual revenues of less than $1.5 million. The increasing cooperation of banks in the program has reduced to a minimum the administrative task of Federal officials. In 1978–79, the Government guaranteed $200 million in small business loans.

Grants and guarantees.—Several programs in support of innovation and industrial adjustment were merged into one called the Enterprise Development Program, through which the Government provides direct grants for innovation and insures loans by private lenders.

Investment assistance

The Government has prepared a wide-ranging discussion paper on equity financing and venture capital opportunities for small business to stimulate private sector investment. The paper outlines means to achieve that goal. After public debate, it is expected that this initiative will lead to further proposals and concrete government action. The Federal Business Development Bank is authorized to make equity investments in certain cases where necessary to assist small business.

Management and technical assistance

In addition to financial assistance, the Federal Business Development Bank provides small business people with management counseling, training, and information services. The bank has served more than 50,000 customers since 1944.

Canada has a program to encourage small business to hire graduates of community colleges or universities who are unemployed. This program has served to some extent to overcome the reticence of some small businessmen to hire recent graduates; in turn, it has encouraged graduates to look to small business for career opportunities.

To overcome the difficulties many small business people encounter in dealing with the complexity of government, Canada has made available to them a business center in Ottawa with a toll-free long-distance line where they can direct their inquiries on Government programs and services at no charge. This recognizes that small businessmen find it easier to call than to write. The new office handles some 3,000 calls a month, some from over 3,000 miles distance.

Also, information and technical assistance is provided through the National Research Council. This assistance began in 1945, and is carried out by a staff of 22 professionals and 12 support staff with a budget of Can$728,000. Ottawa handles 5,300 inquiries per year.

A decentralized program providing nationwide coverage is also operated by the National Research Council. The cost of this program for staff and payments to the Provinces is Can$796,000; 20,000 information requests annually are received; 13,000 field contacts with industry are made; and about 14,500 inquiries are handled at a local level by Provincial Research Council and National Research Council field staff.

Procurement assistance

The Government now requires that major suppliers include in their public tender a plan to subcontract to small firms. The Government further insures that a substantial portion of its direct purchasing is from small businesses.

Fiscal assistance

The Federal tax structure provides a lower tax rate for small Canadian-controlled private corporations. The rate, based on the first $150,000 of annual taxable income, is 20 to 21 percentage points below that of larger companies. Also, small firms receive relief from Federal sales tax, in filing sales and excise returns and in paying tax when purchasing imported production machinery. Special capital gains tax exemptions are provided for the passing of family business from one generation to another, as well as substantial loss deductions from other income.

Export assistance

Canada helps small and medium-sized firms compete in export markets through the formation of consortia. Normally there should be at least five firms in the application, and the Canadian Government will support costs incured in the formation and initial operations of the consortium. The Government's contribution is Can$70 for each day spent on the project by eligible personnel and 50 percent of the transportation and special costs. The contribution should be repaid in the event a consortium is created. The amount of support to any one consortium will normally not exceed $50,000 per calendar year.

Two-tiered reporting requirements

The Federal Government established a paper burden reduction office to relieve some 265,000 small businesses from reporting requirements.

Assessment of programs

Official assessments of these programs from business and Government sources have concluded that they are well run and serving their purpose reasonably efficiently.

FRANCE

Government policy

An International Labour Office publication indicated that, until the mid-1970's, matters of concern to small business in France had not received full attention at the national level. In the absence of a specific government policy, small businesses found themselves in the maelstrom of markets dominated by larger enterprises. Although many public and private initiatives had been taken to foster the development of small business, there had been no central force to coordinate these efforts.

The period of energy crises which started in 1974 showed how vulnerable small businesses were to the environmental threat. Costs skyrocketed and markets disappeared in many sectors. The Government was faced with the challenge of reviewing the fabric of small business in France in order to preserve and improve the country's economic competitiveness. Planning was started and led to development in March 1976, of an action program in favor of small and medium-sized industrial firms. The program covers four areas: Financing, new venture creation, management education, and subcontracting.

Definition

The 1976 action program covered small industries (6 to 49 employees) and medium-sized industries (50 to 499 employees). A small firm employing between 1 and 5 persons was considered an artisan operation.

In 1973, there were 400,000 small and medium-sized firms in France representing 96 percent of all enterprises, 41 percent of all employees, 33 percent of all turnover, 35 percent of total value added, and 24 percent of all investment.

Financial assistance

Loans.—In October 1976, 3.5 billion French francs were made available for loans to firms with a turnover of less than 100 million francs and which were not quoted on the stock market or were not subsidiaries of quoted companies. Loans are granted under the condition that investments lead to the creation of new jobs or to the saving of energy. An additional 2 billion francs were made available in May 1977, through various financial institutions. (US$0.23=F1.)

Grants.—These grants are intended for small artisanal firms establishing or transferring their business outside the Paris Basin. For transferring firms, the grants cover a portion of moving costs; for new firms, they cover some of the investment cost.

Investment assistance

The 1976 action program allotted funds to the Society of Regional Development to take equity positions in regional enterprises that are not quoted on the stock market and whose turnover is less than 100 million francs. These funds can cover 25 percent of the participation in existing firms and 50 percent in the case of new ventures.

The action program set up a study of the feasibility of creating closed small business investment companies that would take equity positions in nonquoted firms. At present, managing partners of small enterprises may deduct interest on their advances to the firm's current accounts, provided these accounts do not exceed 150 percent of the firm's equity.

Management and technical assistance

The 1976 program expanded the role of the Chamber of Commerce. Its technical assistants will do more counseling and diagnostic work. Further, 50 assistants will be trained each year. A system will be developed whereby trained administrators will help firms resolve financial difficulties prior to the starting of legal procedures against them. This guidance will also be available to healthy firms.

An effort will be made to coordinate the action programs of the Society of Regional Development with those of the Chamber of Commerce. In addition, the various small and medium-sized enterprises associations are to collaborate with the government program started in 1969 to train potential enterpreneurs and assist firms in the management of their operations.

In order to simplify the formalities and steps to be taken in creating a new venture, the Chamber of Commerce will assist entrepreneurs in startup procedures. Also, more attention will be given to the formal education of new venture creators by business schools and engineering schools. The Chamber of Commerce will play an important role in training 1,000 persons a year to obtain their professional licenses, and the technical high schools will better prepare entrepreneurs to create and manage firms.

Procurement assistance

In order to accelerate payments to small and medium-sized firms, the action program provides for a designated financial institution to pay 90 percent of the invoice after a 2-month delay.

A commission will be created to study the subcontracting market, information about which is scarce. The objective is to increase the information flow between contractors and subcontractors, encourage firms to subcontract on a wider basis, and help subcontractors diversify their clientele.

The Government will develop measures to facilitate access of small and medium-sized firms to government contracts and create a system adopted from the experience in the United States and the German Republic.

Fiscal assistance

A 1,000 francs tax which had been compulsory for all firms since 1974 has now been abolished for the first 3 years of operation of a new venture, provided its shareholders are physical persons.

Export assistance

Promotion.—The French Government maintains a large, intensive export promotion program. Techniques include market research and other informational services and participation in trade fairs. The program appears to be concentrated on creating new exports through aid to small or medium-sized firms and new-to-export companies. Program funding in 1976 amounted to $80.7 million.

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The 1976 action program provided for French international commercial counselors to play a greater role in facilitating small business access to foreign markets.

Financing.—The 1976 program provided that credits available to finance investments that will lead to exports would be increased to 10 billion francs. Priority is given to small businesses which export directly or indirectly as subcontractors to exporting firms.

A fund to facilitate foreign investment by small businesses was augmented by 5 million francs. Loans are granted over 15 years provided exports follow at a rate of 3 to 4 times the investment over 5 years.

Other assistance

A French law allows small firms to form cooperative associations, short of mergers, to reduce overhead, improve their marketing strategies, and compete with larger firms without losing their independence.

Assessment of programs

The International Labour Office said that the Government initiatives taken in 1976 to develop a clear policy toward small business have gained momentum. All programs underway had a central control point and coordination with national social and economic objectives was being sought.

GERMANY (FEDERAL REPUBLIC)

Government policy

In Germany small businesses enjoy extensive assistance. The large destruction during the war and the influx of 12 million refugees from the East made it imperative for any German government to promote investment and reconstruction. The Federal Government has been committed to promoting small businesses from the beginning of the Republic.

The German small business assistance program is based on a multitiered system. The Federal Government sets the general framework for legislation which is supplemented by the individual State governments. The program aims to improve the financial status, efficiency, and legal environment of small businesses in order to eliminate disadvantages which these firms are faced with in the marketplace.

Definition

A general definition of small business is not regarded as appropriate by the Federal Government. According to the German approach the number of employees or sales are not the only criteria for determining a small business. The personal engagement of the businessman is regarded as important. With some exceptions, the businessman must personally manage the business and fully carry the risk with his own capital.

In the Federal Republic there are 1.65 million businesses with up to 9 employees which are enjoying small business status. In addition, a large number of the 200,000 businesses with 10 to 499 employees are regarded as small businesses. The number of companies employing

more than 500 persons, which are regarded as large companies, amounts to 3,600. Small and medium-sized businesses (except agriculture and government) employ about 13 million people, while the large companies employ 7.8 million people. In other words, the West German economy is, by its own definitions, dominated by small and medium-sized businesses.

Financial assistance

Loans.—Loans are available to small businesses through various institutions which include:

1. *Bank for Reconstruction.*—The bank was established in 1948 and is the largest institute for small business financing. A large part of its capital derives from the Marshall Plan (European Recovery Program—ERP) counterpart funds. During 1978 loans allocated to small businesses amounted to DM4,264 million, of which DM682 million were identified as ERP funds. (US$0.55 =DM1.)

2. *Equalization of Burden Bank.*—This bank was established in 1954, as a successor to the Refugee Bank, established in 1950, whose task was originally to finance economic integration of East German refugees. It is a Government-owned bank. Over the years assistance provided by this bank shifted from refugees to small businesses. In 1978 loans allocated by the bank on favorable terms to small business amounted to DM740 million.

3. *Berliner Industriebank.*—In 1978 this bank allocated loans to Berlin businesses amounting to DM680 million, of which DM 450 million were ERP special funds. Although the bank does not maintain a breakdown of allocated funds by business size, it is assumed that the major part of these funds was allocated to small business.

Loan guarantees.—Since the 1950's small and medium-sized firms have been able to take advantage of Government backed credit guarantee facilities. These enterprises have been in a position to borrow, under guarantee, up to 80 percent of their new capital requirements. As a result, the proportion of capital which the small enterprises have had to raise in capital markets has been much smaller than is the case with their counterparts in the United Kingdom and other European countries. Analysts believe this readily accessible capital helps account for the vitality of German small businesses.

Management and technical assistance

The major Federal Government agency responsible for small business policy is the Ministry for Economics. From 1970 through 1978, Deutsche marks (DM) 1.6 billion of Federal funds were allocated to promote and assist small businesses. The budget of the Economics Ministry for 1979 includes DM508 million for this purpose including DM300 million for the Federation of Industrial Research Associations. (See next section.) The number of personnel in the Economics Ministry concerned primarily with small business matters amounts to 180.

The Federal Ministry for Technology and Research in 1978 allocated DM215 million for the promotion of technological innovations in small businesses.

Small business applicants for public assistance need not pay fees. However, they generally have to submit data on the type of their business, a cost and financing plan, recent balance sheets, expected returns, and eventually a proof of their professional qualifications.

In addition to Government agencies, the following agencies provide assistance to the small business community.

1. *Institute for Small Business Research.*—The institute was established in 1957. It has a budget of DM1.4 million which is entirely financed from public funds (two-thirds from the Federal budget and one-third from the budget of the Land North-Rhine Westphalia. The institute investigates problems of small business and makes the results available to the public. Users of the research are to a large extent Government officials and legislators who formulate small business policy. The institute employs 30 scientific and clerical personnel (15 in Bonn and 15 in Cologne).

2. *German Management and Productivity Association.*—The association has 8,000 paying members. Its budget amounts to DM46 million; of which DM28 million comes from the Federal budget, DM8 million from State governments, and DM10 million from fees collected from members.

This organization is primarily devoted to the task of improving the efficiency of small businesses. It publishes research studies dealing with practically all aspects of small business management, social aspects, applied economics, exporting, participation in trade fairs, labor relations, et cetera. It organizes seminars in many cities on these subjects and is available for individual consultations. The fees for consultations are negotiated, and the small business receives financial assistance when it uses these services. This organization employs 275 persons, of whom 120 are in Frankfurt and others are in regional organizations.

3. *Federation of Industrial Research Associations.*—In calendar year 1979 this institute for the first time received DM300 million from the Federal Economics Ministry for the promotion of research and development in small business. An additional DM 8 million were allocated by the Federal Ministry for Technology and Research. Ten employees work on small business projects.

Procurement assistance

Government agencies grant preferential treatment to small businesses in a variety of ways when bidding on public contracts. For example, small businesses can be asked to compete with the low price obtained by the procurement agency from another firm. This means that the small firm can submit a bid after the other competing firms have already committed themselves.

Fiscal assistance

The German taxation system grants a variety of privileges to small businesses. For example, sales up to DM12,000 are exempt from the value-added tax (DM18,000 beginning January 1, 1980). Small businesses with sales up to DM60,000 pay a lower rate in value-added tax (4 percent). Profits are exempt from taxation up to DM24,000 (DM36,000 beginning January 1, 1980).

Export assistance

The West German Government uses three types of trade fair techniques: representative shows, joint exhibitions, and business information booths. The most innovative are the representative shows, which allow German products to be displayed with or without a company representative. This is considered a relatively important step for trade promotion because it offers small and medium-sized firms the opportunity to display their products to markets where the cost and man-hour requirements had previously prohibited such exposure.

Other assistance

The Federal Ministry of Economic Affairs publishes a Guide to Cooperation which contains guidelines concerning competition law in relation to cooperation; it also publishes a list of forbidden practices.

New proposals

A proposal for additional assistance to small and medium-sized enterprises provides for Government contribution of some risk capital. It is argued that borrowing 80 percent of new capital needs under credit guarantee arrangements is disadvantageous because of the high proportion of fixed interest debt and the resulting heavy financial charges.

Another proposal is that the Government help with bringing together prospective buyers and sellers of small and medium-sized businesses. An effective mechanism is being sought for dealing with the "succession" problem in the small business sector. It is said that many of these businesses cease trading each year, not because they are unsound, but because those who own and manage them become too old to carry on or wish to quit for other reasons; they cannot find a suitable buyer or a member of the family's next generation to take over the business.

Assessment of programs

A *Financial Times* (London) analysis concluded that Germany's policy for encouragement of small and medium businesses is considered to be the most efficient and imaginative in Europe.

GREECE

Government policy

Until 1966 financing of small industries in Greece was done at the discretion and responsibility of commercial banks. In 1966 Greece adopted measures aimed at securing adequate financing of small industries which included setting up a special fund and extending Government guarantees to commercial banks granting loans to small industries. In December 1978, the Government introduced new investment incentives for promoting regional and economic development with special emphasis on encouraging small manufacturing enterprises.

Definition

The Greek Government classifies an enterprise as a small business on the basis of the number of people employed (less than 50), the value of equipment used (less than $81,000 at rate of US$1=37.03

drachmas), the percentage of manual labor involved in the operation, and the horsepower installed. There are 120,000 small business enterprises in Greece. A Greek small business is predominantly a family-type enterprise.

Financial assistance

Loans.—Loans are made by commercial banks from a special fund built up by setting aside up to 6 percent of the increase which has occurred since January 1, 1966, in all deposits held by them.

The loans are intended to enable small industrial concerns to finance (1) plant construction and expansion; (2) purchase, installation, or relocation of plant equipment and tools; (3) working capital requirements; (4) preparation of shipments; and (5) organizational expenditures.

Loans for (1) and (2) may be up to 70 percent of the expenditures involved. This ceiling may be raised to up to 80 percent if the borrower is a joint venture or a cooperative or if plant construction is carried out in an industrial zone.

Loans for meeting working capital requirements may be up to 30 percent of the applicant's business turnover during the previous year. Loans for the preparation of shipments intended for domestic or foreign markets may be up to 80 percent of the value of each order. Loans for meeting organizational expenditures may cover the cost of studies designed to insure rational organization of the commercial and productive activities of small industrial units on a cooperative or joint venture basis.

Duration of loans may be up to 12 years for plant construction and expansions; up to 7 years for the purchase, installation, or relocation of plant equipment and tools; up to 3 years for working capital; up to 18 months for the preparation of shipments; and up to 5 years for organization expenses.

The banks charge an interest rate of 10.5 percent per annum; a 0.50-percent bank commission is included. Loans cannot exceed 20 million drachmas ($540,000).

Guarantees.—Government guarantees are issued against the creditability of the borrower for loans of up to 10 million drachmas or against personal or real collateral put up by the borrower for the portion of loans exceeding 10 million drachmas.

The terms and conditions of financing are determined by a special committee and take into consideration the applicant's kind of enterprise, its size and location, and the type and amount of expenditures to be financed. Firms eligible to receive financing are small businesses engaging in manufacturing or repair operations provided that at least 50 percent of their annual earnings derive from such operations.

On December 31, 1977, outstanding loans to small industry totaled $651 million out of a total of $5.8 billion extended to industry in general. Corresponding figures on December 31, 1976, were $464 million and $4.5 billion, respectively. It was estimated that 56 percent of loans extended to small industry were to meet working capital requirements, 24 percent for plant equipment and tool purchases, 14 percent for plant construction and expansion, and 6 percent for preparing shipments and for organization expenses.

In December 1978, the Government introduced new investment incentives including tax-free loans and interest subsidies on loans. Details were not available as this report was being assembled.

Management and technical assistance

In 1977 the Greek Government established an organization to carry out market research and prepare studies designed to pinpoint the problems of small industries and handicraft establishments and recommend solutions; extend technical/economic consulting services to enterprises in the fields of organization, investment, production programing, and marketing management; conduct seminars for managerial and clerical level training; and promote creation of larger business units through mergers, joint ventures, and cooperatives. This organization assists in preserving the popular arts and improving and adapting handicraft products to present-day requirements of end users.

Special attention is given to the production, marketing, and export of handmade carpets. To this end, 40 training schools are maintained in the remotest districts of the mainland and the islands where experts assist in developing and improving carpet design and weaving. Also, assistance is given in marketing products of the Greek cottage industry and handicraft enterprises, locally and abroad, through advertising and displays.

This organization is called the Greek Organization of Small/Medium Size Manufacturing and Handicraft Enterprises (EOMMEX). It has a 1979 budget amounting to $12.1 million, employs 450 people, and maintains offices in New York, Brussels, and Frankfurt.

Fiscal assistance

In December 1978, the Government authorized deductions from taxable net profits for expenditures involving new investments.

Assessment of programs

In commenting on the overall financial assistance program, an EOMMEX official stated that redtape and questions relating to the creditability of applicants and their ability to put up collateral has had a restraining effect on implementation of the program. Furthermore, small business as a whole and those units located in remote areas in particular, has not been adequately informed about the program. This official said that the most serious deterrent to the financing of small business is the Government's credit policy which, over the past 2 years, has been oriented toward reducing the financing of various sectors of the economy in an effort to check rising inflation. This policy will reportedly unfavorably affect development of small business since a shortage of working capital has been its perennial problem.

Although implementation of the new investment incentive package is still in its early stage, business associations have called the Government's attention to weaknesses in the law which discourage potential investors.

EOMMEX reportedly has done a good job in its area of responsibility. It is believed, however, that EOMMEX should contribute more extensively in introducing modern technology and managerial know-how to Greek small business.

IRELAND

Government policy

Ireland has one of the most successful and complete incentive programs in Western Europe designed to promote industrial development. Although this program is not limited to small business, it offers a variety of incentives to promote smaller firms.

Three Government-sponsored organizations are involved in the promotion of small business in Ireland. By far the most important is the Industrial Development Authority (IDA) which initiated its small business program in 1967. The other organizations are the Industrial Credit Company (ICC) and the Gaeltarra Eireann.

As of July 1979, IDA had supported over 2,000 projects to promote small firms. In 1978, these firms employed 18,000 people; and this figure is expected to increase to 23,000 when expansion and development plans already approved by IDA have been fully completed. Total fixed asset investment in these projects amounts to over £60 million, and IDA has made grant commitments toward 50 percent of this expenditure.

Definition

For purposes of the IDA program, a small firm was initially defined as one employing less than 30 persons and with fixed assets under $120,000. These limits were subsequently raised to 50 employees and assets under $600,000.

Financial assistance

Grants.—IDA provides nonrepayable cash grants toward the cost of sites and site development, buildings, extension and reconstruction of existing buildings, new machinery, and equipment. Grants may be negotiated up to 60 percent of the total investment in poor areas, and 45 percent in other areas. Also, IDA makes grants for research and development projects and to reduce the rent on factory buildings used for industrial purposes. The research and development grants cover up to 50 percent of project costs with a maximum of £50,000. (US$2.05=Irish £1.)

The ICC also provides a variety of financial services to small business, including long-term loans, equipment leasing, and purchase of share capital.

Management and technical assistance

IDA provides advisory services for existing small firms and helps entrepreneurs set up their own small manufacturing businesses.

Fiscal assistance

The corporate income tax for manufacturers will be reduced to 10 percent in 1981.

Export assistance

A tax-free export profit scheme for manufacturing firms (large or small) established before 1981 will be offered until 1990.

Also, the Irish Export Board, established to promote, assist, and develop Irish exports and industrial designs, provides a variety of services for exporters. Services include assistance with export marketing programs and advice concerning customs and import regulations,

shipping, and warehousing. It also provides grants subject to the availability of funds. The Board's services and grants are particularly directed at companies which, because of their size, lack the marketing and design capabilities of larger concerns.

Other assistance

Gaeltarra Eireann's activities are confined to the encouragement of new industries in the very limited Gaelic-speaking areas of Ireland, mainly on the west coast. The incentives offered are similar to those offered by IDA.

Ireland has a proposed program designed to encourage highly trained people such as engineers, accountants, scientists, and business school graduates to undertake new manufacturing projects.

Assessment of programs

The U.S. Embassy in Ireland reports that the overall IDA programs have been very successful, especially in attracting foreign investment. The small industries program has not always been considered a high priority program, but over the past 2 years the IDA has made a special effort to upgrade its efforts in this area and has given considerable publicity to programs available to small industries.

JAPAN

Government policy

Small businesses occupy an important position in the national economy as 99 percent of all business establishments are considered small. Japan's small and medium enterprises policy is designed to improve the enterprises' productivity and business conditions in that discrepancies in operating conditions among firms are abolished.

Japan's policy covers four areas: modernization and sophistication, business management stabilization, compensation for disadvantages in enterprise activity, and the fostering of small-scale firms.

To carry out this policy, various programs have been developed which provide credit insurance, preferential loans, investment assistance, tax relief, and modernization loans.

The fundamental direction of Japan's small and medium enterprises policy is set forth in the Basic Law for Small and Medium Enterprises which was enacted in 1963.

Definition

The Government of Japan defines small and medium businesses in the manufacturing area as those with 300 or fewer regular employees or with capital of $455,000 or less (US$1=220 yen). Small service and retail firms are defined as those with 50 or fewer regular employees or with capital of $45,000 or less. Small wholesale firms are defined as those with 100 or fewer employees, or capital of $136,000 or less.

Financial assistance

Loan guarantees.—To facilitate the financing of small and medium enterprises by private financial institutions, Government credit guarantees are provided on loans up to 8 million yen per firm for a fee of 1 percent per annum. Surety and collateral are normally required, but up to 2.5 million yen may be guaranteed without collateral or surety.

If the borrower defaults, the loan is repaid by the Small Business Credit Insurance Corporation, a public corporation established in 1958. The Corporation, which is funded by the Government of Japan, extended loan guarantees amounting to 4.2 billion yen on 1 million loans in Japanese fiscal year 1978 (April–March).

Loans.—Most preferential loans are made through four Government-affiliated institutions. They are the Small Business Finance Corporation established in 1953, the People's Finance Corporation established in 1949, the Central Bank for Commercial and Industrial Cooperatives established in 1936, and the Environmental Sanitation Business Finance Corporation established in 1967.

Small Business Finance offers loans to firms in Government-designated trades up to 220 million yen at 6.55 to 7.7 percent per annum for a maximum term of 18 years. People's Finance offers loans to certain manufacturing, service, and commercial establishments on terms identical to those offered by Small Business Finance. Central Bank for Cooperatives offers loans to participating cooperatives up to 1,200 million yen at 7.125 to 8 percent per annum with a maximum repayment period of 12 years. Environmental Sanitation offers loans to firms in designated trades, such as restaurants, barber shops, hotels, and movie theaters up to 50 million yen at 6.65 to 7.7 percent per annum with a maximum repayment period of 10 years.

The Government of Japan has capitalized Small Business Finance at 25.5 billion yen, People's Finance at 20 billion yen, and Environmental Sanitation at 1 billion yen. The Central Bank for Cooperatives is capitalized jointly by the Government (74.4 billion yen) and participating cooperatives (32.3 billion yen). Outstanding loans by the four institutions as of April 30, 1979, totaled 11.4 billion yen.

A modernization fund is used to make interest-free or low-interest loans to firms having 100 or fewer employees in designated industries to aid them in modernizing their equipment. The loans are for up to 12 million yen for a term of 5 years, and they are intended to finance half the cost of new equipment. This assistance is available under modernization plans established by the Government. In fiscal year 1977, 7,768 loans were made totaling 30.5 million yen.

Interest-free or low-interest loans for structural improvements are available to firms in designated trades to assist in carrying out mergers, joint marketing, joint purchasing, or similar cooperative projects. This type of assistance is frequently used by retailers and textile manufacturers. The loans are offered by local governments and the Small Business Promotion Corporation which was established in 1967 and is capitalized by the Japanese Government at 483.2 billion yen. The maximum repayment period is 16 years.

Investment assistance

Three small business investment companies, established by the Government in 1963, purchase stock and convertible bonds issued by small corporations capitalized at 100 million yen or less belonging to Government-designated trades. Funds for this purpose are obtained partly from Government loans to the three companies which totaled 1,900 million yen in fiscal year 1978.

Management and technical assistance

A variety of projects are offered to small and medium business. Included are management consulting and guidance and technological guidance and experimentation. Research for such guidance and training of management and technical personnel is conducted by the Small Business Promotion Corporation and local governments. These services are made available free of charge to firms with 20 or fewer employees.

In Japan's fiscal year 1978, the Government budgeted 25.5 million yen to subsidize the management consulting services of local commerce and industry associations.

Procurement assistance

Government entities allot an annually determined proportion of their total procurement contracts to small and medium enterprises. In Japan's fiscal year 1978 such contracts totaled 2.9 billion yen, which was equivalent to about 36 percent of total Government procurement expenditures.

Fiscal assistance

Several types of tax deductions are available. The most important are: income tax deductions for owners of unincorporated enterprises and reduced corporate tax rates for cooperatives and incorporated small and medium enterprises.

Export assistance

Under a law passed in 1978, small businesses in export industries adversely affected by recent yen appreciation are eligible for "business conversion loans." Loans are for a maximum of 150 million yen at 5.50 to 6 percent per annum with a maximum repayment period of 5 years.

Also, the Japanese Overseas Development Corporation gives small and medium-sized firms long-term, no-interest loans to finance joint ventures in many developing countries.

Other assistance

Firms with 20 or fewer employees in designated trades which are unable to afford modernization loans may apply to agencies established by local governments to lease equipment worth up to 15 million yen for 2 to 5 years (6 to 12 years for pollution control equipment) at a 5 percent per annum leasing charge.

Aid for technological improvement is extended through subsidies for the application of technological innovations; free testing and consultation services are provided by public testing and research organizations and technical data is provided.

Assessment of programs

According to Government and industry sources, small and medium enterprises have benefited most from the low-interest and interest-free loans offered by the various governmental financing institutions. Reportedly the terms under which these institutions provide loans have been more favorable than those offered by commercial banks and have had a significant impact in enabling small businesses to raise their efficiency and profitability. Conversely, the Government's investment assistance program under which Government-financed investment companies purchase the stock of small corporations is generally regarded

as unsuccessful, because most such corporations prefer to increase their working capital by borrowing from Government or private institutions.

MEXICO

Government policy

The promotion of small and medium-sized industry is a major stated objective of the Government of Mexico as such industries tend to be labor intensive. The Government's programs have been widely dispersed between various agencies that have only recently been brought together by a coordinating body.

Definition

A small business is one whose inscribed capital is between $2,200 and $150,000. For a medium-size business, the value is between $150,000 and $1,750,000.

For purposes of receiving tax credit, small firms are defined as those with investment in fixed assets of less than 200 times the annual minimum salary in the Federal District or roughly $440,000.

Financial assistance

Financial assistance is provided through the Internal Support Program for Small and Medium Industry (PAI) which was established in 1978. It is responsible for coordinating activities of the Government which promote small and medium-sized industrial firms.

The most important organization under the PAI and the largest source of funds is the Fund for the Guarantee and Promotion of Medium and Small Industry (FOGAIN). It has operated for the last 25 years and has made loans at concessionary rates. Occasionally it offers loan guarantees.

The loan requirements are flexible and previous business experience is not required. Priority is given to firms locating in targeted development areas and for projects generating employment.

Since its inception, FOGAIN has supplied about $123 million to approximately 14,200 firms.

The National Fund for Studies and Projects (FONEP) provides loans to both the public and private sector to undertake feasibility studies. The fund will finance studies for companies of any size including small and medium industry. No information as to size of recipients is available.

Investment assistance

Also operating under the PAI is the National Fund for Industrial Development (FOMIN) founded in 1972. Its function is to support the growth of industrial firms by purchasing up to 33 percent of their common or preferential stock. Its new commitments in 1978 were $2.5 million.

Management and technical assistance

On the technical side, there are three organizations whose activities are coordinated by PAI. The end user must pay for the services provided by the organizations which may be paid out of loans received through FONEP.

The National Productivity Center trains personnel and organizes courses and seminars for the benefit of managers and technicians of small and medium industries. The Mexican Institute for Technological Investigations operates with firms of all sizes and does technical and preinvestment studies. The Technical Information-National Council of Science and Technology provides a computerized information service on all types of industrial and technical information. In general, its principal demand for services comes from small and medium industries.

In addition to the above, the PAI operates an extension service which advises the small businessman as to his needs and can direct the businessman to any of the above institutions.

Other assistance

The Trust for the Study and Development of Industrial Centers, Parks and Cities, and Commercial Centers promotes the construction of industrial and commercial centers. While not limited to small and medium enterprises, those are in fact the principal beneficiaries.

Fiscal assistance

The Government has developed a system of financial incentives which also help small and medium-size industries. These include tax credits for investment in priority development areas and priority industries. Small businesses who comply with the requirements receive an extra 5-percent tax credit.

Assessment of programs

No assessment of these programs is presently available.

Chapter III.—A Survey of Assistance Efforts Elsewhere

AUSTRALIA

Government policy

Australia has a very limited small business program and according to local sources, looks to some extent to the U.S. SBA for ideas and materials to assist small business.

Only since 1973 have the National and State Governments given attention to policies and programs to assist small enterprises. In 1973 Australia established a National Small Business Bureau to develop a program of assistance. Since then the Bureau has been abolished and its function transferred to a branch in the Department of Industry and Commerce. The Branch provides policy advise to the Commonwealth Government and modest support services to the States. Most Government contact with small business is by the States.

Definition

A uniform definition of a small enterprise has not been adopted as yet in Australia. However, one attempt to define a small business was made by the National Government. It defines such a business as one in which only one or two people have management control over financing, accounting, personnel, purchasing, processing, marketing, and selling.

Financial assistance

Most State governments have established departments which encourage industry development. The departments provide loans for purchase of land and buildings for manufacturing. Many local governments encourage small businesses by providing various incentives and financial or general assistance.

In 1978 legislation authorized the Commonwealth Development Bank to lend to all businesses; previously the minimum amount for loans excluded most small businesses.

Management and technical assistance

State governments provide free counseling and information including the distribution of printed material and films. They also subsidize consulting services from private sources and make available training packages for groups wishing to conduct courses for small enterprise owners.

Some national government departments provide services of interest to small business owners. The Department of Overseas Trade provides information on exports and the Department of Employment and Industrial Relations provides information for small businesses on awards and employment.

Fiscal assistance

The Commonwealth Government has introduced a number of measures which include increasing the aftertax profit that may be kept in

the business. State governments also provide aid by increasing exemptions for payroll tax.

Other assistance

Research activities are largely undertaken by universities or colleges. A unique research center attached to the University of New England has specialists in small and rural businesses and professional practices. The Department of Industry and Commerce publishes summaries of ongoing research.

Assessment of programs

An International Labour Office publication in 1977 stated that Australia has made progress in small enterprise development since 1973, but still lags behind most developed nations in implementing a coordinated small enterprise development policy. Increasing activity was expected in the following decade to bridge the gap.

BRAZIL

Government policy

The Government of Brazil has a multiplicity of programs to assist small and medium-sized businesses. Most of these consist of subsidized loans at negative interest rates. Since inflation has been running at about 40 percent a year for several years in Brazil, nominal commercial interest rates have been 50 to 55 percent. Thus the interest rates of 12 to 27 percent offered by the Government to small and medium-sized businesses represent a significant subsidization. In those few cases in which the loan is indexed to the exchange rate or to adjustable Treasury bonds, the cost of the financing is still substantially less than the commercial money market.

Definition

The definition of small and medium-sized business varies from program to program. In almost all cases, however, it is based on sales volume. In most cases the cutoff for industrial firms is two or three times higher than for commercial or service businesses. For the most favorable loan programs the maximum sales volume ranges from about $3.5 to $5 million, while for the less-subsidized loans the cutoff is about $15 million in annual sales. (US$1=26 cruzeiros.)

Financial assistance

Some of the more important programs are the following:

Loans.—The Bank of Brazil makes investment loans to firms with annual sales up to $3.7 million. The interest rates are 12 percent and repayment is due in 5 years. As of December 1976, outstanding loan balances amounted to 7.9 billion cruzeiros.

Commercial banks and the Bank of Brazil make working capital loans to firms with annual sales up to $5.2 million. Interest rates are 15.6 percent with a 0.5-percent service charge. Repayment is in 1 year. Loans authorized in 1977 amounted to 7 billion cruzeiros and in 1978 they amounted to 9 billion cruzeiros.

The National Development Bank makes loans for various purposes to firms with annual sales up to $500,000. Interest rates range from 0.5 percent to 4 percent, indexed to adjustable treasury bonds. There is a 2- to 2.5-percent service charge. The repayment period is 3 to 10 years. The budget for 1978 is 7.3 billion cruzeiros.

Assessment of programs

No assessment of these programs was available as this report was being compiled.

DENMARK

Government policy

The Danish Government provides fewer subsidies and is less involved in business matters than other governments in Europe, particularly other Nordics. Selective industry subsidization has been applied to a limited extent and is generally not sought by the business community.

Although several programs are historic, most have been developed or expanded in recent years to counter oil crisis recession effects. New programs have also been added in areas of energy conservation and environmental protection.

Some programs have defined targets, such as regional development, retail trade, craft industries, and farming or fisheries, but few are by definition reserved for small business. Nevertheless, many programs by their nature favor small or medium-size enterprises.

Definition

While there is no official definition, Danes consider a small business to be one with less than 100 workers.

Financial assistance

Loans.—Subsidized mortgage financing amounts to about $500 million per year (compared to an annual rate of business investment of $6.5 billion) and typically takes the form of supplementary investment financing at interest rates below market level. The relatively small size of individual loans may indicate a high degree of utilization by smaller enterprises.

Cash subsidies.—In some instances, loans are augmented by direct investment subsidies. Cash subsidies are also granted for export promotion, productivity improvement, and technical development or research and development.

Loan guarantees.—A 1975 act allows the state, within certain budgetary limits, to guarantee up to 50 percent of short-term bank loans to artisanal and small industrial enterprises which have undertaken an extensive reconversion to new production techniques or to new markets.

Assessment of programs

The Danish authorities are presently undertaking an efficiency assessment study of all existing business support schemes, but this study is still in its initial stages. It has already been ascertained, however, that the export promotion programs are paying good returns. A preliminary report on the study may be expected later this year.

Available information on program utilization shows that direct loan financing and direct subsidy schemes are being fully utilized, and pressure for more funds exists. Conversely, loan guarantee schemes are being used little or not at all. Export promotion and technological services are well utilized. It is interesting to notice that the direct subsidies offered industries for energy-saving measures are being fully utilized whereas indirect subsidies through tax benefits offered in the

residential housing sector are little utilized, reportedly because of the redtape involved. The full utilization of preferential interest rate loans is not surprising in view of the prevailing high market interest rates of 16 to 17 percent, but the lack of interest shown toward Government loan guarantees seems to indicate that financing cost is a greater problem than financing availability.

ITALY

Government policy

Italy is characterized by vast diversity of business activity and proliferation of small enterprises. This is reflected in the fact that of the several million commercial, mining, and industrial enterprises in operation in Italy, only about 1,200 employ 500 persons and over; there are only about 11,000 firms employing 100 persons and over. Because of the large number of persons involved in small business operations, considerable pressure has been brought on the Government over the years to insure their survival and to prevent serious unemployment problems. Small low-interest loans authorized by legislation in 1956 are the principal tool intended to accomplish this goal.

Definition

Several definitions of small and medium-size enterprises have been noted. One definition considers a firm having up to 500 employees to be small or medium sized; another limits the number of employees to no more than 10. A third defines a small enterprise as one employing no more than 300 persons and having fixed assets not exceeding 3 billion lire (US$5.65 million).

Financial assistance

Loans.—Loans are made to handicraft enterprises in which the owner participates as a worker (or an artist) and does not employ more than 10 persons. The loans are for up to $43,900, of which 62.5 percent is obtained from the Artigiancasse (a bank established for these transactions with a fund supplied by the central government). The balance of 37.5 percent is supplied by the regional governments in which the applicants are domiciled. The interest rate varies from 5.5 percent to 7.5 percent annually.

In 1978, Artigiancasse processed 49,447 loan applications totaling about $803 million. These funds enabled the borrowers to carry out investment projects totaling about $1.3 billion, principally for new machinery and equipment.

No management assistance is provided under this program and no government procurement is set aside for small enterprises.

Small businesses not classified as handicraft enterprises are able to borrow money at rates of interest comparable to those available to such enterprises from several banks under procedures established by law.

Export assistance

Legislation enacted in 1976 provides incentives for associations of small enterprises engaging in export activities. For purposes of this legislation, a small enterprise is defined as having fixed assets not exceeding $3.65 million and employing not more than 300 persons. The incentives consist of (1) exemption from income tax of funds used

to subscribe to shares in associations up to a maximum of $1,200 for each participant enterprise and (2) loans up to $610,000 for a maximum of 2 years for each export association. However, the amount borrowed by each association must not exceed 70 percent of the required capital investment. In addition, an export association may receive a subsidy of up to $61,000 annually for payments of operating expenses.

Assessment of programs

There are no financial or governmental assessments of Italy's small business programs presently available.

LUXEMBOURG

Government policy

The Government of Luxembourg does not distinguish small business incentives from its national business incentive schemes. Looked at another way, Luxembourg treats its only large business, a private multinational steel company which employs 20,000 workers, as a special case. No other firm in Luxembourg employs over 2,000 employees and less than 5 have over 1,000 employees.

There is no standard negotiation formula to obtain the various incentives. The Government is aware of the importance of flexibility and selectivity in this respect. As a rule, the extent to which incentives are granted depends on the economic and social merits of each project, the employment provided and the location of the new enterprise.

Financial assistance

Loans.—Credits for 8–10 years are available to finance equipment investments by industrial, commercial or craft companies whose funds do not exceed 200 million Luxembourg francs ($6,050,000 at exchange rate of US$1=33.06 francs). Equipment credits may not exceed a maximum of 50 million francs per operation, covering a maximum of 60 percent of investment cost; this may go up to 75 percent in case of a commercial or handicraft company. The interest rate is 4.5 percent.

Medium- and long-term loans are available for investments by companies with minimum funds of 20 million francs. These loans cover 25 to 50 percent of investment cost, but the Government may authorize an exceptional coverage of up to 75 percent. These loans are limited to a maximum of 100 million francs; the interest rates are linked to those of Government bonds. Companies with funds between 20 and 200 million francs are eligible for both types of credits.

Favorable loans for hiring and for retraining of labor released by the steel industry may be granted under the terms of the European Coal and Steel Community Treaty.

Subsidies.—A capital subsidy of up to 15 percent may be granted to companies as a financial contribution to investments in buildings, equipment, and tools; and industrial research and development. Expenses incurred for vocational training or, in case of industrial conversion, for retraining of labor may benefit from a subsidy exceeding 15 percent of cost.

The interest rates on investment loans granted by authorized Luxembourg credit institutions may be temporarily reduced by a government interest subsidy. The interest rebate is generally up to 3 percent for an initial period of 5 years.

Guarantees.—Under certain conditions, loans made by an authorized institution may benefit from a State guarantee with regard to the payment of principal and interest. The guarantee is limited to 50 percent of the expenses financed by such loans.

National Credit and Investment Corporation.—This corporation, a public finance institution, was created in 1977 to promote and support investments as well as exports. It makes equipment credits and medium- and long-term loans and export credits.

Fiscal assistance

The Government grants tax relief for new plant operations or new production lines, which are recognized as being suitable for improving the general structure and regional balance of the national economy and for stimulating its expansion. A 1973 law provides for a 25-percent exemption of taxable profits with respect to corporation income tax and business tax. The partial exemption covers the first 8 years of operation.

A tax credit against taxes otherwise payable on income is granted for investments in fixed assets (except land and buildings) carried out during a given tax year. The credit includes: 12 percent of the additional investment during the year and 2 to 6 percent of the total investment, depending on the amount involved. Assets normally written off in less than 8 years and transport vehicles are excluded from the tax credit.

Export assistance

Export credits are available through the National Credit and Investment Corporation for exports of more than 1 million Luxembourg francs to non-EC countries. Interest rates are based on the rules of the "international gentleman's agreement." These credits may cover 25 to 75 percent of the exports' value.

In addition, the Luxembourg Government provides interest rebates on medium- and long-term export credits as well as other financial aids.

Other assistance

The Government and local authorities grant favorable conditions in allocating the necessary land to investors; appropriate provision will be made for public services (road and rail access, power and water supply).

Assessment of the program

Since the program is highly flexible, the Government of Luxembourg did not provide the U.S. Embassy with any figures of personnel involved or amount of funds committed to the program. The Embassy said, however, that the program has been given the personal attention of the Prime Minister and has been highly successful in attracting new investment to Luxembourg.

NETHERLANDS

Government policy

To enhance productivity and boost profitability of Dutch trade and industry, the Government of the Netherlands provides a variety of subsidies, credit guarantees, and fiscal incentives. In general, these incentives are nondiscriminatory with regard to business size, but they do

include some measures which specifically support small and medium-size businesses. The programs which assist small businesses are discussed below.

Definition

A small business is defined as one having less than 10 employees. A medium-size business has 10 to 100 employees.

Financial assistance

Loans.—Developments credits are available which provide up to 70 percent of capital costs and are repaid according to the commercial success of the project. Repayment is waived for commercial failures. In 1978, 60 million guilders (US$1=281 guilders) was available for this program.

Subsidies.—In 1979 7 million guilders will be available to finance feasibility studies and help in the exchange of research and development information among industries.

Management and technical assistance

A 2-year program started in 1967 is being continued for 3 more years to provide counseling information and technical assistance through quasi-public and private consulting and research institutions.

Fiscal assistance

One of the major pieces of Dutch domestic economic legislation of recent years, the investment account bill, was passed in May 1978. The act provides for a special tax credit for investments up to 800,000 guilders from a maximum of 6 percent for smaller investments to a minimum of 0.25 percent for larger investments. In 1979, an expected 59.5 million guilders in tax credits will be claimed.

Export assistance

A 38 million guilder program started in 1978 provides support for a study of means to promote initiatives aimed at encouraging small and medium Dutch firms to cooperate in forming larger international trading entities, thus maximizing chances for winning foreign contracts.

Other assistance

The Netherlands has made provisions for the self-employed to build up a fiscal reserve for their retirement, and this reserve can be reinvested in the enterprise.

Assessment of programs

According to the Dutch Economics Ministry, the effect of the Investment Account Act on the general level of investment has been limited. No information is available on the specific impact of the act on small and medium businesses. Also, the Economics Ministry has compiled no statistics on the effect of the recently started export stimulation program.

REPUBLIC OF KOREA

Government policy

Until 1978, the Government of the Republic of Korea, because of limited capital, emphasized the establishment and growth of large-scale enterprises to maximize investment results. Because of the rapid expansion of Korean conglomerates in recent years, increased attention is now being given to the development of small and medium in-

dustries in order to prevent the economy from becoming dominated by large firms. In December 1978, the Korean Government passed the small and medium industry promotion law and other laws to accelerate the development of small and medium industries.

Definition

Small business is defined under Korean law as (1) those in the manufacturing, mining, construction, and other areas which employ less than 300 workers or whose total assets do not exceed $1 million, or (2) trading and service establishments which employ less than 20 workers or have total assets of not more than $103,000. The number of workers for construction activities is limited to 50.

Korean tax law defines small and medium industries as those having fixed assets of less than $600,000 and 300 employees or less.

Financial assistance

Prior to the Small and Medium Industry Promotion Act, direct assistance to small and medium industries was primarily limited to a special fund for Government subsidized loans made through the banking system and loans from the National Investment Fund for Facility and Operational Purposes. In 1978, the amount provided from the special fund was $457 million with $620 million budgeted for 1979. During 1978, $30.3 million was made available to small industries from the national investment fund. This amount is expected to more than double in 1979. The earliest assistance was provided in 1961.

In addition, the Government subsidized 50 percent of the cost for replacement of old facilities under an equipment replacement program.

The total amount of all financial assistance programs in 1978 was $491 million.

Technical and management assistance

The Small and Medium Industry Corporation established in 1978 will provide technical and management services, disseminate new technology, and provide staff training.

Other assistance to be provided by the Corporation includes (1) financing for modernization projects, (2) operating and managing a small and medium industry promotion fund, (3) accepting stock and other securities issued by small and medium industries, and (4) acquiring land, buildings, facilities, and equipment for lease and transfer to small and medium industries.

Fiscal assistance

Several tax advantages are given to small and medium firms. They include reduced corporate tax rates, increased depreciation allowances, reduced taxes on dividend income, and complete tax exemption for reserves set aside for facility replacement and overseas market development.

Registration, acquisition, and transfer taxes are exempted in cases of mergers by small or medium-sized firms.

Export assistance

Loans are provided to establish export facilities and to increase exports. The loans carry an interest rate of 15 percent, slightly below commercial rates. In 1979, $31 million is available for this assistance.

Other assistance

The Small and Medium Industry Arbitration Act passed in December 1978, provides for monitoring to prevent undue expansion of large industries into small industries' domains and mediating overexcessive competition among small industries by the Government.

Assessment of programs

Although several promising programs have recently been initiated to encourage the development of small and medium industries, it appears too early to assess their effectiveness.

SPAIN

Government policy

The "Instituto de la Pequena y Mediana Empresa Industrial" (IMPI) was established in May 1978, to modernize and improve the efficiency of small and medium-sized Spanish firms. These firms represent close to three-quarters of Spain's present productive capacity and will play a crucial role in the country's future economic progress. To achieve its goals IMPI will employ two major strategies: financial encouragement and managerial education of collective undertakings by small firms.

Definition

A small or medium-sized firm is defined as one which is financially, socially, and juridically autonomous. It has no ready access to financial instruments, receives no significant aid from the Government, and is not linked to a larger undertaking.

Financial assistance

Loans and loan guarantees.—Commercial banks pool their funds to provide collateral to cover short-term loans that might otherwise be unavailable to smaller firms. Besides being more readily available, these loans are also offered on better terms. These banks either contribute funds in order to obtain guarantees or seek profits without access to guarantees. Should one of the banks fail, IMPI said that the Central Bank would provide support.

Management and technical assistance

IMPI's analysts make financial examinations of firms upon request. The conclusions are for guidance and their application is not mandatory. Should a firm go ahead with an IMPI proposal, the analyst will continue his advisory role throughout the implementation process. A fee of 1,000 pesetas per hour is charged for the services. (US$1=66 pesetas.)

IMPI offers a number of courses which teach modern managerial techniques to company executives. A fee of 10,000 pesetas is charged per course. A course involves about 96 class-hours. In addition, IMPI sponsors full day seminars which cover themes chosen by professional managerial associations.

IMPI will perform research, statistical studies, and comparative analyses in order to define a small business firm, its role in the economy, and its future in a developing Spain. IMPI will concentrate on specific problem areas such as applying technology to the small firm, increasing its access to longer term financing, and making small Spanish firms more competitive with their European counterparts.

Procurement assistance

IMPI has taken no steps to provide small firms procurement opportunities that are available to large enterprises. For example, there is no special program to provide small firms with government contracts. However, regional agencies put businesses in contact with each other in order to facilitate subcontracting.

Export assistance

Commercial organizations will be set up to help small businesses penetrate new markets, export markets in particular. These organizations will distribute the overhead involved in exporting over a larger number of firms. Such overhead includes information-gathering concerning legal and fiscal barriers to trade, feasibility studies, and creation of distribution networks.

Assessment of programs

The financial assistance IMPI offers to small and medium-sized firms is only available to cooperatives. Economic analysts questioned whether small firms would risk their independence or overcome the obstacles to participation in order to take advantage of this aid and whether a more direct form of aid to individual enterprises might not be more effective.

The American Embassy in Madrid observed that IMPI reflects a long Spanish tradition of centrally directed economies and that it will probably not focus initially on flaws in the competitive marketplace. The Embassy concluded that whatever approach provides the driving force, IMPI's resources and plans for action do not now appear to reflect approaches to the problems of small and medium-sized firms which have been successful elsewhere in Europe.

SWITZERLAND

Government policy

Swiss Federal economic promotion measures specifically directed to small business are minimal. Incentives are aimed at self-help and self-reliance through small business associations and cooperatives. A loan system to small business similar to the U.S. Small Business Administration's system does not exist. The 23 cantons (states) making up the Swiss Confederation have the primary responsibility for economic promotion and investment assistance.

Definition

There is no one single definition for a small business. Swiss Federal and State law does not distinguish as to size of business for incentives eligibility.

Financial assistance

Current Federal programs include:

Loan guarantees.—The guarantees are for low-interest loans in mountainous regions. Since 1977, loans amounting to $8.7 million have been made.

Loan guarantees and interest rate subsidies.—Under this program, initiated in 1949, the Government fosters small business cooperatives by keeping loan interest rates at reasonable levels and covering cooperatives deficits resulting from bad loans.

Credits for electronics industry.—This program is to help overcome economic difficulties and promote research and development in the electronics and electronic data processing community. The program was initiated in 1979 and $64 million will be available over a period of 4 years. Of this total, only a fraction is expected to go to small business, probably through subcontracting.

The fees charged, if any, for these incentives are minimal. Government resources for program administration are kept at a minimum in view of a personnel freeze.

Export assistance

Small business is eligible for export credit risk guarantee. Separate figures for guarantees extended to small business are unavailable. However, in 1977 and 1978, the export risk guarantee provided by the Government of Switzerland insured 11.2 billion dollars' worth of exports.

Other assistance

Various types of assistance are offered at the State level. These include:

Management of industrial zones or parks;
Loan guarantees and interest subsidies;
Special utility tariffs;
Subsidized labor training;
Research and development; and
Tax reductions or exemptions.

Assessment of programs

The program for guarantee of low-interest loans in mountainous regions reportedly has resulted in safeguarding 960 jobs and creating 60 positions.

UNITED KINGDOM

Government policy

The United Kingdom Government has relatively few programs aimed specifically at assisting small firms. Traditionally, little attention and resources have been given to small firms. During the last 2 or 3 years, however, more emphasis has been given to developing incentives for small and middle-sized companies. This new emphasis is gaining momentum and the present Government has proposed new ways to assist these firms, but on balance United Kingdom programs remain modest compared to the many direct aid programs provided in the United States.

Definition

There is no single definition used. Those used are based on number employed, sales, or a combination depending on the business sector and governmental objectives. The Small Firms Division of the Department of Industry applies the following criteria (US$2.10=£1):

Manufacturing—200 employees or less.
Construction—25 employees or less.
Mining—25 employees or less.
Retail trade—Turnover (sales volume) of £185,000 or less.
Wholesale trade—Turnover of £730,000 or less.
Motor trade—Turnover of £365,000 or less.
Miscellaneous—Turnover of £185,000 or less.
Road transport—Five vehicles or less.

In July 1980 the United Kingdom will be required to comply with a European Community directive on company law. This means that for disclosure and audit purposes a small company will be defined as one not exceeding two of the following criteria: 50 employees; £1.3 million turnover in sales; and £650,000 balance sheet total.

In addition, the United Kingdom is planning to establish a new class of company—the proprietary company—using a similar definition. These companies would enjoy less demanding requirements under United Kingdom company law and could, for example, be exempted from future legislative or administrative measures more appropriate for big business.

Financial assistance

The Council for Small Industries in Rural Areas was established in 1968 to help improve the prosperity of small businesses, particularly in specified rural areas of England where the population was declining or which were in other ways disadvantaged or deprived. The Council makes loans to applicants who demonstrate that the project for which help is sought is sound economically. Applicants must have the ability to repay the loan within the agreed period and meet costs in excess of the requested loan. Loans are available for manufacturing and services industries or businesses and tourism enterprises. During fiscal year 1977–78, loans, totaling £3.46 million were made.

Feasibility studies.—The Department of Industry provides financial assistance toward the cost of feasibility studies undertaken with a view to forming a collaborative arrangement among small firms; £100,000 has been set aside for this program and a maximum of £5,000 is provided for any one study. Since the program's introduction in 1976, assistance has been given for 22 studies at a total cost of £51,000.

Employment subsidies.—In July 1977, the small firms employment subsidy was introduced to encourage manufacturing firms in special development areas which employ less than 50 people to take on more employees. The program is intended to reduce unemployment and to encourage enterprise among small, independent firms. A subsidy of £20 per worker per week was payable to these firms for a period of 6 months. The program was later extended to manufacturing firms everywhere in Great Britain and nonmanufacturing firms in development and inner city areas. Following a review by the Department of Employment, the program has been reduced and the subsidy is now only available for the period July 1979 to March 1960 to firms in the special development areas.

As of July 15, 1977, a total of 302 companies had applied and 233 had been approved.

Inner city areas.—A number of inner city areas have been designated for special assistance. Limited financial assistance is available to firms in these areas employing 50 persons or less.

Management and technical assistance

The major United Kingdom program is the Small Firms Service which was established in 1972–73 as an information service for small businesses in southern England, Scotland, and Wales. Inquiries have spanned a wide range of subjects from government legislation to sources of supply. The original aim was to direct clients to the most appropriate sources of information, but staff in the small firm

centers have developed expertise and can frequently answer clients directly.

The other main component of the Small Firms Service is a facility for counseling by experienced businessmen engaged by the Government. This program was originally introduced experimentally in the southwest region in 1976 and then introduced progressively from 1977 to 1979 throughout England, Scotland, and Wales. Counselors provide advice on the whole range of management problems facing small business.

The counseling service has handled about 4,500 cases since 1977. It estimates that in the first full year of operation (1980) there will be 5,000 cases.

The Small Firms Service costs little or nothing to the businessman unless lengthy investigation by a counselor is needed. The first counseling session is free, the second costs £5 and additional sessions cost £15, within an overall limit of 10 counseling days in any 1 year.

The overall budget for the Small Firms Service in fiscal year 1978–79 was about £1 million.

The Council for Small Industries in Rural Areas provides advisory technical and management services and specialized training services. A fee of 22 pounds per man-day is charged for advisory services.

Procurement assistance

The United Kingdom does not have a program to set aside public purchases for small firms. It is, however, taking steps to improve small firms' access to public contracts by increasing awareness and reducing administrative barriers.

Fiscal assistance

Corporate tax.—A lower rate of corporation tax is payable on profit levels below certain ceilings. Although the tax is based on the amount of profits and not on the size of the enterprise, it is obviously of benefit principally to small rather than large companies.

Capital transfer tax.—In 1977 the general level at which the tax becomes payable was raised from £15,000 to £25,000.

Income tax.—In 1978 the Government introduced a new relief measure to help small firms just starting up. This provision enables the proprietor of a new, unincorporated business to carry back trading losses from the early years in order to set them off against income of the three previous years.

Value added tax.—As an administrative relief, companies with sales of less than £10,000 annually do not need to register for value added tax.

Export assistance

Although the United Kingdom has one of the largest export promotion programs and is generally recognized to be the leader in developing services and techniques to assist export industries, it gives no special emphasis to small and medium-sized business.

Assessment of programs

Most programs are relatively new. Except for the small firms employment subsidies, information on program reviews could not be obtained. The review of the employment subsidies program was discussed above.

APPENDIX

TYPES OF SMALL BUSINESS ASSISTANCE, BY COUNTRY

	Loans and loan guarantees	Interest subsidies, credit subsidies, and grants	Tax incentives	Management and technical assistance	Procurement assistance	2-tiered regulations and reporting requirements	Export assistance	Other assistance
Austria	X	X					X	
Australia	X[1]		X[1]	X				X[1]
Belgium	X	X	X			X		X
Brazil	X	X						
Canada	X	X	X	X	X	X	X	X
Denmark	X	X					X	
European Community	X	X	X	X	X	X	X	X
France	X	X	X	X	X		X	X
Germany (Federal Republic)	X		X	X	X		X	X
Greece	X	X	X	X			X	X
Ireland	X		X	X			X	X
Italy	X	X					X	
Japan	X	X	X	X	X		X	X
Luxembourg	X	X	X				X	X
Mexico	X		X	X				X
Netherlands	X	X	X	X			X	X
Republic of Korea	X		X	X			X	X
Spain	X	X		X			X	
Switzerland	X	X	X[1]					X[1]
United Kingdom	X	X	X	X		X	X	

[1] Available in certain States.


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