



Help SMEs to Prosper

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The French economic fabric is characterised by a small number of large companies, mostly international groups, and a very large number of SMEs including very small enterprises. It comprises fewer large SMEs and intermediate-sized enterprises than its principal neighbours which constitutes a major handicap in international competition. This may indicate difficulty of young and innovative companies to grow and compete with older companies, thus leading to lack of innovation or market renewal. This is harmful to productivity at the national level which principally increases as a result of factor reallocation reassigning capital and labour factors to the most productive and fast-growing companies; however, the full effects of such reallocation are not felt in France.

What are the obstacles to the development of young SMEs with high-growth potential? What are the existing barriers to the reallocation of production factors and how to remove them? We believe that it would be best to avoid calibrating public support to SMEs according to criteria of size as this might carry the risk of reinforcing threshold effects and, finally, curbing their growth. The age of the company may be a more pertinent criterion: young companies are the most productive and create the most jobs.

In order to improve labour factor allocation, we identify two levers, apart from the general need to facilitate access to lifelong training and regularly control of its qua-

lity. To improve the conditions of recruitment and termination, legal oversight of economic redundancies should be made less subject to interpretation. Furthermore, in order to give SMEs greater control of their wage policy, we suggest limitation of the extension of sector-wide collective agreements and the promotion of escape clauses.

For the reallocation of capital between companies, we recommend a neutral tax system with regard to transfers of shares in order to avoid the penalisation of director-transferors for passing on control before their retirement or choosing a buyer from outside of their family circle. We also recommend correcting the failings of inter-company financing that weigh upon small enterprises by reinforcing the enforcement of the law concerning payment deadlines and penalties for late payment, and by promoting the development of reverse factoring.

In order to ensure fair competition between SMEs and large enterprises, it is desirable to reduce taxes on production rather than creating specific tax rates for SMEs. Finally, simplification efforts need to be continued in two areas: regulations, from which small companies suffer more than large companies, and public procurement procedures. The latter are important to facilitate public market access for companies of all sizes, without reserving markets for the smallest companies.

The lack of intermediate-sized enterprises and “large SMEs” is regularly singled out as a major handicap of the French economic fabric in international competition, in particular in comparison with the German *Mittelstand*. Only 1% of French companies have 50 or more employees (and only 0.2% have 250 or more employees); the corresponding proportions are respectively 3 and 0.5% in Germany.¹ This phenomenon is a concern as larger size reflects higher productivity, making it easier for firms to bear the costs of access to foreign markets.²

Not all SMEs have the possibility to grow and similarly, due to insufficient profitability, not all are destined to survive. These two phenomena are universal. However, one of the French specificities are the difficulties encountered by young and innovative companies concerning growth and competition with older companies. Thus, there is a lack of incentives for older established firms to engage in innovation or disappear from the market. But this phenomenon is the key to productivity growth at the national level: productivity gains should not be anticipated by all companies; research shows that a country’s productivity increases mainly as a result of a reallocation effect whereby factors of production (capital and labour) are reassigned to the most productive companies. Several studies also show that jobs are created less by small and medium-sized enterprises (SME) than by young companies (see *infra*). This means that productivity and employment objectives complement each other: wealth and jobs will be created by helping young SMEs to grow (or, more modestly, by eliminating the obstacles to their growth) rather than by protecting established companies in order to avoid their disappearance faced with new competition.

Several possible approaches are examined in this Note in order to improve the reallocation of factors of production in favour of the most dynamic SMEs and reduce the difficulties with which they are confronted when in competition with large enterprises.

Too small, too long

The overwhelming majority of French companies are *micro enterprises*: in 2011, out of 3.1 million companies, 3 mil-

lion had fewer than 10 employees. In the same year there were 137,500 SMEs excluding *micro enterprises* (between 10 and 249 employees),³ 5,000 intermediate-sized enterprises (*entreprises de taille intermédiaire*, ETI, with between 250 and 5,000 employees)⁴ and 243 large enterprises (*grandes entreprises*, GE, with more than 5,000 employees). The weight of SMEs is inherently more modest when measured in terms of employment (47%) or value-added (44%), although it varies considerably according to different sectors.⁵ SMEs’ contribution in terms of exports is even lower (15.5%).

Smaller in France than in Germany and the United Kingdom

As compared with Germany and the United Kingdom, France has a higher proportion of *micro enterprises* and a lower proportion of large SMEs (Table 1). Differences of sectoral structure may partly explain the observed differences in relation to Germany, but not those observed in relation to the United Kingdom. This poses the question of whether French *micro enterprises* are suffering from a specific growth problem.

1. Comparison of structure of France, Germany and the United Kingdom in terms of unit size, 2012, in %

	France	Germany	United Kingdom
Proportion of the total of SMEs			
• 1 to 9 employees	95	83	89
• 10 to 19 employees	3	10	6
• 20 to 49 employees	2	5	3
• 50 to 249 employees	1	3	2
Proportion of jobs in total employment for SMEs			
• 1 to 9 employees	46	30	33
• 10 to 19 employees	13	18	16
• 20 to 49 employees	17	19	21
• 50 to 249 employees	24	33	31

Source: OCDE (2015): *SDBS Structural Business Statistics (ISIC Rev. 4)*, disponible sur stats.oecd.org/Index.aspx?DataSetCode=SSIS_BSC_ISIC4

In order to shed light on this question, Graph 1 compares the average size of companies of between 0 and 2 years of age with that of companies of between 3 and 10 years of age for the various OECD countries.⁶ In most countries, “old” companies (3-10 years) are on average larger than “young”

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Note of the translator: The French acronym TPE designates “very small enterprises” of less than 10 employees. In this Note we use the European convention of SMEs (up to 50 employees) and *micro enterprises* (up to 10 employees).

¹ Eurostat data, 2011 for France and 2012 for Germany.

² See, for example, Mayer T. and G. Ottaviano (2007): «The Happy Few: The Internationalisation of European Firms», *Bruegel Blueprint*, no 3.

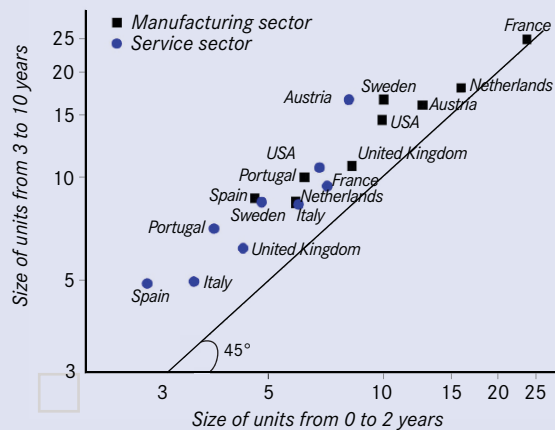
³ Apart from the number of its employees (less than 250), a SME is defined by a turnover of less than 50 million euros and a balance sheet of less than 43 million.

⁴ Employment in the building, personal services, commercial handicraft, scientific and technical business sectors is highly concentrated in SMEs. Conversely, the finance-insurance, industry and information-communication sectors employ staff mostly in intermediate-sized enterprises and large enterprises.

⁵ According to the definition of company categories used in the Act concerning the modernisation of the economy (Loi LME), a company bears a closer conceptual resemblance to a group than to a legal unit. The small subsidiary companies of a group, hitherto considered SMEs, are thus now incorporated into “large enterprises” if the group is of large dimensions. INSEE data (ÉSANE: Elaboration of annual company statistics and LIFI: Financial Links between Companies Survey).

⁶ The DynEmp project, led by the OECD, provides a database making it possible to describe changes in employment for different groups of companies ranked by age, size and business sector over 10 years and in 18 countries.

1. Average size of “young” and “old” companies in different OECD countries



Interpretation: Logarithmic scales.

Source: OCDE (2014): *Projet DynEmp*, available on www.oecd.org/fr/sti/dynemp.htm

companies (0-2 years). This is the case in France as far as the service sectors are concerned, although the difference between young and old companies is not great. In the manufacturing industry, French companies are relatively large right from their establishment but older companies are not significantly larger. This suggests the existence, on the one hand, of barriers to entry making a critical size necessary from the outset and, on the other hand, of major obstacles to these companies' expansion.

Observation 1. In France, *micro enterprises* are overrepresented as compared to the observed situation in Germany and the United Kingdom. This overrepresentation of small units reveals a problem of growth.

The disadvantages of this situation

According to the European Commission, SMEs accounted for 85% of net job creation in the European Union between 2002 and 2010, a far higher proportion than the share of SMEs in total employment in the European Union.⁷ Among SMEs, *micro enterprises* played a key role in net job growth within the market economy. Shouldn't this be a reason for

welcoming the overrepresentation of small companies in France?

Age rather than size

More detailed examination of company data enables a more balanced diagnosis. The age of companies appears to be more decisive than their size with regard to net job creation. In the United States, the over-performance of SMEs in terms of employment is entirely explained by their lower average age.⁸ In France, INSEE data appears to confirm this relation between age and job creation: Between 1995 and 2009, companies under 5 years old created an average of 173,000 jobs per year, compared to average annual destruction of 129,000 for companies more than 5 years old.⁹

Not all companies are destined to grow. Some companies do not have growth prospects since they are aiming at a localised market. Others may content themselves with reaching what they consider to be an adequate level of profitability, without trying to expand their business. However, it is important for innovative companies, with real growth potential, to succeed in completing the various different stages of expansion, either becoming large enterprises themselves or being incorporated within a group. SMEs' expansion potential is a major issue for economic growth as a whole. On the one hand, large enterprises are more productive than small enterprises due to returns to scale, and highly capital-intensive production: increase in average company size therefore enables increased productivity. On the other hand, productivity gains within an economy are to a considerable extent attributable to growth differentials between different types of companies. The decisive issue is not that all companies should make productivity gains, but rather that those that do so should grow more quickly than the others (see below).

The overrepresentation of small companies in France, and their difficulty in expanding, is therefore bad news for productivity. However, concerning job creation, company size is of little relevance if company age is not taken into account. As SMEs become older their economic profitability decreases. This phenomenon of declining profitability is all the more marked when the companies concerned have not undergone growth.¹⁰ The same applies to productivity, which appears to decrease with age except in the case of companies having reached an adequate size (see Box 1).

⁷ European Commission (2012): *Do SMEs Create More and Better Jobs?*, Memo/12/11, 16 January.

⁸ Haltiwanger J., R. Jarmin and J. Miranda (2013): «Who Creates Jobs? Small vs Large vs Young», *Review of Economics and Statistics*, vol. 95, no 2, pp. 347-361.

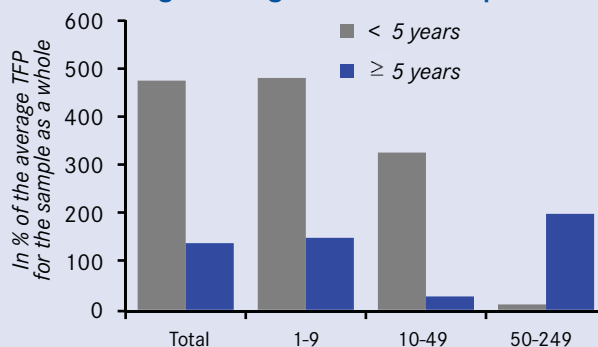
⁹ Accardo J. and C. Cordellier (2013): «Les entreprises indépendantes d'un groupe : un renouvellement continu et important», *INSEE Première*, no 1438, March. This negative relationship between age and employment growth is confirmed by international data by Ayyagari M., A. Demirguc-Kunt and V. Maksimovic (2011): «Small vs Young Firms across the World: Contribution to Employment, Job Creation, and Growth», *World Bank Policy Research Paper*, no 5631, April.

¹⁰ Picart C. (2008): «Les PME françaises : rentables mais peu dynamiques ?», *Document de Travail de l'INSEE*, no G 2008/01.

1. Size, age and productivity of SMEs

The productive efficiency of French companies is measured on the basis of their total-factor productivity (TFP).^a Information from the Amadeus database^b is used in order to calculate the TFP of SMEs according to their size (1 to 9, 10 to 49 and 50 to 249 employees) and age (less than 5 years and 5 years and over). The sample is composed of a total of 141,000 companies, comprising 24,000 “young” and 117,000 “old” companies. The most frequent TFP (the mode of the distribution) is then measured for the different sub-samples and compared with the average TFP for the sample as a whole, the latter being normalised at 100. An index of 100 means that the most frequent TFP of the sub-sample is equal to the average for the companies in the sample as a whole, whereas a higher (or lower) index indicates better (or less good) productivity. The graph clearly shows that SMEs over 5 years are less productive than those under 5 years, except when they have reached 50 or more employees. The population of young companies of 10 to 49 employees is particularly heterogeneous, a large number of them being in reality less productive than the majority of those older than 5 years.

Indices of relative total factor productivity (TFP) according to the age and size of companies



Interpretation: Mode of each sub-sample in relation to the average for all the companies.

Source: CAE calculations based on Amadeus data for 2014.

The importance of helping young enterprises progress to the category of “large” SMEs (more than 49 employees) within a few years is nevertheless observable.

^a The TFP X is calculated on the basis of total value-added Y , fixed assets K and employed workforce N . Companies showing negative values or no value are excluded from the sample. The variables Y and K are expressed in value, for the year 2014. The estimated relation is $\log(Y_i) = A_k * \log(K_i) + A_n * \log(N_i) + X_i$ for the i companies of the sample. The A_k and A_n are estimated for the sample as a whole through the generalised moments method. The reported indexes result from the TFP distributions for the subsets of the sample.

^b Database comprising 21 million companies in Europe.

Observation 2. Among small enterprises (less than 50 employees), young companies are the most dynamic in terms of productivity and job creation.

Poor rewards for productivity

Productivity is thus promoted by young companies, rather than by SMEs in general. This raises the question of whether France has enough young companies. Leaving the “*auto-entrepreneur*” self-employment system aside,¹¹ the rate of creation of enterprises in France falls within the average of the principal OECD countries, as is also the case for the rate of destruction (although the latter is slightly lower than the OECD average). Therefore, France does not appear to create too few or destroy too many units as compared with the main OECD countries.

It is thus necessary to examine the pattern of development of young companies, which appears to be paradoxical in France, rather than their number (and renewal): if young SMEs are indeed more productive than their elders, why is their growth

not more substantial? France appears to suffer from a specific difficulty in the reallocation of production factors (capital and labour) from the least to the most productive companies, and this difficulty has become more pronounced since the beginning of the 2000s (see Box 2).

Observation 3. In France, reallocation of the production factors (labour and capital) from the least productive to the most productive companies is poorly effected, thus curbing the latter’s growth.

Before examining market structures, it is necessary to enquire whether the development of the most productive French SMEs is simply hindered by the large number of threshold effects, which they lack the human resources to overcome.¹² Although the overrepresentation of companies with 49 employees and the underrepresentation of those with 50 employees is a subject of debate among experts, several studies conclude that there is a considerable threshold effect

¹¹ This special system, which underwent spectacular expansion at the time of its establishment at the beginning of 2009 is above all an alternative form of employment. It should be recalled that 60% of auto-enterprises declare zero turnover.

¹² Indeed, when companies exceed a threshold in terms of their workforce this gives rise to an increase in their statutory obligations, tax expenses and social security contributions. As an example, increasing the number of employees from 49 to 50 means complying with 34 additional legal and statutory obligations. In France, the three principal thresholds are 10, 20 and 50 employees.

2. Poor allocation of production factors

In a competitive economy, companies not only compete to win market shares, but also to attract physical and human capital. When a company is more productive than the others in its sector, thanks to an innovation, larger size or better organisation, it is capable of providing labour and capital with better remuneration, and therefore of attracting better investors and better workers. This enables it to both grow and consolidate its productive advantage.

On basis of this simple principle, Fontagné and Santoni (2015) measure the quality of production factor allocation between companies by the difference, at the level of each of them, between the marginal productivity of inputs (capital and labour) and their prices.^a The greater the average difference, the less efficient the allocation. They show that factor allocation has deteriorated in France since the beginning of the 2000s and that small and/or old companies are particularly affected. These results confirm those of Bartelsman, Haltiwanger and Scarpetta (2013) who highlight a weaker correlation between size and productivity in continental Europe than in the United States.^b Osotimehin (2013) shows that good reallocation of factors of production between existing companies has a greater impact on aggregate productivity development than company renewal via creations-destructions.^c

^a Fontagné L. and G. Santoni (2015): «Firm Level Allocative Inefficiency: Evidence from France», *CEPII Working Paper*, no 2015-12.

^b Bartelsman E., J. Haltiwanger and S. Scarpetta (2013): «Cross Country Differences in Productivity: The Role of Allocation and Selection», *American Economic Review*, vol. 103, no 1, pp. 305-334.

^c Osotimehin S. (2013): *Aggregate Productivity and the Allocation of Resources over the Business Cycle*, Mimeo.

concerning the cost of labour¹³, productivity and employment for companies with 50 or more employees.¹⁴

Currently, SMEs that cross a threshold have a deadline of one year to adapt their staff representative bodies (such as the requirement of a works council). As in the past, a three-year freeze upon the additional social security contributions to which crossing the threshold gives rise was announced in the *Tout pour l'emploi dans les TPE et les PME* (Everything for Employment in *micro enterprises* and SMEs) programme (the provisions were to be incorporated into the 2016 budget).

Threshold effects from now until 2018 will thus not give rise to any additional taxes and social security contributions for a three-year period after the thresholds have been passed.¹⁵ Simplification and adjustment of the crossing of thresholds (which is not necessarily final for companies confronted with an unstable market) can only promote SMEs' growth. Although the thresholds themselves are inevitable, an arrangement of this kind could be made permanent.

Conversely, it would be appropriate to refrain from putting SME-targeted measures in place, which would represent only new thresholds limiting the expansion of companies. Amongst the "pro-SME" measures that are regularly put forward, one might mention reserving a proportion of public procurement contracts for SMEs, or indeed the creation of a specific corporate income tax rate, between the reduced rate of 15% and the normal rate of 33.33% (apart from additional contributions). Although based upon good intentions, measures of this kind can prove to be formidable "traps" for companies, which prefer to break up into pieces rather than cross the thresholds. If dispensatory mechanisms are searched for, it would be better to target them on young companies rather than according to size.

Recommendation 1. Grant on a permanent basis a three-year period for adaptation to all of the additional obligations connected with crossing thresholds. Do not create schemes targeted according to company size. Target company age rather than size.

Removing the barriers to reallocation of labour

How can the mobility of workers within companies in the same sector or between sectors be facilitated to support the most productive companies in their expansion, while protecting workers from the negative effects of instability? We identify at least three levers: recruitment conditions and termination of employment, margins of manoeuvre in terms of wage policy, and initial and continuing professional training.¹⁶ The latter appears essential in order to facilitate the mobility of persons and the reallocation of production factors. In this respect, France devotes considerable financial resources to vocational training, around 1.6% of GDP, that is to say 32 billion euros annually.

¹³ Between 5 and 10% according to Garicano L., C. Lelarge and J. Van Reenen (2013): «Firm Size Distortions and the Productivity Distribution: Evidence from France», *CEPR Discussion Papers*, no 9495.

¹⁴ Job losses of around 8% taking general equilibrium effects into account, see Smagghue G. (2014): *Size-Dependent Regulation and Factor Income Distribution*, Mimeo. However, Ceci-Renaud and Chevalier (2011) show that although the threshold effects are significant, they are only of limited scale. Indeed, in the absence of legal thresholds, the proportion of companies between 0 and 9 employees would fall by 0.4 percentage points, whereas it would increase by 0.2 percentage points in both of the respective brackets of 10-19 and 20-249 employees, see Ceci-Renaud N. and P-A. Chevalier (2011): «L'impact des seuils de 10, 20 et 50 salariés sur la taille des entreprises françaises», *Économie et Statistique*, no 437, March.

¹⁵ The calculation of the thresholds could itself be simplified, in accordance with the duties entrusted to the Simplification Council and the *Secrétariat général pour la modernisation de l'action publique* (General Secretariat for the Modernisation of Public Initiative).

¹⁶ One member of the CAE did not wish to be a party to recommendations 2 and 3.

However, in the absence of a rigorous certification system and clear governance, vocational training in France does not enable the return on investment which might be expected and is not a very effective tool for ensuring secure career paths.¹⁷ This issue, which to a large extent goes beyond the framework of policies in favour of SMEs, will not be dealt with here.

Recruitment and termination of employment

The French labour market is characterised by a majority of workers in stable jobs on permanent employment contracts and a minority of workers (in the order of 12%) on fixed-term employment contracts or increasingly short temporary employment contracts, alternating with frequent episodes of unemployment.¹⁸ This duality does not promote the virtuous reallocation of workers to jobs. Indeed, workers on permanent contracts do not have any incentive to take risks, whereas those on fixed-term contracts do not have access to the vocational training that would enable them to truly contribute to upgrading the productive system.

SMEs suffer more from this situation than large enterprises. In the first place, they encounter greater recruitment difficulties: more than half of vacant jobs are found in companies of 1 to 9 employees, whereas the latter only represent 20% of paid jobs.¹⁹ In the second place, in order to face up to the instability of orders on hand, small enterprises make less use than large enterprises of external levers of flexibility, such as the use of subcontracting and workers from temporary employment agencies, meaning that they are more rapidly exposed to employment adjustment needs.²⁰ Finally, the complexity of the French Labour Code weighs more heavily upon *micro enterprises* and SMEs, which are often less-equipped to gain a command of procedures and face up to labour courts and are more fragile financially in the wake of the pronouncement of judgements against them. In order to reduce legal uncertainty, the setting of a ceiling on sanctions for dismissals judged to lack “real and serious” grounds would be a step in the right direction.²¹ However, heads of companies will remain vulnerable to litigation and changes in case law with regard to the appraisal of economic difficulties by judges. Indeed, in France, redundancies, whether they be individual or collective, are subject to a particularly strict procedure –with regard to prior interview and occupational redeployment in particular– which varies according to the size of the company and the number of employees concerned. Redundancies have to be

justified by economic difficulties, major technological change or reorganisation in order to increase the company’s competitiveness. Strict procedural rules have to be complied with and the subjective and ill-defined nature of the grounds that may be relied upon remains. As a whole, this leads to disputes and may continue to burden employers with legal uncertainty, thus considerably curbing recruitment plans, in an economic environment that will remain uncertain.

Recommendation 2. Make the economic grounds for redundancy more objective and verifiable without calling for a ruling on the company’s performance.

Command of wage policy

Three levels of wage-setting coexist in France: the national level with the adjustment of the minimum wage (SMIC) by the Government, the branch level with the negotiation of collectively agreed minima, and the company level with annual negotiations on actual wages. In France, the proportion of jobs coming under collective agreements is among the highest in the world: 93% in 2008 as against 56% on average within the OECD, around 60% in Germany and 35% in the United Kingdom. Under the procedure for the extension of collective agreements, the provisions of branch collective agreements are made compulsory for all companies within the professional field concerned, even if they do not belong to one of the signatory employers’ professional organisations.

This role of branch agreements in the wage formation is of particular significance within small enterprises: although a quarter of companies in France declare that branch agreements are used as the sole basis for the determination of their wage policy, this is the case for almost half of the companies with less than 50 employees (ECMOSS 2009 survey). Moreover, a significant proportion of private sector employees are paid on the basis of the minimum wage (SMIC): 25% in *micro enterprises* as against 5% in large enterprises in 2014. The DARES highlights the branch’s normative role in terms of wage setting scales by studying the correlation between collectively-agreed wages fixed at the branch level and actual individual gross wages: this role is even more marked in the case of small enterprises.²²

¹⁷ See, for example, Urieta Y. (2011): *40 ans de formation professionnelle : bilan et perspectives*, Avis du Conseil économique, social et environnemental (CESE), Éd. des JO, December; Dubié J. and P. Morange (2014): «Évaluation de l’adéquation entre l’offre et les besoins de formation professionnelle», *Rapport d’information à l’Assemblée nationale*, no 1728, 23 January; Cahuc P., M. Ferracci and A. Zylberberg (2011): *Formation professionnelle : pour en finir avec les réformes inabouties*, Institut Montaigne; Dolé P. (2014): «Les conditions du développement de la qualité et l’impact du CPF sur l’offre de formation», *Rapport de l’IGAS*, no 2014-026R, November.

¹⁸ See Cahuc P. and C. Prost (2015): «Improving the Unemployment Insurance System in Order to Contain Employment Instability», *Note du CAE*, no 24, September.

¹⁹ DARES (2015): «Les emplois vacants : la moitié se situe dans les petites entreprises», *DARES Indicateurs*, no 059, August.

²⁰ See, for example, Argouarc’h J., V. Cottet, É. Debauche and A. Smyk (2010): «Les petites entreprises ont été les premières à baisser leurs effectifs pendant la crise», *Note de Conjoncture de l’INSEE*, ‘Le cycle de l’emploi’, March.

²¹ See article 266 of the Act concerning growth, business and equal economic opportunities (*loi sur la croissance, l’activité et l’égalité des chances économiques*) (July 2015), subsequently censured by the Constitutional Council.

²² DARES (2012): «Salaires conventionnels et salaires effectifs : une corrélation variable selon la catégorie socio-professionnelle et la taille de l’entreprise», *DARES Analyses*, no 093, December.

Small enterprises thus have limited command over their wage policy, which is to a large extent determined at a level beyond their control. Generally speaking, the high-growth companies are the youngest companies and are of smaller than average size. They offer lower wages than the largest enterprises, in the beginning of their life-cycle, in particular due to greater financial constraints at a time when they are still at the development stage of their products and exploration of markets. Through the making of productivity gains they may subsequently thrive and adopt a more dynamic wage policy. However, several empirical studies have shown that strict collectively-agreed wage restrictions, that do not take into account productivity changes in young companies, can be harmful to their expansion in their initial years.²³ In the specific case of Germany, economists have also emphasised the central role played by the high level of decentralisation of wage negotiations in the middle of the 1990s, far greater than the subsequent Hartz reforms which are often cited as an example, in explaining the productivity and competitiveness gains made in Germany in the 2000s.²⁴

This pleads in favour of a very selective approach to the extension of branch agreements, in particular when the provisions thereof may be a serious obstacle to certain actors' develop-

ment, while leading to the *de facto* promotion of some companies within the branch. At the same time, and in the spirit of the Combrexelle Report,²⁵ the social partners and the Government could encourage the development of escape clauses in the extended agreements, while giving priority to collective agreements made at the company level. In certain branches, new companies could have the benefit of exemptions during their first years of activity.

Recommendation 3. Limit the extension of branch agreements. Encourage escape clauses in the extended agreements.

Removing the barriers to reallocation of capital

The reallocation of capital between companies may take place at the time of cessations and transfers, or indeed at the time of insolvency proceedings. The majority of these operations concern SMEs, while they suffer from a structural situation in which they effectively finance large enterprises' cash funds.

3. Taxation applicable to the cession/transfer of companies

After establishment of capital gains, social security contributions are raised at a rate of 15.5%; then, a tax allowance depending on the length of time for which shares were held (thresholds of 1 to 8 years) is applied before taxation according to the income tax scale. Increased allowances are granted to transferor directors taking retirement as well as for intra-family transfers. Moreover, from the point of view of the beneficiary of a succession or donation within the same family, the "Dutreuil" system enables an allowance of 75% of the inheritance tax. The table shows that the income tax payable on an identical capital gain of one million euros (made over 7 years) varies from 78,500 euros (director taking retirement) to 225,000 euros (general tax system). Transfers within the same family and transfers of shares acquired before the company was ten years old fall between these two extremes.

Allowances before income tax and tax payable on the transfer of shares in an SME for a capital gain of one million euros

Length of possession	General tax system		SME acquired young ^a or transfer within the same family ^b		Director taking retirement	
	Allowance in %	Tax payable in euros	Allowance in %	Tax payable in euros	Allowance in euros	Tax payable in euros
< 1 year	0	450,000	0	450,000	500,000	225,000
1 to 2 years	0	450,000	50	225,000	500,000 + 50%	112,500
2 to 4 years	50	225,000	50	225,000	500,000 + 50%	112,500
4 to 8 years	50	225,000	65	157,500	500,000 + 65%	78,500
> 8 years	65	157,500	85	67,500	500,000 + 85%	33,750

Interpretation: Capital gains on sales of securities are fully subject to social security contributions at a rate of 15.5% of which 5.1% is deductible the following year. In addition, they are subject to the personal income tax after allowances. The amount of income tax corresponds to a household taxed under the upper bracket of 45%, with earned capital gains of one million euros.

Notes: ^a The securities must have been acquired less than 10 years after the creation of the company, which shall not have resulted from consolidation, restructuring, extension or recommencement of business; ^b The transferor and their family group shall have held more than 25% of the company shares at some point in the five years preceding the transfer.

Source: Articles 150-0 D and 150-0 D TER of the French General Tax Code, www.legifrance.gouv.fr (last consultation: 18.09.2015).

²³ See, for example, Henrekson M. (2014): «How Labor Market Institutions Affect Job Creation and Productivity Growth», *IZA World of Labor*, no 38, May, or again, Magruder J. (2012): «High Unemployment Yet Few Small Firms: The Role of Centralized Bargaining in South Africa», *American Economic Journal*, vol. 4, no 3.

²⁴ Dustmann C., B. Fitzenberger, U. Schönberg and A. Spitz-Oener (2014): «From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy», *Journal of Economic Perspectives*, vol. 28, no 1, pp. 167-188.

²⁵ Combrexelle J-D. (2015): *La négociation collective, le travail et l'emploi*, Report to the French Prime Minister, September.

Tax system for the cession/transfer of companies

A recent report handed over to the Minister of Finance²⁶ points out the psychological checks and blockages in terms of information with regard to the cession of SMEs, and also emphasises the role of taxation. The current tax system (Box 3) raises several questions. In the first place, the principle of granting tax allowances according to the time for which the shares were held is justified by the progressiveness of the tax schedule for capital gains representing several years' income.²⁷ However, for persons with high income, this gives rise to a tax reduction which is more than proportional to the length of ownership. Secondly and conversely, 2 to 4 years brackets lead to major distortions depending upon whether the SME is sold just before or just after the threshold. The use of a general quotient system (consisting of dividing the capital gain by the length of ownership, calculating the corresponding rate of taxation, and then applying this rate to the capital gain as a whole) would be a much fairer way of dealing with the problem of taxation in a single year according to a progressive tax scale of capital gains generated over several years.

Moreover, the current system may be criticised insofar as it encourages the cession of companies within families (whether through transfers or successions-donations). Empirical research on this issue does not highlight any superiority of intra-family cession as compared with external acquisition: the business strategies are on average the same, while profitability is lower with a greater risk of business failure (Box 4).

Recommendation 4. Ensure the neutrality of the taxation of capital gains when company shares are transferred so as to stop discriminating cessions by active directors and/or outside the family.

Insolvency procedures

Concerning law for companies in difficulty, France is distinguished by mediocre performances in terms of recovery rates, a legal framework for insolvency with little pertinence and inadequate participation of creditors.²⁸ French law is less protective of creditors than that of numerous other OECD countries. It also encourages the slow agony of companies in difficulty, which renders reconversion of the company and/or redeployment of capital difficult. These legal characteristics pertaining to companies in difficulty also partly explain the difficulties of access to credit encountered by certain French SMEs, which

4. Should family cessions be encouraged?

It is tempting to view intra-family cessions as providing greater guarantees of the permanence of the company than external assignments, due to the possible presence of the founder alongside the new director, of the latter's acquired knowledge of the company and its environment before assuming control of it or indeed simply because of their attachment to the family business. However, Haddadj and d'Andria (1998) find no difference in strategic reorientation according to whether the cession is internal or external.^a As far as quality of management is concerned, an old Canadian study^b favourable to family cessions has been criticised for its numerous biases, in particular the fact that directors have more incentive to assign their company to a descendant if the company is in good health, and to assign it to an external buyer if such is not the case. The most recent empirical studies do not argue in favour of family cessions (Pérez-Gonzalez, 2006).^c In order to correct endogenous bias, Bennedsen and al. (2007)^d attempted to document family succession by the sex of the eldest child and found results which are even more unfavourable to family cession. Bach (2009)^e also finds negative results with a return of 10 percentage points less when a company of less than 50 employees has been taken over by a family member, and a probability of failure twice as high for companies with more than 50 employees. Bloom and al. (2015)^f test the connection between a 18-point survey-based index of the quality of company management and its family or other status. They also find a negative effect attributable to the fact that the director is a descendant.

^a Haddadj S. and A. d'Andria (1998): «Transmissions internes et transmissions externes dans les PME françaises : existe-t-il des différences de changements stratégiques et d'orientations stratégiques ?», *Revue Internationale des PME*, vol. 11, no 4, pp. 45-65. However, companies that remain family businesses pay lower wages (for the same qualifications) offset by greater job security.

^b Lentz B.F. and D.N. Laband (1990): «Entrepreneurial Success and Occupational Inheritance among Proprietors», *Canadian Journal of Economics*, vol. 23, no 3.

^c Pérez-Gonzalez F. (2006): «Inherited Control and Firm Performance», *American Economic Review*, vol. 96, no 5.

^d Bennedsen M., K. Nielsen, F. Pérez-Gonzalez and D. Olfenzon (2007): «Inside the Family Firm: The Role of Families in Succession Decisions and Performance», *Quarterly Journal of Economics*, vol. 122, no 2.

^e Bach L. (2009): «Les transmissions d'entreprise héréditaires sont-elles moins efficaces ? Le cas de la France entre 1997 et 2002», *Revue Économique*, vol. 60, no 3, pp. 287-296.

^f Bloom N., R. Sadun and J. Van Reenen (2015): «Do Private Equity Firms Have Better Management Practices?», *American Economic Review*, vol. 105, no 5, pp. 442-446.

²⁶ Dombre-Coste F. (2015): *Favoriser la transmission d'entreprise en France : diagnostic et propositions*, Report to French Prime Minister, 7 July.

²⁷ For the same annual capital gain, the holding of company shares for ten years leads, with increasing marginal rates, to higher income tax than ten years' profits. The tax allowance system attempts to correct this distortion.

²⁸ The French rate of recovery is 77.2% (80.4 and 83.5% in the United States and Germany respectively), whereas the summary indices of participation of creditors and pertinence of legal framework are respectively 1/4 and 11/16 (3/4 and 15/16 in the United States and Germany alike). See World Bank (2013): *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*, World Bank Group, 11th ed.

limit their growth capacity.²⁹ In this respect, the right given to creditors to convert their claims into capital and put forward an alternative recovery plan to that of the manager (Ordinance of March 2014 on insolvency law)³⁰ is in accordance with previous recommendations put forward by the CAE.³¹

The failings of inter-company financing

Despite the fact that they sometimes experience difficulties in financing themselves, French SMEs suffer from a situation in which long payment delays mean that they are effectively financing large enterprises.³² The legislative measures of 2008 did not succeed in making a lasting improvement to this situation.³³ However, payment arrears are inversely proportional to company size: whereas almost four *micro enterprises* out of ten pay their supplier at the date provided for, fewer than one out of ten companies with more than 250 employees do so.³⁴ The fact that certain large payers thus reduce their working capital needs at the expense of their small suppliers is the result of a classic problem of asymmetry of size between two agents, the (small) supplier losing all negotiation power when the stability of their business is dependent upon a specific commercial relationship with a (large) principal. Late payments seem to be the cause of a quarter of business failures for SMEs in France.³⁵ It thus appears necessary to ensure particularly rigorous enforcement of the Act concerning the modernisation of the economy (*loi LME*), and all the more so insofar as *micro enterprises* and small companies are in general reluctant to demand the payment of penalties for lateness due to fear of losing their largest clients. As far as public principals are concerned, although the State has reduced its payment times overall, those of local authorities have become longer since 2011.

The use of reverse factoring is a solution for correcting this market failure.³⁶ It enables large payers to commit not to use their market power in relation to their suppliers. It has developed rapidly in the United States since 2008 and is at present used far less in France than in other Eurozone countries. The mission with which the *Médiation inter-entreprises* (Government mechanism for assisting companies encountering contractual or relational difficulties with clients or suppliers) was entrusted in June 2015 with assessing reverse

factoring in France and abroad and compiling a list of good practices and deadlocks in this regard constitutes a step in the right direction, but it appears to us that a more decisive advance is needed.

Recommendation 5. Reinforce the enforcement of the law concerning payment deadlines and penalties for arrears. Promote the development of reverse factoring in order to protect SMEs against the risk of excessive payment delays on the part of their largest clients.

The rules of public procurement contracts could for example include an obligation, for companies whose volume of accounts payable exceeds a critical size, to provide detailed data on their payment times in relation to subcontractors in recent financial years, or to put forward a reverse factoring solution for the execution of the contract.

Ensuring fair competition between SMEs and large enterprises

Apart from the barriers to reallocation of factors of production, which weigh particularly heavily upon SMEs, it is also necessary to address distortions of competition which may act to the detriment of small enterprises: the tax system, administrative rules and public procurement contracts. Generally speaking, it is better to elaborate policies in accordance with general principles, if necessary targeting measures which would be particularly beneficial to companies undergoing growth, without constituting special exemptions for small enterprises, of which they will lose the benefit as they grow. Conversely, it would be useful to change the general schemes that are currently unfavourable to SMEs or, more precisely, to SMEs undergoing rapid growth.

More equitable taxation

The Compulsoty Levy Commission) and the Treasury) have demonstrated that the implicate corporate income tax rates differ between companies according to their size, SMEs being

²⁹ See La Porta R., F. Lopez-de-Silanes, A. Shleifer and R. W. Vishny (1998): «Law and Finance», *Journal of Political Economy*, vol. 106 no 6, pp. 1113-1150.

³⁰ Ordinance no 2014-326 of 12th March 2014 reforming the prevention of difficulties for companies and collective procedures, in force since 1st July 2014 (the ratification Bill is currently being examined by the Senate).

³¹ Plantin G., D. Thesmar and J. Tirole (2013): «Reforming French Bankruptcy Law», *Note du CAE*, no 7, June.

³² Cailloux J., A. Landier et G. Plantin (2014): «Lending to SMEs: Identifying Difficulties and Recommending Targeted Measures», *Note du CAE*, no 18, December.

³³ The Act concerning modernisation of the economy (LME) introduced ceilings on the allowed times for the payment of suppliers (60 or 45 days) and penalties in case of failure to comply with these ceilings. The Act concerning growth, business activity and equality of economic opportunities (2015) provides that the allowed time for payment cannot be greater than 60 days from the date of issue of the invoice, 45 days by special dispensation, and reinforces compliance with payment deadlines for the contracting authorities comprised by public-sector firms.

³⁴ Altares (2014): *Comportement de paiement des entreprises en France et en Europe*, Analysis 1st Sem. 2014.

³⁵ Altares (2014) *op. cit.*

³⁶ Factoring is a financial operation by means of which a company transfers its accounts receivable to a financial institution (the factor) in consideration of advance payment of its claims. In the case of reverse factoring, the factor's client is the employer of independent contractors and not the supplier: the client company transfers the invoices of its suppliers, who have authorised the transfer thereof, to the factoring company, as well as the necessary information for the follow-up of risks.

the most taxed companies.³⁷ The smallest enterprises are often subject to the reduced rate of corporation tax of 15%.³⁸ However, the profits of SMEs exceeding these thresholds are taxed at an implicit rate of 32% of gross operating profit, as against 26% for intermediate-sized enterprises and 22% for large enterprises.

However, this result needs to be properly interpreted: the decisive factor is not size, but rather multinational status and the possibilities of tax optimisation thereby made possible. Considerable economic research has examined tax optimisation of this kind, highlighting the practice of intra-group payables.³⁹ Transfer pricing also enables the shifting of taxable profits between countries with different tax systems. In particular, Davies *et al.* (2014)⁴⁰ show that optimisation by means of transfer pricing is highly concentrated and concerns a small number of large enterprises. Finally, flexibility in the location of property rights concerning intangible assets (for which no reference prices exist) is a very important source of reallocation of taxable profits, especially as the heterogeneity of bilateral agreements enables the construction of hybrid arrangements.⁴¹

The proper manner of eliminating the *de facto* over-taxation from which SMEs suffer is better control of multinationals' tax optimisation, an issue which however goes beyond any single country's borders. The OECD is making progress on this issue at its own level with the BEPS Project.⁴² The objective is to ensure the convergence of tax laws in the various different countries in order to restrict the deductibility of intra-group interest payments, standardise bilateral conventions so as to avoid the existence of hybrids, and bring the verification of taxation in other countries into general use before any tax deductions. Similarly, the bringing of automatic exchanges of information into general use should make it possible to reduce tax optimisation. Zucman (2014)⁴³ proposes going further by profit reporting, which would require worldwide information and standardised accounting. This is in line with the European CCCTB project, initially launched in 2011 and relaunched in June 2015 after a long period of dormancy, a planned Common Consolidated Corporate Tax Base.⁴⁴ This would be the first step towards a new form of corporate taxation no longer based upon the obsolete rule of a stable establishment but upon rules of distribution of the tax base to be defined.

As a supplement, tax mechanisms supporting the development of small enterprises undergoing growth might be stu-

died. Several ideas are regularly put forward, including exemption for reinvested profits, extra depreciation and exemption for the initial years of business.

Exemption of reinvested profits from corporate tax is probably not the most promising approach. Companies undergoing growth, and particularly young companies hoping to expand from SMEs to intermediate-sized enterprises are often, because of their high levels of investment and strategic placement, in a situation in which they produce little or no taxable profit. More generally speaking, this measure could be useful in case of temporal correlation between profits and investment needs in company life cycles, which is not always the case (investments made in piecemeal fashion).

Another mechanism, of a similar nature but having a more marked effect, is the principle of over-depreciation. This involves the basic idea of a graduated system of depreciation resulting in deferment of the tax base reduction: instead of depreciating an investment of 100 by means of five deductions of 20 in the first five years, the first deduction is the largest (and the last deductions are smaller). A stronger measure (announced by the Government and voted by the Senate in April 2015)⁴⁵ consists of adding an extra deduction to the usual depreciation, which is not subsequently offset, thus effectively leading to the depreciation of an amount greater than the amount invested. This constitutes a *de facto* investment subsidy.

Finally, the idea of exempting of initial years of business comes up against the same criticisms as made above. In their first years, companies often make a loss, or show low profits due to high levels of investment made in order to launch them, and taxable profits are often burdened by the search for market shares. The very mechanism of the corporate income tax, and the possibility of carrying losses forward, already gives rise to an exemption of this kind for the initial years of business.

Reducing taxes on production

On the other hand, taxes on production are the taxes that penalise small companies most, in particular in the case of young companies; yet such taxes are particularly heavy in France (Graph 2). By their very nature, taxes on production do not play the role of insurance played by the corporate income tax, since they are based on the factors used (often the most fixed factors), which do not vary greatly with profits. Companies, in par-

³⁷ See Conseil des prélèvements obligatoires (CPO) (2009): *Les prélèvements obligatoires des entreprises dans une économie globalisée*, CPO Report and Direction générale du Trésor (2012): *Rapport sur les prélèvements obligatoires et leur évolution*, Annex to 2013 Budget project.

³⁸ This reduced rate applies to the first 38,120 euros of profit for companies with a turnover of less than 7,630,000 euros of which at least 75% of the shares are held by natural persons.

³⁹ See Dharmapala D. and N. Riedel (2013): «Earnings Shocks and Tax-Motivated Income-Shifting: Evidence from European Multinationals», *Journal of Public Economics*, vol. 97, pp. 95-107 and Buettner T. and G. Wamser (2013): «Internal Debt and Multinational Profit Shifting: Empirical Evidence from Firm-Level Panel Data», *National Tax Journal*, vol. 66, pp. 63-96.

⁴⁰ Davies R., J. Martin, M. Parenti and F. Toubal (2014): «Knocking on Tax Haven's Door: Multinational Firms and Transfer Pricing», *CESifo Working Paper*, no 5132.

⁴¹ See International Monetary Fund (2013): *Fiscal Monitor: Taxing Times, World Economic and Financial Surveys* (IMF), October, and Kleinbard E.D. (2011): «Stateless Income», *Florida Tax Review*, vol. 11, no 9, pp. 699-774.

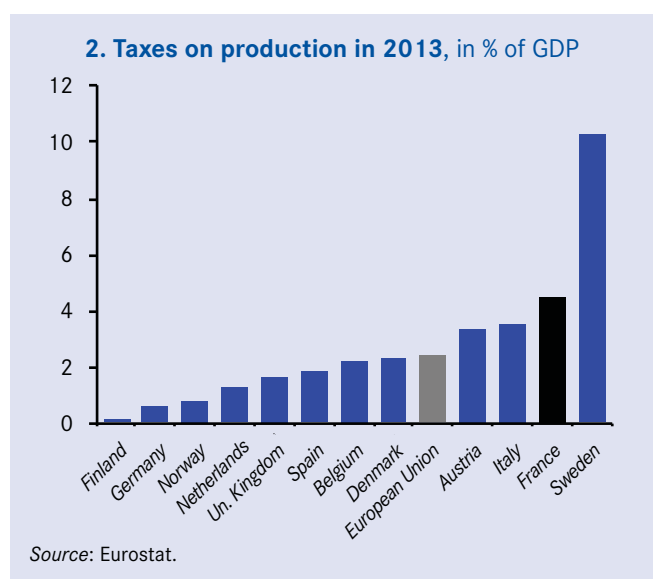
⁴² <http://www.oecd.org/ctp/beps.htm>

⁴³ Zucman G. (2014): «Taxing across Borders: Tracking Personal Wealth and Corporate Profits», *Journal of Economic Perspectives*, vol. 28 no 4, pp. 121-148.

⁴⁴ http://ec.europa.eu/taxation_customs/taxation/company_tax/common_tax_base/index_fr.htm

⁴⁵ <http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/19134.pdf>

ticular those making heavy investments or undergoing growth, whose profits are low in relation to their investments or turnover are thus particularly penalised by taxes of this kind as they pay taxes on new factors without yet drawing profits from them. The phasing out of the Corporate Social Security Contribution (*contribution sociale de solidarité des sociétés*, C3S) by 2017 is a step in the right direction.⁴⁶ Nevertheless, it accounted for less than 8.5% of taxes on production in 2014. Its abolition constitutes a minor, though notable, diminution of taxes on production in France, of which a considerable part goes to finance local and regional authorities. Absent the abolition of other taxes on production for all companies, a mechanism of exemption of the first years of business could be envisaged in order to more effectively take uncertainty into account with regard to turnovers.



Moreover, research undertaken by the *Inspection générale des Finances* (General Inspectorate of Finances) completed in March 2014 estimates that 175 taxes have respective returns of less than 100 million euros and that 200 taxes represent an overall amount in the order of 5 billion euros. A French company is on average concerned by about fifty levies of this kind, as against an average of around ten for European Union companies. Accelerating the abolition of these low-return taxes on production would serve the double objective of reducing taxes weighing upon companies' production and simplifying their administrative lives, which is all the more necessary in the case of SMEs. A compensation fund for the various different beneficiaries of the corresponding tax receipts could be put in place.⁴⁷

Recommendation 6. Curb the taxation of production, in particular by abolishing the low-return taxes among them. Fight the distortions connected with multinational companies' tax optimisation.

Administrative simplification

Simplification of the administrative life of companies is a major concern, and all the more so in the case of SMEs and *micro enterprises*. Indeed, numerous reports point out that French regulations are accompanied by procedures that are excessively complex and slow (Table 2). This administrative complexity generates costs, dissuades investment and weighs upon competitiveness.⁴⁸

2. French regulations by international standards

	Administrative costs ^a	Burden of government regulation ^b	Ease of business activity ^c
	2003	2013-2014	2014
	in % of GDP	ranking	ranking
France	3,7	121 st out of 148	31 st out of 189
Germany	3,7	55 th out of 148	14 th out of 189
United Kingdom	1,5	37 th out of 148	8 th out of 189
Denmark	1,9	80 th out of 148	4 th out of 189

Notes: ^a Study conducted in 2003 on 19 European countries (CPB); ^b Ranking established on the basis of 148 countries (World Economic Forum); ^c Ranking established on the basis of 189 countries (World Bank).

Sources: CPB (2005): « Intra-EU Differences in Regulation-Caused Administrative Burden for Companies », *EU Competitiveness Report*, CPB Bureau for Economic Policy Analysis; World Economic Forum (2015): *The Global Competitiveness Report 2014-2015*; Banque mondiale (2013): *Doing Business 2014 : Comprendre les réglementations pour les petites et moyennes entreprises*, Groupe Banque mondiale, 11st ed.

Normative inflation is often put forward to explain the complexity of regulations in France. France currently has 10,500 laws, 130,000 decrees and over 400,000 rules.⁴⁹ These rules are a burden upon companies, in particular for the smallest, which do not have adequate resources and skills to ensure understanding and command of all of them. The work completed by the *Simplification Council*⁵⁰ has made it possible to put forward 50 transverse proposals to simplify the life of businesses and make it more secure by means of a clearer and more predictable environment. More general measures could be envisaged

⁴⁶ The reduction of the Corporate Social Security Contribution (C3S), which is paid by companies in proportion to their turnover and which concerns industrial sector in particular, will begin in 2015, with the planned abolition thereof for all companies by 2017. A planned allowance will enable two thirds of the 300,000 companies liable to the tax, that is to say all the very small enterprises (*micro enterprises*) and almost half of small and medium-sized enterprises (SMEs) to be completely exempted as from 2015, provided that they have a turnover of less than 3,250,000 euros, see amending Social Security Finance Bill (*PLFSS rectificatif*) for 2014, CAE translation.

⁴⁷ A possible means of financing this measure would be to slightly lower the threshold for reduction of taxes within the framework of the *Pacte de responsabilité* (Responsibility Pact), for example by bringing it into line with the threshold of the *Crédit d'impôt compétitivité emploi* (Tax Credit for Competitiveness and Employment) (2.5 times the SMIC guaranteed minimum wage). SMEs, which on average pay lower wages than large enterprises, would gain as a result.

⁴⁸ OCDE (2014): *France : redresser la compétitivité*, 'Politiques meilleures' Series, OECD ed.

⁴⁹ On normative inflation, see Lambert A. and J-C. Boulard (2013): *Rapport de la Mission de lutte contre l'inflation normative*, March, or Attali J. (Pres.) (2008): *Rapport de la Commission pour la libération de la croissance française*, La Documentation française, Paris.

in order to slow down or even curb the specific French tendency for “regulatory overproduction”. In this respect, the American sunset clauses and English “one-in, one-out” system (the cutting of one regulation for every new regulation introduced) are interesting. The sunset clause consists of setting a date of expiry for each new law/regulation/norm voted (the period in general varies from two to ten years). At the time of expiry, the law, norm or regulation is automatically abrogated, only “effective” laws (of proven effectiveness) being renewed. In the United Kingdom, dozens of regulations and norms have been abolished since 2010 in accordance with the “one-in, one-out” rule. In addition, any new regulations concerning companies of less than 10 employees cannot have a lifespan of more than three years and any new laws concerning the business world have to contain a sunset or revision clause becoming effective after an average of five years. The British government estimated the savings made between January 2011 and June 2012 at 3.32 billion pounds sterling (4.52 billion euros) and decided to change over to a “one-in, two-out” system in 2013.⁵¹

Recommendation 7. Continue the simplification agenda. Halt regulatory inflation by the application of a sunset clause or the “one-in, one-out” principle.

SMEs and public procurement

European legislation excludes the introduction in France of an equivalent of the American Small Business Act, a portion of public procurement contracts to SMEs. Should this be regretted? There are at least two reasons to doubt its pertinence. In the first place, there is no empirical proof of the effectiveness of these types of targeted measures for promoting access to public procurement contracts for SMEs. Conversely, certain pieces of research report pernicious effects, since distortions of competition may lead to increased costs and reduced efficiency.⁵² In the second place, French SMEs’ performance in terms of access to public procurement contracts is above the average for EU countries: they represent 59% of public procurement in terms of number of contracts and 31% in value terms, as against 55% and 29% respectively for the twenty-seven Member States as a whole.⁵³

However, SMEs’ share of public procurement markets in value terms does not reflect the role held by them within the economy as a whole. In order to increase SMEs’ capacity to tender without creating distortion, it is preferable to continue the efforts already undertaken within the framework of simplification. The European Commission’s inquiry into SMEs’ access to public procurement markets shows that they consider the excessive importance of prices, payment deadlines, lack of information and complexity of administrative burdens to be the main obstacles. Among measures which could on the contrary promote their access to public procurement contracts, SMEs emphasise greater dialogue and fewer administrative documents.⁵⁴ It is therefore important, as recommended by Saussier and Tirole (2015), to consolidate the efficiency of public procurement by ensuring greater dissemination of information and a reduction of the costs of procedures by means of paperless methods and reduction and standardisation of the number of announcement platforms.⁵⁵ Advances enabling reduction of the cost of tenders such as Simplified Public Procurement Markets (*marchés publics simplifiés*), as well as the use of a single document (“tell it to us once” principle), are steps in the right direction. Apart from support for SMEs, these measures contribute more generally to increasing competition, which may simultaneously help to meet public expenditure reduction objectives.

Recommendation 8. Do not put specific mechanisms in place aimed at promoting SMEs in terms of access to public procurement contracts but continue the efforts undertaken with regard to the openness and simplification of procedures in order to facilitate tenders on their part.

In order to facilitate SMEs’ growth, a policy of subsidies calibrated according to size criteria does not appear to be the best approach. We recommend giving priority to measures aimed at scrapping barriers to the reallocation of factors of production, from which small enterprises suffer still more than large enterprises, and to correct any distortions of competition between companies of different sizes. ●

⁵⁰ Created in January 2014, the Simplification Council is responsible for proposing strategic lines of policy to the Government concerning simplification with regard to companies.

⁵¹ HM Government (Department for Business, Innovation and Skills) (2012): *One-in, One-out: Third Statement of New Regulation*, February.

⁵² Marion J. (2007): «Are Bid Preference Benign? The Effect of Small Business Subsidies in Highway Procurement Auctions», *Journal of Public Economics*, vol. 97, no 7-8.

⁵³ European Commission (2014): *SMEs’ Access to Public Procurement Markets and Aggregation of Demand in the EU*, DG Internal Market and Services, February.

⁵⁴ European Commission (2009): *Programme d’action pour la réduction des charges administratives dans l’UE*.

⁵⁵ Saussier S. and J. Tirole (2015): «Strengthening the Efficiency of Public Procurement», *Note du CAE*, no 22, April.



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