

**THE NEW POLICY STRATEGIES OF THE FRENCH GOVERNMENT WITH REGARD
TO SMEs AND ENTREPRENEURSHIP**

Address by M. Hervé Novelli, State Secretary for Trade, Craft Industries, SMEs, Tourism and Services, French Ministry of Economy, Industry and Employment, to the Delegates of the OECD Working Party on SMEs and Entrepreneurship on 27 October 2008

Dear Deputy Secretary-General, Dear Director, Dear WPSMEE Chair, Dear Ambassadors and Heads of Delegations representing the OECD member countries and observer countries,

It is a great pleasure for me to speak to you today. And I must take this opportunity to congratulate your Working Party, which is doing an outstanding job of fulfilling its mandate.

At this time I should like to assure you personally of how important your work is to the creation of French policy for SMEs. You are one of the few high-level international fora to explore policies that have been put in place, and especially those that ought to be put in place, to assist SMEs. France is therefore particularly attentive to your discussions, and to the sharing of the good practices that you identify and make known. Your Working Party's expertise is now thoroughly recognised, insofar as a number of countries have called upon you to conduct audits of their policies for SMEs.

As I am addressing an audience of experts I deem it important to outline the priority that the French Government attaches to SME policy, now more than ever.

The history of the ministry for which I am responsible is to some extent written in its title: the State Secretariat for Trade, Craftsmanship, Small and Medium-sized Enterprises, Tourism and Services. The French Government has almost always had a ministry with a portfolio for trade and craftsmanship. Within the past ten years, however, that ministry has expanded to encompass SMEs, and then, just recently, tourism and services. Today this ministry is the one for entrepreneurship that is to say for all SMEs, whatever their line of business: industry, trade, craft, freelance professional or service. If France attaches great importance to this ministry, it is because, as we all know, it is in these businesses that growth and employment are created.

Before telling you about the reforms adopted in recent months to assist SMEs, I should like to spend just a few minutes on recent financial and economic developments.

In response to the financial crisis, we arranged for an especially substantial effort to benefit SMEs. Being fully cognizant of the situation, we were able to create an SME plan even before the decision was taken to introduce a support plan for banks. By 2 October, French President Nicolas Sarkozy had announced a €22 billion plan for SME financing – a plan that was fully operational 20 days later. Thus, this SME plan adds to the €360 billion for banks and to the new measures announced by the President on Thursday with regard to tax exemption, mediation and equity investments in so-called strategic SMEs. The SME plan breaks down as follows:

- First, **€17 billion in surplus regulated savings** was transferred to banks, in exchange for which the banks pledged, in an agreement signed last Tuesday, to earmark this exclusively for SMEs and

intermediate-sized businesses. The banks also pledged, in return, to report monthly on how the loans were being used.

- Next, in addition to the €17 billion transferred to banks, **€5 billion in guarantees and loans was injected by OSEO**, the public SME financing arm. Regarding this €5 billion, let me call your attention to an innovative measure whereby €1 billion in cash flow requirements was converted into medium-to-long-term loans thanks to a guarantee mechanism.

To make these measures available to businesses, the government put in place a number of arrangements aimed at accompanying troubled SMEs by means of a mediator between banks and the companies; establishment of a supervisory board in each department, reporting to the prefect; appointment of “godfathers” in local outposts of central government agencies to guide SMEs; and introduction of a special telephone number at which businesses can reach OSEO.

This support plan is very important because it should enable SMEs, which are the driving forces of our economy, to make it through this period of financial turmoil. They have to get through it, because once the storm has passed, a rebound will be needed, and SMEs will be at the heart of our economy’s recovery. France does have the capability to recover thanks to the dynamic productive tissue of its society which possesses a great vitality in business creation and thanks to a strong appeal. The 321 000 start-ups in 2007 represent a 50% increase since 2000, while over the same period the French economy ranked third in the OECD area for inward foreign direct investment (at 3.5% of GDP), after the United States and the United Kingdom.

France still has strong potential for increased growth, as noted in the report of the Commission for the Liberalisation of French Growth, headed by Jacques Attali. To exploit these wellsprings of growth, we can – and we must – look to **competition** as a source of emulation and competitiveness, which can be enhanced in certain sectors, including services. An IMF study estimated that to bolster competition in the French markets for goods and services would ultimately generate additional activity equivalent to roughly 9% of GDP. It is to this end that I am seeing to the **transposition of the European “Services” Directive**, which pursues this very aim of creating a single market for services in the European Union.

Moreover, this growth will not happen unless the regulatory and financial environment improves for businesses and for small and medium-sized enterprises in particular. It is to meet this challenge that I have instituted a **Board of Entrepreneurs**, made up of 17 business leaders. The Board’s task is to propose reforms to underpin the **so-called “Force 5” pact**, the broad aims of which are fivefold: *to simplify the business environment, foster innovation, promote SME financing, cut taxes and continue to step up the pace of export expansion.*

The Economic Modernisation Act adopted by Parliament on 4 August 2008 addresses the commitments made in the “Force 5” pact. The reforms implemented through this legislation are an extension of those instituted since 2003 through the Economic Initiative Act and the SME Act of 2005, for which I myself was the rapporteur before the National Assembly. The purpose of this 2003 and 2005 legislation was to promote new business creation and entrepreneurship and to foster the development of certain job-creating sectors and a fast-growing business environment. The government is well aware of the need to make things even easier for businesses by improving and simplifying their tax, financial, labour-relations and administrative environments. This was the primary objective of the Economic Modernisation Act, which comprises many important provisions to encourage entrepreneurs throughout their endeavours.

The law created a **simplified incentive scheme for sole proprietors** wishing to do business on their own, either as their main source of livelihood or to supplement their wage income or retirement pension. This regime is very attractive because it involves low and fixed taxes. One becomes a sole proprietor

simply by filing a statement; there is no need to register as long as the business in question generates low turnover. The procedures for going into business for one's self were scaled back to the bare minimum so that everybody who wanted to could have a chance.

In addition, *the law gives a genuine "second chance" to entrepreneurs who have gone through bankruptcy*. Until now, French company law had been extremely strict for such persons and blocked them from resuming any commercial activity. Henceforth it will be up to the bankruptcy judge, that is to say the Commercial Tribunal, to decide on a case by case basis whether such a ban is really justified.

In addition to start-ups, the legislation is also conducive to **business transfers**. Here, the transfer taxes that are levied when a business changes hands were reduced significantly so as to maintain shareholdings in SMEs and encourage transfers, especially to family members or employees. Taxes on sales of goodwill were reduced as well.

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The legislation also makes things simpler for businesses by:

- *neutralising, on an experimental basis, the financial impact of businesses' crossing the 10- and 20-employee thresholds;*

- *simplifying the operation of limited-liability companies*, with a number of additional provisions for resolving certain difficulties out of court;

- *extending the possibilities available to businesses applying to the administration with regard to certain tax or labour laws* and by which the administration must commit itself to recognising the eligibility of a project without being able to turn back on its decision at a later stage.

- easing **accounting requirements** for certain types of joint-stock companies.

I know that **innovation** lies at the heart of your work: this is an area in which we have wanted to make a special effort. It is now clearly acknowledged that innovation is an engine of growth. Innovation is a decisive input by which businesses can be competitive and conquer market share. Growth has long been dependent on capital and labour – two essential factors that shape our economy's competitiveness. Both these factors remain important, but they alone cannot create the differentiation our economy now needs. Today, innovation is what makes the difference.

The French Government has taken a proactive stance in adopting a comprehensive policy to foster innovation. We have instituted measures aimed at unshackling innovation and lessening considerably the risks that had impeded entrepreneurs so they can get started more easily. This dynamic is crucial if France is to get back on the road to investment and growth.

I shall give examples of two types of incentives that we have deployed so that businesses speed up their research and development efforts: **the research tax credit and government procurement**. The applicable rules have just been amended substantially.

First, the **research tax credit** is a cross-cutting R&D support measure, with no restrictions involving firm size or line of business. We have simplified and amplified this tax measure, which represented €1.5 billion in 2007 and will increase to €3.5 billion by 2012. This tax credit is obviously available to

businesses based in France, but the aim is also to bolster the attractiveness of France for the research activities of French and foreign firms alike. Moreover, I hear that the research tax credit is currently the most powerful instrument in the OECD area, and that France is said to have become a tax haven for innovation. We estimate that research tax credit reform will boost R&D expenditure as a percentage of GDP by 0.2 point in 2013 and by 0.5 point in 2018.

To uphold innovation, the Economic Modernisation Act allows **government buyers**, on an experimental basis over a five-year period, to extend preferential terms to innovative SMEs. This measure will apply only to contracts involving high technology, research and development, or technical studies for amounts beneath the thresholds of formal procedures. More specifically, it allows government buyers to reserve up to 15% of their procurement budgets for innovative SMEs.

But that's not all. If SMEs are to innovate, they must have faith in their ability to reap the fruits of their innovation. That is why we have stepped up the battle against counterfeit goods. We have also simplified European patents by ratifying the London Agreement, and lastly, we have cut the patent application fee by 50% for SMEs.

Simplification, innovation, financing. In the realm of SME financing, we have taken steps in respect of equity capital, debt and cash flow.

With regard to equity capital, let me tell you about a measure that was far more successful in its first year of operation than we could ever have imagined. In the Labour, Employment and Purchasing Power Act adopted by Parliament on 1 August 2007, we gave taxpayers subject to **Wealth Tax ("ISF")** an opportunity for a big tax cut in return for an equity investment in an SME. This provision far exceeded all our hopes, since nearly a billion euros in equity was injected into SMEs in 2008 thanks to this tax reduction. At the same time, the measure prompted thousands of new business angels into action.

The Economic Modernisation Act also relaxed the legal framework governing the main **venture capital** instruments.

With respect to cash flow, I should like to stress the issue of payment terms. In France, on average, the terms of payment are longer than they are in other European countries. This situation impairs the competitiveness of businesses and SMEs, and it is detrimental to investment and growth. Consequently, the Act requires that payments agreed to between firms be made no later than the last day of the calendar month that is 45 days after the invoice date, and it doubles the minimum interest penalty in the event of late payment. This measure will improve the cash flow of businesses whose difficulties constitute the main source of bankruptcies.

In the realm of taxation, let me begin by reminding you of the support policy in place since 2005 for **High growth SMEs**.

We are pursuing our efforts to ease the tax burden through a gradual elimination, staggered over three years, of the **standard yearly tax**, and through reform of the **business tax**, which was announced a long time ago, along with immediate exemption from the tax for all new investments that are made by year-end 2009.

Moreover, the Labour, Employment and Purchasing Power Act also made **overtime** tax-exempt in order to release the constraints on work.

I am aware that your work has also prompted you to take a look at the barriers that SMEs run up against when they want to expand internationally. As a former CEO, I can assure you that for an SME to export can be complex, risky and expensive.

Constitution of a **business export group**, along with other SMEs and the support of a specialised, capable adviser, is an effective way to pool costs, share risk and swap experience. For the members of such groups, exporting becomes simultaneously simpler, safer and less expensive.

To lend support during the critical phase when a group like this is being formed, we launched a call for projects. Accredited SME export groups are eligible for assistance of up to €20 000, depending on the expenditure involved.

In addition, we encourage large export firms to provide SMEs with **technical support and advice**.

You can see the extent to which the topics of your work – clearing the obstacles for SMEs to international markets, innovation, the financing of SMEs and entrepreneurship, and taxation, to mention only a few – are also subjects of concern to the French Government. This shows how interested we are in what you do.

In this regard, you are planning to hold a *Round Table on Financing SMEs and entrepreneurship in 2009*. You would also like that your October 2010 Session become a High-Level Meeting devoted to an evaluation and a look forward, ten years after adoption of the Bologna Charter. It would seem to me that these plans ought to be encouraged. This is why France is prepared to lend support for the preparation of both events, which will deal with key topics involving the growth and competitiveness of SMEs, against a backdrop of accelerating globalisation.

I should hope that you will be able to continue this same dynamic approach, advocating the needs of SMEs to policymakers. All too often, administrative rules are still designed for large enterprises; the role of your Working Party in this area, as it has already shown, is considerable. The task at hand is a vital one for our countries, and one for which I should like to wish you every success.

Thank you.