



# **Proposals for Confronting the Crisis and Bases for a New Competitive Model**

*Priorities of SMEs and the Self-Employed*

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**Madrid**



## **1. RATIONALE**

We find ourselves in the midst of a global crisis, longer than previous ones, which affects most production sectors and all kinds of companies, independently of their size, whether large enterprises or SMEs and the self-employed.

The seriousness of the situation in Spain is even more pronounced, because it comes out of a phase of great expansion, which means that the contrast between spectacular growth and deep recession is more marked. The leap experienced at the quantitative level cannot be separated from what has been experienced at the qualitative level. The foundations of growth rested too heavily on one sector (construction), on a type of activity in which quantity took precedence over quality, and on a current account deficit only exceeded in absolute figures by the United States and by Greece in percentage of GDP.

The international financial crisis and our model of growth have clearly shown that the competitive bases of the system were weaker than it seemed.

The economic evolution indicators have alarming and well-known features in terms of production, consumption and investment, as well as in job destruction figures. In the business world the repercussion of the crisis has very specific parameters: falling sales, idle production capacity, credit restriction, non-payment, arrears, company closures, insolvency proceedings, among others, reaching levels unsuspected only a few months ago.

Companies are making the necessary efforts to hold out, but they find themselves with real difficulties to adjust their production capacity and to obtain credit. Those who cannot, because the capacity adjustment is not possible or because the financial institutions impose restrictions so that credit does not arrive, close. An added problem in this crisis situation is that the end is not in sight; it is longer than previous ones, with indicators which are still accelerating negatively. The panorama described illustrates an environment which is difficult for both the business person and the company.

In this context, it is worth noting that a company does not come out of nowhere. Companies, and the production fabric that form them, are the result of day to

day efforts by business people and, of course, workers. Every company that disappears today will be difficult to replace in the near future. Therefore, we understand that the short-term objective has to be that of saving the greatest number of existing production units.

Central government has acted at the wrong time, beginning with belated acknowledgement of the crisis. And then, when it did take measures, it applied them extremely slowly, while the production system was suffering its effects day after day.

Beyond the worrying slowness, there are other aspects that give rise to serious doubts, including:

- the instrumentation of the measures (official credit does not easily reach either the companies or the self-employed),
- the intensity (more emphasis has been placed on the financial system than on the production system),
- the focus (giving precedence to a determined production sector in crisis results in a problem of discrimination in terms of the remaining sectors), and
- overlooking the small actors.

## **2. OBJECT**

The crisis affects all kinds of companies. The SMEs and the self-employed are also suffering, even though we may be the silent voice. We generate 2/3 of GDP and employment, we account for 99% of companies in the country, and we feel ignored, and the political power should know it. Resistance to the crisis has its limits, and we find ourselves at a point of running the real risk that the hardship will result in business people ceasing activity.

We are here to proclaim that we are alive, that we will hold out as long as we can, but that the government and political parties must become much more involved in finding a way out of this crisis, to the benefit of all.

Our initiative has three aims:

- To express our disillusionment because the management of the crisis is being carried out without taking SMEs and the self-employed duly into account.
- To offer proposals to the government to facilitate the adjustment that the crisis demands.
- To indicate structural actions that, beyond the current situation, help to establish the foundations of an economic model with bases that are more competitive than those at present.

Our initiative is not only aimed at the distinct levels of political power, but also seeks to send out the message that the involvement of society in general and of the social agents in particular is necessary. The kind of solutions required can involve costs at all levels, but it is necessary to approach them firmly to make possible a production model which is more prepared for the future.

### **3. OBJECTIVES**

The proposals made in this document, without seeking to be exhaustive, are aimed at the achievement of two objectives:

- 1) Strengthening the capacity of resistance of SMEs and the self-employed during the crisis. In this respect solving the liquidity crisis and providing more facilities for business people to make the necessary adjustments, rather than opting for final closure, is particularly determinant.
- 2) Establishing new bases for progress. The unavoidable mid- and long-term objectives we submit to those responsible for economic policy and the companies have well-known parameters: productivity, work competitiveness, a culture of effort, an enterprising spirit, predominance of investment over consumption, innovation, ethics, sustainability, education... These are structural actions, with long-term results, essential to respond to the competitive challenges posed by the globalised economy in which we operate.

#### **4. SME AND SELF-EMPLOYED COMMON PROPOSALS**

<b>FIELD</b>	<b>ACTION</b>
<b>FUNDING</b>	<p><b>Modification of the terms of tax and Social Security payments</b> in accordance with the usual terms of payment of the market.</p>
	<p><b>Speeding-up of the procedures of access to deferment of payment of tax and Social Security obligations</b> for SMEs that demonstrate financial need. This measure would act as official credit but with more flexibility.</p> <p><i>Duration:</i> As long as the Spanish economy does not register positive growth rates.</p>
	<p>Establishment of <b>adequate and speedy lines of support from ICO (Official Credit Institute)</b> for investment and working capital.</p> <p><i>Duration:</i> As long as the Spanish economy does not register positive growth rates.</p>
	<p>Reduction of payment terms by public authorities. Adoption of <b>confirming as a normal means of payment</b>, to facilitate liquidity for supply companies. Guarantee that the successful bidding companies apply similar criteria to their subcontractors.</p> <p><i>Application:</i> Immediate.</p>
	<p><b>Reform of the Arrears Law 3/2004 to establish a maximum period of payment of 60 days</b> (or 45 from end of the month), prohibiting pacts between the parties. Creation of an official body to supervise the application of this law. Publication and urgent implementation of the <b>regulations</b>. Establishment of rapid <b>arbitration</b> systems. The degree of importance of this action is demonstrated by the constitution of the “Plataforma Multisectorial contra la Morosidad” (Multisector Group Against Arrears”).</p> <p><i>Adoption of the measure:</i> Before 31st December 2009.</p>

<b>TAX</b>	<p>Fostering <b>non-profit sharing</b> in order to encourage <b>reinvestment</b> and <b>capitalisation</b> in companies. The measure would consist of deferring the payment of all or part of company income tax until the date these profits are shared, if applicable.</p> <p><i>Adoption of the measure:</i> Before 31st December 2009, applicable in 2010.</p>
	<p><b>Reduction of VAT rates of certain basic products and services</b>, following the recent ECOFIN agreement, as a measure to strengthen consumption and fight against the informal economy.</p> <p><i>Adoption of the measure:</i> From 2010.</p>
	<p><b>Reduction of company income tax</b> applicable to <b>SMEs</b>,<sup>1</sup> from the current 25% to 20% for small- and medium- sized enterprises, and to 18% for micro-companies. These rates must be applied to total profits. At a <b>general level</b>, reduction of the company income tax rate from the current 30% to 25%.</p> <p><i>Adoption of the measure:</i> From 2010.</p>
	<p>Establishment of a <b>tax current account</b> to allow companies to balance income with rebates and to speed up the corresponding administrative procedures.</p> <p><i>Adoption of the measure:</i> 2009.</p>
	<p>General exemption of <b>inheritance tax</b> for consanguineous or <b>first-degree</b> relatives throughout the country.</p> <p><i>Adoption of the measure:</i> Before 31st December 2009.</p>
	<p>Adaptation of the limits for <b>deferral of tax payment without provision of guarantees</b> to the current regulation of contributions to <b>Social Security</b>.</p> <p><i>Adoption of the measure:</i> Immediate.</p>
.../...	

<sup>1</sup> SME concept in accordance with the EC recommendation of 6th May 2003 (DOC C(2003)1422).

<p>.../...</p> <p><b>TAX</b></p>	<p>Lowering the current <b>late-payment interest rate</b> from 7% to 3% and lowering the <b>legal interest rate</b> from 5.5% to 2%. Authorise the Tax and Finance Ministry to make the <b>adjustments of the aforementioned rates according to the evolution of the European Central Bank reference rates</b>.</p> <p><i>Adoption of the measure: Immediate.</i></p>
<p><b>LABOUR</b></p>	<p>Dealing with structural reforms of the labour market with the aim of <b>making it more flexible</b> (contracting, expiration, absenteeism...). Specifically, it is necessary to advance towards “<b>flexisecurity</b>”, paying attention to two of its basic features: unemployment coverage and training, which should help access to new jobs.</p> <p>Reviewing the prevailing regulations with the aim of <b>making the cost of redundancy more flexible and reducing it</b>, in particular when it is due to objective causes, and revising the <b>Labour Force Adjustment Plans (LFAP)</b>.</p> <p><b>Active policies for talent recruitment.</b> Speed up the procedures to facilitate incorporation and provide facilities for the entrance and exit of people who, with skills in the particular field of knowledge, would enhance the competitiveness of the production system.</p> <p>Fostering <b>the training of active workers</b> as a mechanism of adaptation of their professional skills to the challenges of production in the future.</p>
<p><b>SOCIAL SECURITY</b></p>	<p><b>Extension of working life</b> in order to strengthen the feasibility of the pension scheme and so that the production system can benefit from the human capital of those who, upon retirement, are able to continue working.</p> <p><b>Reduction of business contributions</b> to Social Security, mainly in <b>labour-intensive sectors</b>.</p>

## 5. SME PROPOSALS

<p><b>ENTREPRENEURSHIP</b></p>	<p><b>Extensive support plan for company creation initiatives.</b> Fostering entrepreneurship and strengthening the <b>social image of the businesspeople.</b></p> <p><i>Adoption: Urgent.</i></p>
	<p>Limiting <b>the duration of all the legal procedures of liquidation of a company to one year</b> in case of non-fraudulent bankruptcy and guaranteeing businesspeople the same treatment as new companies, as established in Principle 2 of the EC Small Business Act.</p>
<p><b>INTERNATIONALISATION</b></p>	<p><b>Financial support</b> for the projects of <b>implementation of production abroad</b>, provided they maintain the high added value structures in the country (design, logistics, technology, headquarters...).</p> <p><i>Adoption: Urgent.</i></p>
	<p><b>Support plan for SME internationalisation</b>, including the encouragement of cooperation between companies, information systems on potential markets and companies, and landing areas abroad.</p> <p><i>Adoption: Urgent.</i></p>
<p><b>RESEARCH AND INNOVATION</b></p>	<p>Substantially increasing the stimulation of <b>research and innovation in companies, facilitating SME access.</b></p> <p>Adoption of an urgent and long-term ad hoc plan.</p>

<b>INFRASTRUCTURES AND ENERGY</b>	<p>Investment in infrastructures mainly aimed at <b>improving the competitive potential</b> of the economy (logistics, rail transport...).</p> <p><i>Adoption: Urgent.</i></p>
	<p>Change of underlying criteria in the <b>state investment pattern in large infrastructures</b>. Application of economic rather than political criteria. <b>Fostering the economic axes indicated by the market. Decentralised and competitive</b> infrastructure management.</p> <p><i>Adoption: Urgent.</i></p>
	<p>Measures aimed at <b>reducing energy dependency</b> on fossil fuels, accelerating the implementation of alternative energies and nuclear energy.</p> <p><i>Adoption: Urgent.</i></p>
<b>PRIVATE MONOPOLIES AND OLIGOPOLIES</b>	<p>Demand from <b>operators with regulated prices</b> the same efforts made by the companies which are exposed to competition in matters of <b>improvements in efficiency</b> and, therefore, productivity.</p> <p><i>Adoption: Urgent.</i></p>
<b>EDUCATION</b>	<p>Fostering a <b>new labour contract</b> which facilitates the combination of <b>study and professional work</b>, especially intermediate and higher level studies.</p> <p><i>Adoption: Urgent.</i></p>
	<p>Recognition of <b>the company as a guiding and training agent</b> in the field of vocational training.</p>
	<p>Education agreement to enhance the principles of <b>authority and recognition of the function of teachers</b>, and which gives priority to <b>effort and entrepreneurship</b>.</p>

<b>PUBLIC SECTOR</b>	<p>Establishment of mechanisms guaranteeing <b>SME access to public purchases</b>. This should be reflected in public purchase proportions for SMEs close to their level of wealth generation, i.e., around 2/3 of the economy.</p> <p><i>Adoption: Gradually during 2010 and 2011.</i></p>
	<p><b>Reform of the public function</b> with the aim of incorporating operative <b>efficiency</b> criteria like those systematically applied by the private sector in competitive markets.</p> <p><i>Adoption: Urgent.</i></p>
	<p>All <b>legislative measures that affect the business fabric</b> should be accompanied by the corresponding <i>ex ante</i> evaluation of their <b>economic impact on it</b>.</p> <p><i>Adoption: Urgent.</i></p>
	<p><b>Simplification and speeding-up</b> of procedures in the relations of SMEs with the authorities.</p> <p><i>Adoption: Urgent.</i></p>
<b>JUSTICE</b>	<p><b>Speeding-up</b> of the operation of justice in the business field (insolvency proceedings, liquidation of companies, arrears...).</p> <p><i>Adoption: Urgent.</i></p>
<b>CONTROL AND ETHICS</b>	<p>Activate mechanisms which give more importance to <b>transparency of the markets and penalise the practices of concealment of information and opportunism</b>.</p> <p><i>Adoption: Gradually during 2010 and 2011.</i></p>

## 6. SELF-EMPLOYED PROPOSALS

<b>DIALOGUE AND AGREEMENT</b>	As a continuation of the milestone of the coming into force of the Self-Employment Statute, this group must <b>form part</b> of the <b>institutional participation bodies</b> .
<b>FOSTERING SELF-EMPLOYMENT</b>	<b>Fostering self-employment</b> as an alternative for <b>reincorporation into the labour market</b> .
	Increase of unemployment <b>capitalisation</b> up to 80% for determined groups, such as youths and women, to become self-employed.
	Specific <b>micro-credit</b> lines for self-employed entrepreneurs.
<b>TRAINING</b>	Improvement of <b>access to training</b> , in accordance with the weight of the group in the production fabric, with special attention to on-going training, risk prevention and new technologies.
<b>BUSINESS CLOSURE INSURANCE</b>	<b>Accelerating the approval of the regulations of the Self-Employment Act</b> , in particular the sections related to welfare improvements, including <b>unemployment benefit</b> .
	Increase the <b>benefits during the job seeking process</b> for those self-employed people who close their business for objective causes and do not have any other source of income, as well as any other <b>non-contributory benefit</b> .
<b>TAX</b>	<b>Reviewing the module system</b> to adapt it to the activity level.