

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## SPECIAL COMMUNITY AID FOR A PROGRAMME TO DEVELOP SMALL AND MEDIUM-SIZED INDUSTRIAL ENTERPRISES IN PORTUGAL

(Communication from the Commission to the Council)

## PROPOSAL FOR A COUNCIL DECISION INTRODUCING SPECIAL AID FOR SMALL AND MEDIUM-SIZED INDUSTRIAL ENTERPRISES IN PORTUGAL

(submitted by the Commission to the Council)

COM(79) 442 final

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SPECIAL COMMUNITY AID FOR A PROGRAMME TO  
DEVELOP SMALL AND MEDIUM-SIZED INDUSTRIAL ENTERPRISES (SMIE) IN  
PORTUGAL

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Introduction

1. At the moment Portugal's economy, and in particular its industrial structures, fall below the average Community level, and it is therefore highly desirable to encourage all possible corrective measures aimed at preparing the country for Community membership.

The Commission expressed this view in its "General considerations" and, subsequently, in its Opinion on the Portuguese application for membership.

The Council endorsed this view and at the official opening of the accession negotiations with Portugal, the President of the Council stated that the Community was prepared to study and examine with the Portuguese Government any supplementary measures which might assist its efforts, the success of which would facilitate Portugal's integration into the Community.

2. The prospect of accession has therefore brought to light the need for specific support operations in addition to the direct and indirect aid already supplied by the Member States and by the Community itself.

Specifically, these operations will be designed not only to promote the adjustment of Portugal's economic structures, which are vital and vulnerable to the repercussions of membership, but also to improve the basic conditions needed for an increase in employment, thereby lessening the trend towards emigration. It is among small and medium-sized enterprises in Portugal that these two criteria can be met.

The requirements of Portugal's SMIE range from finance for immediately productive investment to aid for activities to support investments which are not directly productive (e.g. management training, technical information and improvements in management).

The funds provided for Portugal by the EIB, the IBRD and EFTA's Industrial Development Fund only cover investment requirements, and cannot be used for back-up operations which are not directly productive.

3. SMIE constitute one of the main and characteristic features of Portugal's economy. They also represent one of the more poorly equipped sections of the economic structure and one of the most vulnerable to the competition which will come about as a result of accession. It is however on their capacity for adjustment, their ability to provide a large number of jobs, and therefore on their competitiveness and their development, that the successful integration of Portugal into the Community largely depends.

Portugal has about 15 000 SMIE, according to the OECD criterion used by Portugal, which defines them as firms employing more than five and fewer than 500 people. They account for 66% of industrial employment (mining and quarrying and manufacturing industry). However, the volume of direct exports from these enterprises does not exceed 12% of manufacturing industry's total exports. These enterprises' contribute 56% to industry's gross added value. SMIE are poorly represented on foreign markets, which reflects a lack of competitiveness and unsuitable management structures.

#### Portugal's request in respect of SMIE

4. On the basis of the statement by the President of the Council referred to above, and taking into account the specific nature of the supplementary operations which should be undertaken to prepare Portugal for integration into the Community, the Portuguese Government has requested special Community aid in order to put into operation an outline programme aimed exclusively at developing small and medium-sized industrial and artisanal enterprises, as defined above. The Portuguese Government submitted this request in January through the Joint Committee set up under the EEC-Portugal Agreement. It pointed out on this occasion that the aims of the Additional Protocol, and in particular Article 16, were, inter alia, "to promote measures likely to contribute to the development of Portugal's economy".

5. The outline programme presented by the Portuguese Government comprises a set of correlated operations aimed at establishing the conditions required for developing SMIE, at bringing about the factors that determine this development and at helping the implementation of investment operations, the profitability of which would be increased by the general "environment" thus created. To ensure the coherence and effectiveness of the outline programme, the Portuguese Government would set up a special fund to finance the operations and put a single public body in charge of implementation, namely the Instituto de Apoio às Pequenas e Médias Empresas Industriais (IAPMEI) (Institute for Support for Small and Medium-Sized Enterprises).

Since it was set up in 1974, the IAPMEI has already gained considerable experience, having acted as guarantor for a large number of restructuring operations. In all, the IAPMEI has opened investment credit lines for SMIE for 569 million escudos and overdrafts for 323 million escudos. Because of its decentralized structure, the IAPMEI covers the entire territory of Portugal. In addition to its office in Lisbon, it has opened branches in Coimbra and Porto, and also six other agencies. The IAPMEI is also responsible for implementing other programmes of aid for SMIE, financed mainly by government funds and funds from the IBRD. The annual report published by the Institute shows that it is engaged in many other activities, particularly in the sphere of training.

6. The outline programme submitted to the Community provides for the following operations:

(a) Training operations designed to improve management in SMIE.

1. Intensive training in management and organization for the heads and top management of SMIE, comprising training courses, lectures and seminars, and information visits abroad.
2. Similar training for middle management of SMIE.

3. Training periods in Portugal and possibly abroad and recruitment by Portuguese SMIE of people who already have a sound theoretical training but lack practical experience.

(b) Operations designed to improve the quality of the services available to SMIE.

4. Establishment of three audio-visual centres for training and information.

5. Formation of teams of business advisers and use of these teams to help staff who have taken part in operations 1 and 2 to improve management.

6. Setting up of a group of Portuguese and foreign experts in a number of specialized fields, to give technical help to the SMIE.

7. Technical reinforcement of trade associations in order to improve their relations with the SMIE.

8. Setting up and launching of joint accounting and management services.

9. Setting up of joint services in the spheres of technical and technological information, applied research, laboratory testing, the quality control of products and prototype development. Technical assistance in these various spheres.

10. Setting up of centres to provide information and technical assistance in the spheres of subcontracting and exports.

(c) Operations designed to restructure, modernize and develop the activities of SMIE and of the artisanal sector.

11. Setting up of artisanal industry centres on industrial estates and development schemes.

12. Restructuring of a limited number of enterprises in a number of industrial sectors to serve as models.

13. Opening of lines of credit for investment operations aimed at setting up, developing, restructuring or converting enterprises.

14. Opening lines of credit for replenishing working capital via the acquisition of holdings - though not involving any say in the management of the enterprise.

(d) 15. Training and in-service training periods abroad for experts who will be responsible for implementing the programme and its various operations.

7. The overall cost of the programme is estimated by the Portuguese at about 57 million EUA spread over three years.

For most of the operations, part of the expenditure, generally 25%, is to be borne by the enterprises or their associations. The outline programme does not provide, at the present stage, for any financial participation by the Portuguese State.

Portugal is asking the Community to contribute a total of 47 million EUA to the entire programme, the rate of contribution varying roughly from 50% to 100% according to the type of operation.

Commission's general views

8. The Commission considers, for the reasons set out above, that the Community must respond favourably to Portugal's request.

It therefore proposes that the Council approve the attached draft decision laying down the criteria which the programme and the operations must meet. This means that the Portuguese Government must then formulate a more detailed version of the outline programme, particularly as regards the content of, and method of implementing, each operation. It will also give details regarding the overall compatibility of the various operations and the timetable for their implementation, even if the Community participates only in certain operations and certain expenditure.

9. The outline programme transmitted by the Portuguese Government is not fully explicit about the methods of financing. In certain cases, the outline programme provides for aid, and in others for lines of credit granted from a special fund supplied by the Community. It is obvious, however, that the Portuguese authorities expect grant aid and not loans from the Community, given the objectives to be attained. In any event, the IAPMEI has declared that the outline programme could be carried out only with exceptional means of financing. It is also important to take into account Portugal's external

constraints, its level of indebtedness and the Portuguese economy's low savings ratio. For all these reasons, the Commission proposes that Community grants rather than loans should be provided for all the operations contained in the outline programme.

Procedures for granting Community aid

10. Provided that the overall financial ceiling set for Community aid is not exceeded, the Commission proposes that the contribution rate for expenditure on training, including operating costs, equipment costs or investment in the infrastructure required for this training (operations under 6(a)), should be limited to 75% of total expenditure. The same percentage may be adopted for operations designed to improve the services available to enterprises (operations under 6(b) and (d)). In both cases, this high percentage is justified by the extent of the needs and also by the limited resources of the Portuguese authorities. However, where aid for enterprises is involved (operations under (c)), this rate should not exceed 50%, given that these are productive investments.

In all these cases, the Portuguese contribution could be provided by the firms involved, their organizations, and directly or indirectly by the Government.

The percentages for the Community contribution suggested in Portugal's request are higher, varying from 50% to 100%. The reduction of these rates to 50% and 75% would enable total Community expenditure to be reduced. If the Commission nevertheless retains the amount of 47 million EUA as total Community aid, this must be considered as a ceiling which may possibly be lowered. In asking for a more detailed outline programme and a greater contribution from Portugal, the Commission is making it possible to raise the total cost of the programme by up to 32 million EUA (the forecast expenditure on investment), to be provided entirely by Portugal. Should the Portuguese contribution be below 32 million EUA, the amount to be put up by the Community would be proportionately reduced.

11. Community aid will be granted subject to conditions, both general and specific, which are set out in the proposed decision, the Portuguese outline programme having proved sufficiently detailed at this stage to form a basis for their adoption. These criteria are designed to identify the types of operation eligible for aid, and to ensure they are compatible with each other.

The grant of aid will also be subject to the condition that the Portuguese Government guarantee the successful completion of operations.

12. The Commission is further proposing that, in order to qualify for aid, all operations should figure in an outline programme. What this means in effect is that the programme submitted by Portugal must be finalized in the light of the criteria and procedures set out in the proposed decision.

13. With regard to investments of a structural nature in particular, care should be taken to see that they have a decisive impact on the beneficiary firms, which should be enabled to achieve a level of productivity compatible with the market situation, particularly in industries most open to international competition. In this context the Portuguese authorities will have to keep a particularly close eye on projects involving firms in structural crisis sectors. Projects of this nature should take account of guidelines or measures agreed at Community level so that they fit into the Member States' common framework; this is the only way to ensure that Portugal's efforts secure the best long-term effects for its structures and avoid creating fresh problems in areas already in a state of flux.

It will only be possible to achieve these objectives if all details of the projects are made available (this enables them to be situated in the context of our overall knowledge of the situation in the sector concerned) within the framework of continuous cooperations between the Commission and the Portuguese authorities on the aims to be achieved.

In this connection the Portuguese Government should indicate how it intends to ensure that the outline programme dovetails with assistance to SMIE from other funds made available to Portugal by the Member States and various international financial organizations.

14. The procedure for paying out the Community aid is to provide advances of up to 50% of the aid envisaged on presentation by the IAPMEI, the body responsible for implementing the schemes, of a detailed plan for each operation.

The final payments will be made on submission of an application accompanied by the necessary supporting documents.

Throughout the lifetime of the programme the IAPMEI will be responsible for coordinating the implementation of the projects with the aims underlying the Community aid. The IAPMEI will also draw up an annual report on the utilization of Community funds, which will be sent to the Portuguese authorities and to the Commission. For the period of Community assistance a Commission official will act as liaison officer with the IAPMEI and provide it, through the relevant Commission services, with all requisite technical assistance.

The Commission thus intends to establish intensive cooperation between its departments and the IAPMEI at all stages of the execution of the programme. It will report regularly to the Council on progress in the implementation of the Community's scheme of support for the SMIE development programme.

Proposal for a Council Decision introducing special aid for small  
and medium-sized industrial enterprises in Portugal

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,  
and in particular Article 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the Opinion of the European Parliament,

Whereas the Additional Protocol to the Agreement between the European Economic Community and Portugal provides for the introduction of industrial and technological cooperation to promote measures likely to contribute to the development of Portugal's economy and to form part of wider-ranging cooperation the objective of which is to strengthen existing links for the mutual benefit of the Parties;

Whereas negotiations for the accession of Portugal were opened on 17 October 1978;

Whereas the Commission has made known its Opinion on the Portuguese application for membership of the European Communities<sup>1</sup> and its general considerations on the problems of enlargement<sup>2</sup>;

Whereas, with a view to accession, it is necessary to bring Portugal's economic situation closer to that of the Member States;

Whereas in Portugal small and medium-sized industrial enterprises, hereinafter referred to as SMIE, are essential for the maintenance of employment and for economic development; whereas, however, the SMIE are poorly equipped and furthermore are vulnerable to the competition that will come about as a result of accession; whereas, therefore, their ability to become integrated into the Community must be strengthened;

Whereas it is therefore important to stimulate the investment of SMIE in Portugal and to intensify the vocational training of their staff,

HAS ADOPTED THIS DECISION:

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<sup>1</sup>COM(78)220 final.

<sup>2</sup>COM(78)200 final.

Article 1

1. The Community shall grant Portugal special aid of 47 million EUA to help SMIE to adjust progressively to the consequences of accession.
2. For the purposes of this Decision, SMIE shall be deemed to be enterprises in Portugal which employ more than 5 and less than 500 persons.

Article 2

The special aid provided for in Article 1 shall extend over a period of three years from the entry into force of this Decision; it shall take the form of grants.

The necessary funds for this special aid shall be entered each year in the Community Budget.

Article 3

Four types of operation may benefit from the special Community aid:

- (a) training operations to improve management in SMIE;
- (b) operations to improve the quality of the services available to SMIE;
- (c) operations to restructure, modernize and develop the activities of SMIE;
- (d) advanced training periods abroad for experts who will be responsible for implementing the outline programme and its various operations.

Article 4

To benefit from the special Community aid, the operations referred to in the preceding Article must satisfy the following special conditions:

The training operations referred to in Article 3(a) and (d) must:

be concerned with persons who work or will be called on to work either in SMIE or in those services whose task it is to assist them, and who need to improve their knowledge and their professional capacities,

be intended for the preparation, running and administration of training schemes, including the training of teaching staff, the reimbursement to trainees of the expenses incurred and their remuneration during the period of training,

be concerned with the equipping of the training centres referred to above,

receive at least 25% of their financing from the SMIE, their associations or the Portuguese Government, the Community aid being limited to 75% of the cost.

The operations to improve the services available to SMIE referred to in Article 3(b) must:

involve enterprises whose heads or managers have participated in the training operations described above,

receive at least 25% of their financing from the SMIE, their associations or the Portuguese Government, the Community aid being limited to 75% of the cost of the staff and equipment expenses of the technical assistance and management services.

The restructuring and modernization operations referred to in Article 3(c) must:

be concerned with the activities of small and medium-sized enterprises that are financially healthy,

take account, where operations in sectors in structural crisis are concerned, of the guidelines or measures agreed on at Community level,

be financed by the SMIE themselves, by their organizations or by the Portuguese Government to the extent of 50% of the total cost of the investment operations in question, the Community aid being limited to 50% of the cost.

#### Article 5

To benefit from the Community aid the operations must also:

form part of an outline programme established by the Portuguese Government in conformity with the provisions of this Decision,

be implemented by the public body given responsibility for execution of the programme by the Portuguese Government, namely the Institute de Apoio as Pequenas e Medias Empresas Industriais (IAPMEI).

#### Article 6

The outline programme referred to in Article 5 must contain the following information:

a detailed description of each of the proposed operations,

a description of the arrangements for the implementation of the programme by the IAPMEI.

Article 7

The Community aid shall be paid on the basis of the following rules:

(a) Advances representing 50% of the Community aid envisaged for the operation in question may be paid to the body responsible for implementation, namely the IAPMEI, at its request and on production of a detailed plan of the operation.

(b) The payments, less any advances, shall be paid to the IAPMEI when it presents a request accompanied by:

a document from the Portuguese State certifying that the expenses in question have actually been incurred and that detailed supporting documents are available,

a report from the IAPMEI on the execution of the operation, with particular reference to the conditions laid down in this Decision, any other information or document requested by the Community authorities responsible for verification.

Article 8

The Commission shall ensure that this Decision is properly implemented and that the various operations are carried out in accordance with the arrangements and criteria laid down therein. It shall inform the Council regularly of the progress of programme implementation.

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FINANCIAL RECORD SHEET

1. To be charged to Article 960 (appropriation for financial cooperation with Portugal).
2. Article 235 of the EEC Treaty  
Article 16 of the Additional Protocol to the EEC-Portugal Agreement
3. Aid of 47 million EUA for small and medium-sized enterprises in Portugal.  
Vocational training and assistance: 12 million EUA; restructuring and modernization: 35 million EUA.
4. Preparation of Portugal for its integration into the Community.
5. Appropriation for commitment in 1980      47 million EUA  
Appropriation for payment in 1980      13 million EUA  
Appropriation for payment in 1981      16 million EUA  
Appropriation for payment in 1982      18 million EUA
6.
  - 6.1 Nil - carried out by existing staff
  - 6.2 Nil.
  - 6.3 Nil.
  - 6.4 Nil.
7. Appropriation to be included in the Budget for 1980, 1981 and 1982  
(7.4)
8. Financing via the use of a part of Article 1030 "Total operational reserves for various sectors" which is explicitly earmarked for financial aid for general preparation, particularly in respect of Portugal.
9. Arrangements applied to the European Regional Development Fund and to the Social Fund.